



**Peer Review of Youth Employment Policies in the Republic of
Armenia**

Synthesis Report

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First published 2017

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Peer Review of Youth Employment Policies in the Republic of Armenia; Synthesis Report, ILO Decent Work Technical Support Team and Country Office for Eastern Europe and Central Asia. – Moscow: ILO, 2017

28 p.

ISBN: 9789220318256 (print)
9789220318263 (web pdf)

ILO Cataloguing in Publication Data

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Acknowledgements

The present report has been prepared with the joint effort of the participants in the International Labour Organization (ILO) technical cooperation project “Partnerships for Youth Employment in the Commonwealth of Independent States”, implemented by the ILO Decent Work Technical Support Team and Country Office for Eastern Europe and Central Asia (ILO Moscow Office), and with the financial support of the LUKOIL.

Special thanks go to Yadong Wang, Senior Labour Market Policies Specialist, ILO headquarters in Geneva, for his valuable comments on the report. Our thanks also go to Nune Hovhannisyan, ILO National Coordinator in Armenia, for her support to the peer review process.

The Ministry of Labour and Social Issues of the Republic of Armenia, Ministry of Labour and Social Protection of the Russian Federation, Federal Labour and Employment Service of Russia (including the Republic of Bashkortostan and Khanty-Mansy Autonomous Region), Russian Union of Industrialists and Entrepreneurs and Confederation of Labour of Russia have also provided important inputs.



Foreword

The world is currently facing challenges in terms of providing young people with more jobs of better quality. The issue is especially relevant in this time of high unemployment rates and inactivity among the youth across the countries of the world. To support global joint action in the area of youth employment promotion, the International Labour Organization (ILO) tripartite constituents approved the resolution entitled, “The youth employment crisis: A call for action” at the International Labour Conference in 2012. It was followed by the Oslo Declaration: Restoring confidence in jobs and growth, which was adopted at the Ninth European Regional Meeting in 2013. In addition, in 2015 the issue of youth employment promotion was included as a key goal in the 2030 Agenda for Sustainable Development.

In that connection, the resolution approved during the second recurring ILO discussion on employment suggested that proposals for a voluntary peer review of employment policy with the objective of promoting knowledge-sharing and mutual learning on good practices among members of the Organization, be developed. Peer reviews are expected to contribute to the development of new, more effective policies and measures targeting youth. In the course of assessments, comparative analysis and discussions among countries, and voluntary peer reviews help participating countries to improve their policies. That is achieved through the exchange of experience in the implementation of good practices and the observation of internationally approved criteria and standards.

In the countries of the Commonwealth of Independent States (CIS), voluntary peer reviews are undertaken within the framework of the ILO project entitled, “Partnerships for Youth Employment in the Commonwealth of Independent States”, which was launched in response to the global youth employment crisis. The project is implemented by the ILO Moscow Office with the financial support of the Russian company LUKOIL.

In 2014, nine CIS countries established a regional network within the framework of the youth employment policies voluntary peer review mechanism. The ILO has developed a guide on conducting voluntary peer reviews to provide practical support to countries willing to participate in youth employment peer reviews.

In the course of the first round of reviews, the Kyrgyz Republic hosted the Republic of Armenia as the reviewer in July 2014. In the second round, the Republic of Azerbaijan reviewed the Republic of Tajikistan in March 2015. In the third round, tripartite representatives of the Russian Federation and the Republic of Kazakhstan reviewed programmes and institutions of the Republic of Azerbaijan. The fourth round undertaken in April 2016 to review the experience of the Republic of Bashkortostan, Russian Federation, involved a renewed composition of participants. The peer review was conducted by a trio of participants from the Kyrgyz Republic, the Republic of Tajikistan and the Russian Federation (federal level), as well as representatives of regional employment services of the Perm Territory, Russian Federation.

Fifth round involved the tripartite constituents from the Russian Federation, including the regional employment services of the Republic of Bashkortostan and Khanty-Mansy Autonomous Region, assessing the policies and programmes of the Republic of Armenia. In January 2017, the findings of the fifth round were summed up in Turin, Italy.

The present report is one of the series of synthesis reports prepared based on the findings and conclusions obtained through peer reviews of East European and Central Asian countries. The report analyses and summarizes the main findings and recommendations of the fifth round of peer reviews. Information contained in the report is based on the data submitted by the participating countries, comments presented by the participating countries of the regional network, and external sources.



1. Main changes in the socioeconomic environment and the labour market

The socioeconomic situation¹

Armenia is small land-locked, but highly open, lower middle income country in the South Caucasus with the population of 3 million people (Census 2011). Armenia got independence in 1991 and faced rather difficult times. Its per capita income dropped by more than 40 per cent, fiscal imbalances reached crisis proportions, the population shrank and the size of the potentially productive work-force shrank even more. Despite such unfavorable initial conditions, Armenia managed to stage an economic recovery. This can be partly explained by national policy reforms, positive external conditions, e.g. the recovery of the main trading and strategic partners, and integration with the Eurasian Economic Union.²

Armenia grew at a rapid rate throughout the late 1990s to 2000s. There was a boom characterized by double digit growth of about 12 per cent between 2003 and 2007. Armenia made the transition to a lower middle income economy in less than 10 years. The boom ended when Armenian macroeconomic framework was affected by a recession in 2009 (GDP dropped by 14.1 per cent) in the wake of the global recession of 2008-2009³. The economy has recovered since then, but growth remains tepid and expected to remain so over the medium-term (in 2011-2014 average GDP growth rate was about 1.8 per cent where agriculture had the major share of 18 per cent). Net migration is still significant affecting the dependency ratio and the size of the work-force (in 2011-2014, 8.9 per cent of households took part in migration process. Remittances constitute about 14 per cent of GDP). As a result of migration of men, one third of households are headed by women that are mostly poor⁴.

The government responded to the crisis with an extensive fiscal stimulus package which managed to protect poor and vulnerable population from negative outcomes and set the basis for a quick recovery. Still based on the national statistics, the fourth quarter of 2016 was characterised by negative growth of 1 per cent. Government's measures included support to agriculture, investments to industrial companies, tax policy reforms, including special VAT payment regime etc. As supposed by the Government, this should lead to changes in the GDP composition in favour of the sectors with the highest growth rates.

Currently the development of the country is regulated by the Armenian Development Strategy (ADS) for 2014-2025 that has emerged under the shadow of fiscal consolidation. The Strategy reflects the country's developmental aspirations to become an upper middle income country by 2025 with low levels of poverty and sufficient supply of well-paid and productive jobs (see Table 1). One of the challenges facing Armenia is the lack of sustainable and productive structural transformation. The agricultural sector continues to shrink. There has been some revival in the employment share of manufacturing, but at around 8 per cent of the work-force, it still languishes well below the level that prevailed decades ago. Construction is no longer a major sector accounting for less than 5 per cent of total employment. Services sector is the predominant source of employment in Armenia today and is likely to remain so in the medium term.

¹ Situation is described based on the national data as well as the findings of the draft study "Towards an employment-friendly macroeconomic policy framework: The case of Armenia" (unpublished) prepared by the ILO international expert, Mr Iyanatul Islam

² One estimate suggests that the contemporaneous correlation between Russian growth and Armenian growth is around 0.9 – which is indeed very high (Ayvazyan, K., 2015, "Spillovers from Global and Regional Shocks to Armenia", IMF Working Paper No. 15/241)

³ Armenia Overview. World Bank, 2014

⁴ Armenia – UN Partnership Framework 2016-2020, Country Analysis, 2014



The challenge lies in reconciling the Strategy aspirations with a particular macroeconomic framework that is preoccupied with fiscal consolidation and influenced by monetary policy that provides inconsistent support to aggregate demand.

Table 1: Selected targets in Armenian Development Strategy

Indicators	Baseline (latest available actual data as reported in the Strategy)	2025
Real GDP Growth (%)	3.6 (2012)	6.5
Per Capita GDP (USD)	3290 (2012)	9441
Job creation (non-agriculture)	100,000 (2011)	220,000
GDP share of agriculture	19.1	14.6
GDP share of industry	17.2	21.2
GDP share of construction	12.2	10.3
GDP share of services	38.6	42.3

Source: Armenian Development Strategy

Based on the national data, the country is experiencing quite high unemployment rate, especially among young people, quite low labour force participation rate and employment rate. Poverty affects at least 25 per cent of the employed work-force. Overall poverty fell sharply from 53.5 per cent to 26.4 per cent between 2004 and 2007, but by 2010 it was above the level that prevailed in 2006 (35.8 per cent). While there has been some improvement since then, poverty in 2014 (at 30.0 per cent) was still higher than the 2006 benchmark. Majority of poor were urban citizens. As it is mentioned by the National Statistical Agency, an additional two per cent of GDP is needed to enhance the expenditure that will eradicate poverty⁵. This additional two per cent could be used to strengthen social protection schemes, support active labour market policies and enhance public investment. The key issue is the sustainable financing of the two per cent target. This is where revenue mobilization using tax reforms becomes critical along with re-prioritization of public expenditure. A more pro-growth, employment-friendly approach to the current public debt driven fiscal rule is needed.

During the fiscal consolidation phase expenditure on health and education declined leading to certain concerns. The available evidence shows that fiscal rules have to be carefully designed⁶. Fiscal rules need to be “investment-friendly”, that is, public investment programmes should be protected during periods of fiscal adjustment, otherwise growth and employment prospects will be weak. Negative growth and employment consequences of fiscal consolidation can be compensated by the measures of monetary policy. In this case,

⁵ National review of youth employment policies prepared by the Ministry of Labour and Social Issues of Armenia for the voluntary peer review round

⁶ Ray, N, Velasquez, A and Islam, I (2015) ‘Fiscal rules, growth and employment: a developing country perspective’ ILO Working Paper No.184, Geneva



monetary policy should provide sufficient support to aggregate demand through reduction in policy rates and through other mechanisms that enhance or maintain access to finance for private sector, especially during downturns and periods of slow growth.

Demographic situation⁷

Permanent population of Armenia constitutes about 3 million people (52 per cent women and 48 per cent men) showing negative population growth rate of -0.18 per cent (2016) with life expectancy 75 years (see Table 2). According to national statistical estimates, Armenia's population will be 2.9 million people in 2035. Among the whole population 63 per cent live in urban area and 37 per cent in rural area where agriculture remains the most important source of livelihood. In 2011-2014 the share of young people accounted for 24 per cent.

Table 2 Permanent population (thous. persons)

	2009	2010	2011	2012	2013	2014	2015
Total	3076,8	3055,2	3018,9	3021,4	3026,9	3017,1	3010,6
Growth/decrease	-21,6	-20,7	-13,1	5,5	-9,8	-6,5	-6,5
Natural change	17,0	16,6	15,4	14,9	14,6	15,3	...
Balance of migration	-38,6	-37,3	-28,5	-9,4	-24,4	-21,8	...
Share of urban population, %	63,7	63,5	63,4	63,3	63,3	63,4	63,5
Share of rural population, %	36,3	36,5	36,6	36,7	36,7	36,6	36,5

Source: The Demographic Handbook of Armenia, 2015

In 2015, working age population accounted for 67 per cent (16-63 years), people under working age – 20 per cent (0-15 y.o.), while the share of persons above working age – 13 per cent (63 y.o. and more). According to UN classification a population is considered old when the last indicator exceeds 7%. Becoming an ageing society is a challenge for the future of any country. However at the same time, it must be said, that the elderly are the intellectual and spiritual potential of a country; they are the custodians of the society's system of values and its wealth, without which no country can exist. A lot of people born in the 1950s and even more in the 1960s start entering pension age, and unless there is a significant migration inflow of people under the pension age or a significant increase in birth rate, the population ageing in Armenia will become alarmingly fast, and the country will face a whole set of complex social-economic challenges that will need to be addressed. The last statement just serves as a warning that these issues may become serious soon and will require more efforts and financial resources to address them. Population ageing makes the country face some challenges, such as those related to sustainable economic development. An almost 50% decrease in the number of young people entering the working age may lead to a suspension of economic development. Despite the expected increase in the birth rate until 2020, there will be significant changes in the population's age structure, as a result of the birth rate that had been decreasing for an extended period of time. The increase of the share of working-age population is expected until 2020, and after that, in 2035, this number will decrease to a level that is lower than that of the year 2007. Special attention should be paid to the rural settlements residing on the border and mountainous regions where decrease in population number, especially economically active population, has been recorded from year to year.

⁷ Data used <http://www.armstat.am/en/?nid=420>



According to the optimistic scenario the number of resident population will increase up to year 2020 with more than 66,000 people providing the annual increase by 0.1% after which it will decrease and by the end of projected period (2035) it will comprise 3,2 million people in the conditions of macroeconomic stability, continuous economic growth, increase in economic activity level, increase in employment and income of population⁸.

It is worth to mention the deformation of population age-sex structure of the country as one of the significant demographic consequences of mass migration which is conditioned by high share of male population in the active reproductive age going out of the country. This factor has negatively influenced fertility rate, marriage-family processes and mortality rate. Different studies show that the absence of work place is still remaining as the first reason to leave the Republic of Armenia. According to the results of studies employment is still remaining to be the main reason to form both internal and external migration flows.

Particularly implementing policies on population health and social protection, youth, education, culture and migration, as well as separate large strategic programmes (including Poverty Reduction Strategy Programme, family benefit, etc.) undoubtedly affect the demographic situation. Monitoring and evaluation of qualitative and measurable results of the implemented programmes are especially important based on which it would be necessary to conduct appropriate complex changes in both currently implementing policy and in programme activities.

Not only the increase of population number but also provision of healthy, educated and comprehensively developed population is important. As mentioned above, reduction of state expenditures in this field has brought to the significant negative changes of education quality (2.8% of GDP in 2015⁹). On average, the absolute volumes of financing per capita of Armenian population in the field of education are lower by around 5 times in comparison with the average of Eastern Europe and CIS countries, by around 55 times in comparison with the average of member countries of OECD and by around 2 times in comparison with average of developed countries. Nevertheless, Armenia is characterized by high level of education and broad outreach. Based on the World Bank data, literacy rate of those 15 y.o. and above is 100 per cent ¹⁰. Armenia has traditionally claimed well-educated human capital, with only the 3 per cent of its population either illiterate or with incomplete primary education. About a third of the adult population has completed professional or tertiary education.¹¹

In the educational system, girls prevail by 20 per cent above men, especially at higher grades of school. Number of VET students is decreasing (in 2014/15 by 5 per cent less comparing to the previous educational year.) On the other side, in higher education number of students is increasing (rise by 16 per cent comparing with the previous year). As in other CIS countries, in Armenia there is a disproportion in the graduates of VET system and higher educational system. In 2014, for 100 graduates of VET there were 359 graduates from higher education institutes¹².

Speaking about the labour market, there is a weak link between the skills system development and labour market needs that particularly affects youth and women. As per the data of State Employment Service, in 2016, those with higher education constituted 13 per cent of registered unemployed (including 10 per cent of women), with incomplete higher education and VET – 18 per cent (including 15 per cent of women), with primary VET – 6 per cent, with general school and basic – 62 per cent.

⁸ UNFPA

⁹ Central Intelligence Agency, the World Factbook

¹⁰ Armenia National Education Profile, 2014. World Bank, 2014.

¹¹ NSS data, as cited in the Armenia MDG National Progress Report 2005-2009

¹² Armenia National Education Profile, 2014

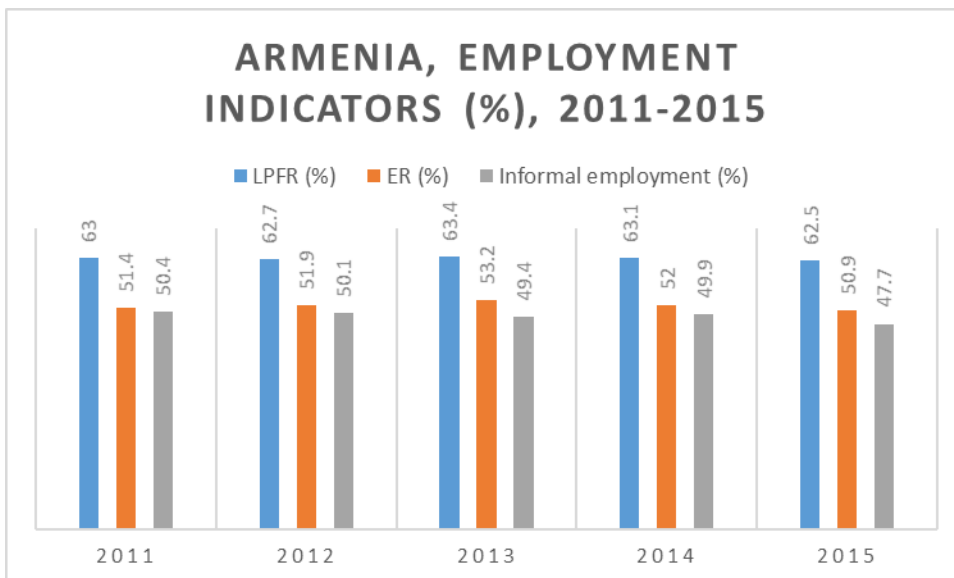


Labour market and employment

Economic growth and employment are mutually dependent and they tend to be mutually reinforcing in either positive or negative directions. The current pattern of low-growth at the country level has translated into unemployment growth and that in turn may hold future growth. The goal to strengthen the link between growth and employment requires attention to both demand and supply in the economy and labour market.

Despite rapid growth in the past, Armenia remains saddled with unsatisfactory labour market and social indicators. The overall unemployment rate is 18 per cent which is higher than in 2014, and in average 48 people competing for 1 vacant place, while the female unemployment rate is close to 20 per cent. The youth unemployment rate is more than 30 per cent. Much of the unemployment (60 per cent of the total) is of a long-term nature. The employment rate is low - 51 per cent (see Figure 1). Income poverty is high even by national standards, with a working poverty rate of 26 per cent. Poverty incidence among unemployed people is well above the national average. More than 40 per cent of the work-force is still dependent on low productivity agriculture.¹³ Clearly, these indicators are far below the government's aspirations as reflected in its long-term development strategy of 2014-2025.¹⁴ The government aims for a growth rate of 5.5 to 6.5 per cent, with greatly reduced poverty and good employment outcomes.

Figure 1



Source: ARMSTAT, Statistical Yearbook, 2016

As reported, the number of new job openings has been declining, mostly impacting newcomers to the labour market.¹⁵ In its strategic documents, the Government stipulates that it does not expect to increase employment in the public sector, given the surplus of employees in areas such as healthcare and education.

¹³ These statistics are available under 'country profiles' maintained by ILOSTAT

¹⁴ Armenia Development Strategy for 2014-2025, Annex, RA Government Decree, No.442, March 27,

<http://faolex.fao.org/docs/pdf/arm151333.pdf>

¹⁵ Armenia Development Strategy 2014-2025



At 63 per cent, the labor participation rate is quite low, and at 55 per cent the female labor participation rate is even lower (2014). Particularly worrisome is that only around one third of young people is working or looking for a job. Data on labour market participation of people with disabilities is lacking, but most evidence points to high rates of un- and under employment for disabled people although Armenia made quite a big progress in labour market inclusion of people with disabilities through improving the methods of working with disabled job seekers, assessment of their needs and capacity, assessment of workplaces and their adaptation (supported by the ILO).

Women also experience a high degree of vulnerability in the labour market, especially in terms of fair compensation.¹⁶ In addition to low female labor force participation across all relevant age groups, the incidence of women's engagement in the informal economy is higher than that of men (53.3% vs. 45.8%).¹⁷ Higher rates of women unemployment should be of special concern to policy-makers, as around one third of single-headed households are led by women. In rural communities, the gap between women and men unemployment rate has been narrowing. On the other hand, in non-agriculture sectors, this ratio is higher.

The major disconnect between labor market demand and supply remains one of the main challenges: while many potential employers experience a shortage in qualified staff, the market is overloaded with young and dynamic university graduates who do not possess relevant skills and knowledge.

In light of the negative trends the government prioritizes labour and employment issues, including provision of targeted support through a set of policies and programmes. The government has launched a set of active labour market policies. More needs to be done, especially in terms of mapping and analyzing what works best in terms of specific policy interventions.

The Armenian Development Strategy 2014-2025 is particularly noteworthy for its articulation of labour market and social protection policies. It seeks to spend more on health and education, social protection schemes, raise minimum wages well above the poverty line and is committed to reducing informality. The government embarked on new initiatives under active labour market policies by phasing out a modest programme of unemployment benefits in 2014.

National Employment Strategy 2013-2018 includes such priorities as strengthening the PES services, development of VET system in accordance with the labour market needs and improvement of education system through the national qualification framework, increase of employment through the creation of 100 000 jobs in SMEs etc.

Nevertheless, the economic structure is still dominated by labour- intensive sectors where low skills are required. In order to increase employment opportunities national and foreign investments are needed to facilitate creation of new companies and job places in innovative sectors of economy as well as improve competitiveness of business climate.

The economy counts around 74,000 small and medium enterprises, employing around 25 per cent of all employed people in Armenia. It is expected that by 2025, the small and medium enterprises' share of value added in GDP will amount to 60 per cent, compared to 40 per cent in 2012.¹⁸ Small and medium enterprises operate mostly in the trade, service and construction sectors. However, despite the prevalence of small and

¹⁶ The Gender Pay Gap is estimated at 54.6% (2010), computed as the ratio of the difference between the average wages of men and of women to the average wages of men. (Decent Work Country Profile Armenia, ILO, 2012)

¹⁷ Decent Work Country Profile Armenia, ILO, 2012

¹⁸ Armenian Development Strategy 2014-2025



medium enterprises, the level of entrepreneurship remains low and largely informal, consisting mainly of own-account workers.

The challenge of informal employment remains, especially in the rural areas. Informality is highest in agriculture (98 per cent) and construction (nearly 60 per cent). Manufacturing, high-end services and the public sector have relatively low incidence of informality. Educational attainment significantly reduces the probability of being employed in the informal economy.¹⁹ Collected data shows that the informal economy accounted for some 50 per cent of employment (declined by 0.5 p.p.) and encompassed 73.5 per cent in rural areas.²⁰ It is important to ensure the formalization of the economy is pursued with respect to the current jobs. These findings have important policy implications. It suggests that policies that facilitate structural transformation by increasing the employment share of manufacturing and high-end services will in turn have a positive spillover effect by reducing informality. Policies that lead to better educational attainments of the work-force will have similar salutary effects. A reduction of informality is best achieved through policies that facilitate structural transformation, improve educational attainment and enhance tax compliance.

The Armenian Government has started in 2013 a comprehensive reform of the remuneration system in the public sector to limit wage disparities, by elaborating a more unified legal framework. Based on the analysis of the wage situation in the public sector conducted by the government with the ILO assistance, the government has elaborated a more unified legal framework covering all the sectors of the Armenian public sector. The national legislation was amended (based on the ILO recommendations), including introducing new mechanisms and methodological concepts into the legal documents. As a result of the minimum wage increase the gap between the minimum and average wage is narrowed bringing the minimum level up to the 40 per cent share of the average wage. Although minimum wage is not a primary tool for combating poverty, one of its key functions is to prevent situations when citizens are employed but at the same time below the poverty level. The government envisages minimum wages to play a major role in eradicating working poverty even though they might lead to a modest negative impact on aggregate unemployment. This has to be weighed against the gains in living standards of the employed workforce.

2. The youth labour market situation

The crisis further deteriorated position of young people²¹ in the labour market resulting in higher unemployment rate, raised inequality, longer and more complicated transition from school to work etc. According to the official statistics, in 2014, there was a trend both towards decrease in the total number of population and among youth (decrease by 9.1%), decrease in the total number of economically active population (mostly among men) and increase of number of economically active women. This was mostly determined by the fact that ¾ of outgoing labor migrants were young men.

In 2014, the share of youth among the economically active population accounted for 24 per cent mostly located in urban area. Employed youth accounted for 21 per cent of the total number of the employed, including 60 per cent of men and 40 per cent of women, among which 41 per cent had general secondary education, 31 per cent higher and post-graduate education, and 20 per cent vocational education.

In 2014, employment rate among young people aged 15-24 was 24 per cent showing increase by 1.1 p. p. compared with 2011. Talking about the sector distribution of employed population in general and youth in

¹⁹ ADB (2010) *The informal sector and informal economy in Armenia*, Manila. The report was done in partnership with ARMSTAT

²⁰ Ministry of Labour and Social Issues of the Republic of Armenia

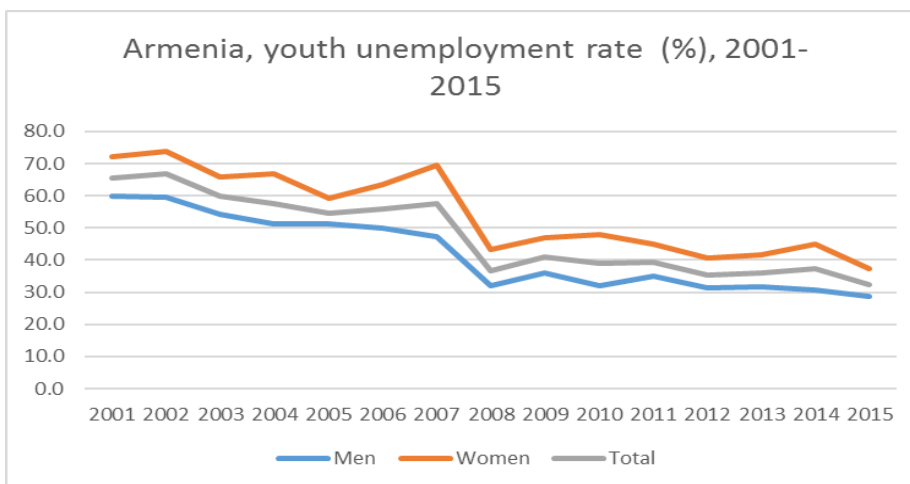
²¹ Based on the national legislation youth are considered those aged 15-29



particular, 12 per cent worked in industrial sector, 35 per cent in agriculture, 5.2 per cent in construction and 49 per cent in services (increase was observed only in services).

Based on the ILO data, wage gender difference for young workers is observed in the country. Young men were earning 50 per cent higher than young women. Among the self-employed, young men gained three times higher than women. At the same time, wage employees young women were covered by pension and social protection more often than men. This may lead to the conclusion that young men were most often employed in the informal sector which is widespread among young people. The ILO says that almost 2/3 of all young workers (64 per cent) are employed informally, and this trend has men face (67 per cent). Nevertheless, among young women this indicator is also high (59 per cent). It is important to mention that more than 60 per cent (in rural area – 78 per cent) of those employed informally are working at formal enterprises. This lead to lack of social security coverage and violation of labour rights as well as lack of occupational safety and health at the workplace²². A majority of young workers, who work informally, work long hours; more than one in five are overeducated for the job they perform; one-quarter do not have a written contract; and they get low wages. The low earning potential in the country becomes a strong push factor towards emigration with the unfortunate consequence of the phenomenon of brain drain. Moreover, gender wage gap proved extremely troubling and calls for policy intervention. Employers are often able to dictate the working conditions of those they hire, many of whom have no access to legal or social protection. Employers may hire people for a probationary, then fire them at the end of the period and withhold pay. As long as the probation was not legally registered, the employees cannot demand compensation for the days worked. This tactic is apparently particularly common in such service industries as restaurants and cafes. Because many young people are hired in these occupations, they are particularly vulnerable to these practices.

In 2014, unemployment level was higher than 30 per cent among which there is a substantial number of those with higher education as in other CIS countries (see Figure 2). Among all unemployed only a small share is registered at the PES and the trend is negative. In 2014 comparing with 2008 the share of registered unemployed among all unemployed decreased from 32 per cent to 27 per cent.



Source: National statistical agency (ARMSTAT), MDG database

Youth unemployment is not just a question of numbers but also one of duration. Long-term unemployment is a widespread reality in Armenia and many European countries. Nearly one-half of young men and more than

²² Serrière N. Labour market transitions of young women and men in Armenia, ILO



one-half of young women had been looking for a job for more than 1 year. This indicates that a high number of young people were likely to have drifted far from the labour market, with outdated or absent professional skills. Internships may play an important role in this regard providing practical experience. Insufficiently developed system of career guidance also undermines the prospects of young people for finding a job place as their choice for future profession is often governed by traditions, and family members and friends choice. To tackle this, since 2006 the Methodology Center for Professional Orientation has been established. Career counselling as well as vocational skills programmes and entrepreneurship development may be key strategies for increasing employment opportunities, particularly for young people. The government adjusted the national vocational education and training system to address the existing gaps in the labour market and increase participation of youth in the labour force.

The Government realizes the importance of youth employment, and refers to informal education as a good means to facilitating employment for young people. At the same time, the link is not made between the lack of capacity and quality of the education sector and the poor chances of young people to secure meaningful employment. Development of creative industries, revival of traditional arts and crafts along with preserving and promoting cultural heritage shall be treated as another approach to address unemployment and poverty.

Establishment and enhancement of linkages between potential employers, employment services, social partners, respective universities and training institutions, to develop new and innovative curricula and, on a merit-basis, provide internship opportunities to talented students could be helpful. Promotion of green jobs in remote areas of Armenia and ensuring social integration of people with disabilities could be very useful especially in view of promoting tourism sector.

3. Youth employment policies and programmes and related challenges

The Ministry of Labour and Social Affairs is in charge of the development of policy related to youth employment. The policy is implemented by the State Employment Agency and its 51 territorial centers with the total number of employees – 360 persons (2017). The State Employment Agency is dealing with registering job seekers and giving them the status of the unemployed, collecting information on vacancies and new jobs, referring the unemployed to employers, and supporting the unemployed through government employment programmes. The programmes are financed from the state budget (the annual amount over the past 4 years was AMD 2.3 billion²³). As many other CIS countries, Armenia allocates a modest amount for the ALMPs (less than 0.2 per cent in 2014). Starting from 2014, the Ministry has introduced the system of monitoring and evaluation of each of the state employment programmes.

The Government adopted a strategy of state youth policy and an action plan for 2013-2017 wherein socio-economic issues and youth employment were recognized as priorities. In addition, in 2014 the Government approved the concept for state youth policy for the development of youth potential and encouragement of youth participation in the creation of socio-economic, political, cultural and spiritual conditions.

In 2013, new employment strategy was adopted together with the measures for 2013-2018. Since January 2014, the Law on Employment has come into force. Thus, the legal framework of the new employment policy model was completed. Presently, there are 13 active labour market programmes in place, five of which have been newly introduced. The programmes are aimed at permanent or temporary employment of the unemployed, including the disadvantaged persons. According to the new model of state regulation of employment, the efficiency indicator of state employment programmes is the sustainable employment for disadvantaged persons.

²³ UN exchange rate as of April 2017: 1 USD = 484 MD



A number of ALMPs included in the annual state employment programme are considered by the government the most successful.

- **Active labour market measures:**

- Vocational training for the unemployed, jobseekers and persons at risk of dismissal. In 2015, out of 1003 persons involved in the programme, 35 per cent were young people out of which 50 per cent were job places after completing the activity
- Wage subsidy to employers for hiring people with disabilities and financial support to persons who accompanies the disabled. The subsidy is paid for 6 months covering 50 per cent of salary (not exceeding minimum monthly salary). The share of unemployed young people included in the programme was 31 per cent
- Only one of the current programmes – “Arranging Workplace Practices for the Unemployed with an Occupation but without a Service Record for Acquiring Work Experience in their Occupations” that has been implemented since 2014 – is targeting exclusively youth. Its objective is to help unemployed first-time jobseekers gain work experience in the acquired occupation in order to raise their competitiveness in the labour market, place them in suitable jobs and ensure permanent employment in future. Programme beneficiaries are young people who may join the programme during five years after graduation from an educational institution. The programme covers 352 unemployed young persons (82 per cent are women). The programme duration for each beneficiary is three months. Payments to the beneficiaries are two or three times higher than the scholarship. Besides that, mentors are paid some extra money in the amount of 20 per cent of their salaries in the previous year, but no more than the minimum monthly wage set by the laws of the Republic of Armenia. About 30 per cent of programme beneficiaries find job upon completion of the programme.
- Mobility promotion to support the movement of labour resources to rural and near-the-border areas. This programme is not popular among young people
- Support to employers in case of hiring non-competitive persons, including for their training and adaptation of workplaces
- Entrepreneurship support, including training, consultations, tax exempt, support to purchase the means of production. Young people constituted 29 per cent of the total number of participants.
- Promotion of seasonal employment, especially in mountain and near-the-border areas covering poor population. Number of young people in the programme accounted for 10 per cent.
- Financial support to visit the employer (25 per cent of beneficiaries were youth).

In 2015, the regional centers of PES assisted 9099 job seekers to find employment with 29 per cent of them who found jobs as a results of participating in the ALMPs. The number of people who were job placed after taking part in the programmes raised by 45 per cent in 2015 comparing with 2014. Taking into account low rates of economic growth, insufficient economic stability, regional disparities and high unemployment rate, especially among some groups of population like youth, people with disabilities, the main challenges that the PES is facing are²⁴:

- Promoting targeted labour market programmes and raising their efficiency
- Piloting and introducing concrete programmes based on the local situation, analysis and challenges faced by particular regions with high level of unemployment and specific groups of population (most vulnerable)

²⁴ Ministry of Labour and Social Issues of RA



There are no public employment promotion programmes targeting specifically women. This seems to be a necessary policy of the Ministry of Labour of the Republic of Armenia. Most of the current programmes focus on disadvantaged (or uncompetitive) groups (persons with disabilities, long-term unemployed, etc.), although each of them may include young persons of both sexes²⁵.

Prevalence of women among the registered unemployed results in their higher share among beneficiaries of the PES programmes (74 per cent in 2014)²⁶. In a number of programmes, this prevalence was also retained in 2015. A low share of youth among the registered unemployed is reflected in the poor coverage of this category by employment programmes, and share of young people among those placed with the PES assistance in 2015 was as low as 17.5 per cent.

There are almost no measures targeting exclusively youth among the PES programmes in the Republic of Armenia. To some extent, job fairs and labour clubs in regional employment centers providing mostly methodological assistance to jobseekers, can be regarded as such. Young persons (including young women) take an active part in these events, but the data on the scale and structure of their participation are lacking.

- **Passive labour market measures:**

In 2014, the government decided to phase out unemployment benefits as this programme in Armenia was rather modest. In 2013, for example, benefits only covered 11.3 per cent of the total unemployed.²⁷ Unemployment benefits were replaced by reimbursing the unemployed the costs spent for the visit to the employer for the interview (about 4 USD per visit but not more than 9 visits per month which finally equals to the sum of the unemployment benefit).

It appears that some ALMPs seem to work better than other. In the case of Armenia, some evaluations suggest that training programmes increase the likelihood of re-employment of unemployed workers.²⁸ Such a finding is in line with international evidence as noted above.

The role of ALMPs in enhancing employability should be set in a broader context. However, ALMPs - even if well-funded and well-designed - cannot act as a substitute for deficiencies of the overall education and training system that is the key determinant of skills development and employability.

The regional network members consider the above initiatives implemented in the Republic of Armenia effective from the viewpoint of improving the employment, including for young people. The public employment system is strategically important for a well-functioning labour market policy.

Challenges revealed

²⁵ According to the new version of the Law on Employment of the Republic of Armenia, the category of persons uncompetitive in the labour market includes unemployed jobseekers incapable of equal competition in the labour market, facing special difficulties in job placement and requiring additional social guarantees in this connection. The category includes persons with disabilities; persons who return from penitentiaries or from institutions applying compulsory medical treatment measures who have applied to the public employment service within six months of their return; children left without parental care who have reached the working age and those who are referred to this category if they have had the unemployment status for at least one year; persons registered by the public employment service after doing their fixed-period compulsory military service who have had the unemployment status for at least one year; persons who have had the unemployment status for over three years; and refugees. To provide this category with jobs, territorial agencies of the Public Employment Service are implementing vocational training and other programmes. Many persons in this category are young, but women are not marked out.

²⁶ Women and Men in Armenia, 2015.

²⁷ ARMSAT, Statistical Year Book 2016, p.77

²⁸ World Bank (2014:47)



Despite the successful implementation of a number of initiatives, the youth unemployment rate in the Republic of Armenia remains considerable due to some challenges that need to be addressed in order to achieve decent employment rates of youth as regards both quality and quantity.

Disappointing economic recovery

Armenia suffers from an acute unemployment problem. This is a problem that the Armenian Government is fully aware of. To increase competitiveness, ensure sustainable growth and create jobs for all population groups, especially for youth, it is necessary to encourage demand and make employment the most important component of socioeconomic policies. It is impossible to raise labour productivity solely by increasing human capital. Measures are required to ensure labour protection, promote workforce mobility, improve the structure of labour demand and increase the competitiveness of enterprises. A combination of various policies aimed at addressing structural and cyclical challenges is required to address youth employment challenges. While the gradually improving macroeconomic performance of the country is creating a conducive environment for job creation, the structural reforms of both the general and vocational educational systems and the strengthening of employment services for improved professional guidance attempt to address issues of mismatch in both the demand and supply of labour.

Employment-friendly macroeconomic framework is not sufficiently complemented by labour market policies that are aligned with the goals of the Armenian Development Strategy. This should include a commitment to reducing informality, raising minimum wages and supporting active labour market policies.

The revealed challenge is linked to the lack of integrated approach that should be aimed, among other things, at ensuring:

- Both higher-quality and a greater number of jobs by a combination of consistent and coherent measures of macroeconomic, social and labour market policies (the youth employment component in the macroeconomic policy may be expanded);
- The complementarity and the coherence of public policies and services and private-sector efforts in promoting decent employment. The private sectors plays an important role in creating jobs and is a source of rising demand on youth labour;
- Due balance of political and practical measures in the area of demand and supply, and in the context of weak demand in particular;
- The key role of social dialogue and tripartism in the process of formulating, implementing and monitoring employment policies;
- A combination of general approaches and targeted interventions in order to overcome labour market factors that are unfavourable for certain groups, in particular youth, and to address existing inequality and the lack of employment guarantees.

Structural reforms need time before they become effective; however certain groups within the population are so affected that they cannot afford to wait. In this regard, targeted interventions play a major role to prevent these groups from retreating into perpetual inactivity and dependence on state services, getting stuck in low-quality informal jobs, being attracted by illegal or criminal activities, or being tempted by emigration.

Coordination between the key government structures, including key ministries, social partners and other key stakeholders remains an issue that has an impact on efficient policy formulation and implementation. Social partners should be fully involved in this process to ensure that their respective views are taken into consideration.

Skills policies and employability of young women and men



As it was said above, the country suffers from both a high youth unemployment rate and low youth labour force participation rate, combined with large gender differences. Inactivity is partly explained by high enrolment in education in the country but the level of NEET is also high (around 15 per cent). Young women are particularly vulnerable to labour market exclusion. Though the education level in Armenia is high, the quality of education is limited which results in a high degree of skills mismatch. This is an effect both of low government spending on education and prevailing stereotypes which make vocational education unattractive to young people, whereas tertiary education entails high status. The share of young people in the informal economy is extremely high. In addition, long transition from school to work is observed.

These are some factors that are hampering successful job placement of Armenian youth and causing high unemployment rates among them:

- Complicated economic situation in the country; closure of enterprises, primarily large ones, or suspension of production leading to limited labour demand and reduced use of labour;
- Skills mismatch in the labour market, both in quality and quantity²⁹;
- Failure of the existing vocational training system to meet the needs of economy, which is manifested in: demand and supply mismatch; trends towards tertiary education³⁰; lack of a system in most educational institutions for assisting graduates in finding jobs and tracking their career; weak links between educational institutions as labour suppliers to the labour market and employers as its future buyers and consumers resulting in lack of awareness among youth about employment opportunities;
- Weak career guidance of school children which permits neither their parents nor themselves to make an informed choice of the area of education and future occupation based on the knowledge of their personal inclinations and abilities, and an understanding of the actual situation in the labour market and prospects of its development. Nevertheless, it is important to say that the state pays special attention to career guidance through establishing career guidance centres in colleges. By 2020, it is planned to open such centres in all secondary vocational education institutions and make them independent later.

A special issue is poor knowledge of labour legislation and selective rights by youth. In addition, exaggerated requirements to first job and wages (although young people lack experience and practical skills) largely explain unwillingness of youth, particularly, young men to turn for assistance to PES and participate in the programmes offered as well as their inclination to informal activity and intention to leave the country. Girls turn to PES more often and it is normally easier to job place them. They are more willing to participate in the PES programmes offered, less demanding about jobs and wages, better educated and are employed soon after graduation. In this regard, it might be considered to incorporate a compulsory course on labour rights including gender equality issues in employment into the curricula of educational institutions at all levels, which is extremely important both for youth in general, who are poorly familiar with their labour rights, and for young women who are about to join the labour market.

Vocational training institutions train too many specialists in some types of skills while training too few of them in other types. That issue can be addressed by forecasting labour market demand for skills for a short-term and medium-term periods, taking into consideration the socioeconomic development forecast, investment

²⁹ As of the end of October 2015, employers notified the PES of Armenia about 2,100 vacancies against 75,700 registered unemployed, i.e. 36 unemployed per one vacant job. www.cisstat.org.

³⁰ According to the Interstate Statistical Committee of the CIS, in 2014, there were almost three (2.8) tertiary graduates per one graduate of primary and secondary vocational education institutions in the Republic of Armenia. The Government is aware of the negative consequences of such imbalance and is already taking its steps towards increasing enrolment in secondary vocational education institutions free of charge.



projects, macroeconomic indicators, demography, workforce balance and other statistical indicators of the Republic of Armenia.

Expenses for tertiary students are twice as high as expenses in the other education levels, and this does not necessarily lead to the acquisition of skills demanded in the labour market. Graduates obtain skills that can sometimes hardly be applied in various sectors, occupations and regions. Developing and introducing occupational and educational standards may help addressing this issue (experience of Russia may be examined).

Capacities of labour market institutions (public employment service)

PES is a key instrument of government employment policies, heavily involved in programmes of labour market adjustment and an important source for labour market information. It is important to consider how best the PES can position itself to cope with the challenges it faces:

- The PES needs to be constantly ready to change and adapt its services in the light of changes in its external environment while also keeping a balance between change and stability. Examples of positive PES responses include adapting services to cater for a growth in part-time, self-employed or temporary jobs, and developing new self-help instruments on the Internet.
- The PES has to recognize its position as an instrument of government employment policy, to win the confidence of government and to influence government employment policies.
- It is important that the PES main functions and services are integrated as much as possible.
- The PES should work closely with a wide range of partners and where necessary, exercise a leadership role.
- The PES needs to become a new kind of service enterprise with a new profile for staff and needs to strive for continual improvement in effectiveness and quality.

The peer review has revealed that targeted programmes implemented by the PES are usually effective in creating employment opportunities and helping to match workers' skills and labour market requirements. Nevertheless, greater emphasis could be placed on preventing prolonged unemployment and providing assistance to the most needy. Preparatory steps based on the profiling methodology and awareness-raising measures should be developed at the local level to bring services in compliance with youth needs. To improve the quality of services provided to young people who neither work nor study but are capable of working, and to create incentives for active job search and placement, partnership between the employment services and all local stakeholders (municipalities, social agencies and public organizations) is required.

Since youth is a heterogeneous group of the population and faces a number of difficulties in the labour market, early exposure of risk factors and factors conducive to such difficulties is extremely important in order to be able to provide the required effective assistance.

More attention should be paid to more effective programmes, which will be identified in the course of monitoring and assessment mechanism, which has been launched in Armenia and appreciated by the participants of the peer review. In assessing the impact of programmes, integrated programme monitoring and assessment are generally applied using control groups for the sake of comparison and scientifically grounded assessment of their cost effectiveness. PES staff should be trained to use these methods.

A stronger PES will be able to implement employment policies, thereby better promoting their improvement and employment-oriented economic growth. This will be possible if the PES is transformed into an attractive agency for jobseekers (including those looking for highly skilled work), persons in need of job-search assistance, as well as for employers.



Addressing these problems will once again depend on a multifaceted approach that combines better vocational guidance (to avoid too many highly educated students competing for too few jobs), active labour market policies to encourage enterprises to hire youth and macroeconomic policies to further increase the pace of job creation. At the same time, labour laws and collective agreements, including through sanctioning mechanisms, can protect young workers and facilitate their transition into stable and decent employment. In parallel, a system of incentives to encourage the registration of enterprises is to be promoted, while also providing incentives for employers to invest in the improvement of young people's work conditions.

4. Main conclusions of the peer review

Conclusions of the reviewing countries were discussed by experts at their meeting, which was attended by representatives of the nine countries of the subregion. The conclusions of the reviewing countries and youth employment promotion regional network members can be summed up as follows:

Need of policies for promoting economic growth and tackling deficits in decent work

Rather disappointing economic performance in 2016 and quite negative outlook for 2017 at the global level in general and in Armenia in particular (as well as in many other CIS countries) raise concerns about the ability of the economy to (i) generate a sufficient number of jobs, (ii) improve the quality of employment for those with a job, and (iii) ensure that the gains of growth are shared in an inclusive manner. The country faces the twin challenges of repairing the damage caused by the crisis and creating quality employment opportunities for new labour market entrants.

Many of the recent labour market dynamics reflect both cyclical factors and structural factors – e.g. low productivity growth and widening income inequality – which may lead to secular stagnation.

In this regard, policies promoting job-centred inclusive growth are highly important for young people to have a chance for decent work. The youth labour market situation is closely connected with general employment trends, but young people are more sensitive to economic changes. Encouraging aggregate demand is required to address the youth employment crisis, since that will create more employment opportunities. As such, youth employment promotion strategies should be linked to macroeconomic and sectoral policies. Macroeconomic and growth policies may promote youth employment provided the required amount of investment is available. Positive results in the labour market can be achieved by reducing macroeconomic instability and applying up-to-date and targeted countercyclical policies. However, the main issue is how to reduce the frequency of recessions affecting mostly young people. In this connection, strengthening institutional and financial capacity with the aim of supporting countercyclical policies remains a challenge. As a suggested approach, through their taxation and monetary policies, central banks and financial institutions can contribute to increasing investment and increase access to financial services and credit, especially by extending credits to priority sectors with a high job creation potential. This can be more successful if conservative taxation policies are applied during the absence of economic downturn, i.e. by increasing expenditure and reducing taxes during recession and acting to the contrary during economic expansion.

On the whole, any youth employment promotion strategy should rely on a combination of macroeconomic, labour market and employment policies, as well as initiatives targeting youth, especially those who are in a position of disadvantage (for example, low-skilled and informally employed persons in unproductive and low-quality jobs). At the same time, to ensure a steady demand for labour, employment policies should be more focused on the interrelation between economic and sectoral growth, as well as the size of enterprises and



technologies. The administrative and legislative frameworks for business should be further improved in order to promote quality youth employment, with due consideration for better working conditions, access to social security and labour rights.

Talking about the national employment policy design and implementation, Armenia should be complimented for its model presenting a comprehensive approach which includes Armenian Development Strategy 2014-2025, National Employment Strategy 2013-2018, Employment Law, a range of active labour market programmes and the system of monitoring and evaluation. Such approach links employment to development strategy, sets legal framework for the employment policy/strategy and integrates employment policy implementation to formulation.

Improving outcomes for youth is fundamental to building inclusive and sustainable societies

Education and training for employment

Despite the high level of educational attainment, productive employment is often hampered by low skills and skills failing to meet labour market requirements. At the same time, education and training are very important for giving more employment opportunities to young women and men and finding decent and productive work. Higher productivity, quality employment and economic growth are associated with education/training. More emphasis should be given to the development of occupational skills in the context of economic growth promotion and as an instrument of addressing inequality. It has been proved at the macro -level that high educational attainment increases labour productivity and, therefore, leads to a high level of national growth. In addition, one per cent increase in the number of students at schools produces a 1 per cent to 3 per cent increase in the per capita GDP.

With the extraordinary rate of change in the modern labour market, education and training can no longer be seen as a one-off process completed in early life and the term "lifelong learning" neatly sums up the approach required these days. The PES has potentially an important role to play as the gateway to lifelong learning, helping people to review the direction of their careers, helping them determine what learning would benefit them and steering them to appropriate institutions or learning packages. Guidance of this kind is highly demanding. In part, it could be achieved through well-designed IT systems but highly trained counsellors are needed as well.

As it was said above, the Republic of Armenia has very high educational attainment indicators and coverage of youth with educational institutions. Armenian youth understand the importance of education for the present-day economy and society, and especially for their successful employment and career development. The gender balance in the education system is not in favour of men, however, this gender gap in favour of women tends to decrease. Despite absence of gender-related discrimination in education, women's inequality is vividly manifested in a narrower and rather traditional range of their occupations and areas of training. Major challenges in the education system include an increasing imbalance between the levels of vocational education of youth in favour of the tertiary level, lack of vocational guidance at all levels of education and extremely weak links between the vocational education system and labour market realities, which result in high unemployment rates among graduates of educational institutions.

It is important to focus on policies aimed at reforming and improving the system of education, vocational training and acquisition of skills with the direct participation of employers' associations and trade unions. Such reforms help address skills mismatch in the labour market by increasing the correlation between the training system and labour market requirements and introducing components based on practical experience into the



vocational training system. A strategic and systematic process whereby labour market participants find out future skills and qualifications requirements and prepare for them is necessary to avoid potential supply and demand gaps. In this respect, the forecasting of needs should be strictly regulated and based on reliable labour market information and data.

Targeted interventions addressing inequality and promoting youth employment

Changes in the labour market that often increase the vulnerability of workers, especially young ones, remain an important issue. For example, in the countries belonging to the Organisation for Economic Co-operation and Development, over 25 per cent of young people are employed in temporary jobs, and more than one third of them work less than 30 hours per week (part-time work)³¹. Besides that, the wages of young workers continue to decrease as compared to wages of adult workers. However, the share of youth is decreasing worldwide, the employment rate among young people is not on the rise, and the level of educational attainment is increasing. The wage gap is mostly connected with the fact that many young people work part time or in temporary and informal jobs. Since young people often work in inferior conditions, attention should be paid to their transition to full-time employment and work under more decent contracts. Legislation should stipulate the equal treatment of full- and part-time workers.

Another important initiative that could be considered is a youth-guarantee scheme, which is widely and successfully used in the EU countries, although it is a quite costly measure. It permits flexible combinations of various measures applied to youth and, at the same time, adherence to the goal of providing guaranteed access to employment, training and self-employment services (the experience of Scandinavian countries in this area is paramount).

The share of youth in the economically active population of the Republic of Armenia is approximately equal to its share in overall population, but the number of economically active young men exceeds that of young women. At the same time, labour force participation of youth is considerably lower than labour force participation of the other age cohorts, especially of women, which is connected with educational opportunities. However, youth employment rates, although rising with age, remain considerably lower than the relevant indicator for overall population, and in all age cohorts without exception there is a substantial gender gap in favour of men. Despite the legally guaranteed gender equality in the area of employment and women's high educational attainment levels, youth unemployment (both general and registered), acute as it is, remains mostly a challenge facing women. Out of the 14 employment promotion programmes implemented by the PES, only one – Arranging Workplace Practices – is targeting youth, and none of the programmes target women, nor there are any programmes promoting women's entrepreneurship.

A thorough examination of what measures work best for increasing youth employment makes it possible to conclude that personalized and intensive services (such as vocational guidance, job search assistance and individual plans) produce a positive effect on the entry of young workers to the labour market. Other successful initiatives are wage subsidies and other financial incentives for employers who hire young people (for example, tax or social charges deductions for a certain period). This facilitates a smooth transition from school to work, especially during times of economic recession. Such programmes may serve as an important instrument compensating the cost of the initial training of young workers or their limited work experience and low productivity. It has been proved that the distribution of initial expenses between employers and the Government has a positive effect on workforce demand. However, incorrect application of wage-subsidy

³¹ OECD Employment Outlook



programmes may upset the balance and lead to substitution effects when employers chose subsidized workers instead of those who are better suited for the job but are not subsidized.

Partnerships for youth employment

The need to harmonize policies through coordinating initiatives of various labour market actors remains key to a successful youth employment policy. The availability of Government institutions with an appropriate technical capacity and a possibility of ensuring policy support is considered a successful practice. Employers' associations and trade unions are important partners in the process of policy and programme development and implementation. Establishing partnerships with the private sector, which is the main source of job creation, is an important success factor. Enterprises determine the combination of labour demand, training offers and career development possibilities as well as employment quality. Innovative strategies should be supplemented by broad partnerships in order to cover as many young people as possible, who are not registered by the PES or live in rural or remote areas where access to the PES is more difficult. Besides, local communities (municipalities) know better the comparative advantages or various partners, youth needs and local labour market requirements and features.

The modern PES needs to be open to the outside world and willing to work closely with others such as providers and users of labour market information. More fundamentally, the trend towards partnership reflects the broadening role of the PES and a growing recognition that problems such as long-term unemployment and social exclusion are multi-faceted. Problems like these cannot be resolved if public bodies operate in watertight compartments; a concerted approach by a variety of agencies is therefore needed. Another strand is the constant pressure for greater efficiency from public bodies which makes it important to determine what work is most cost effectively done by the PES and what can better be done by others, either as partners or under contract. Through its central position in the labour market, the PES is well placed to exercise a leadership role in such partnerships. The PES should not seek to take the lead for its own sake, but rather it should do so where it has the proper competency and can thus offer others the best prospect for success.

These partnerships have the advantage of combining the efforts of a wide range of local bodies in resolving problems linked to employment. But the leadership and coordination of local partnerships can present a difficult challenge for PES. While building partnerships it is important to consider the question of how to balance diverging interests and aspirations at national, regional and local levels and the question of how to ensure that local partners have the necessary expertise in programme management, jobseeker counselling' and advising employers. Moreover, there is the question of how best to monitor and evaluate the effectiveness of local partnerships and their use of public funds.

5. Recommendations for follow-up

The following policy recommendations can be formulated based on review reports and discussions in the course of the peer review.

1. Policy efforts for overcoming structural impediments to growth, including inequality

It is important to ensure promotion of pro-employment sectoral policies and sustainable job creation in strategic prioritised sectors, taking into consideration the fact that newly created jobs must be official and productive. The Armenian Development Strategy suggests sector-specific policies, such as promoting tourism development, supporting high-end services, such as IT and communications, renews commitment to agricultural and rural development (currently a third of the work-force depend on the agriculture for livelihoods) and promote SME support. The process should be based on socioeconomic forecasts and trends in



economy and the labour market. Developing human capital, especially by increasing the employment of young men and women, can play an important role in the process. Youth employment promotion strategies should be based on a combination of macroeconomic, labour market and employment policies and their interaction. It is important to resort to initiatives specifically targeting young people who need it most. The youth labour market situation can be improved through policies offering financial incentives and supporting the development of infrastructure for the operation of enterprises in sectors with a high job creation capacity. The government should provide incentives for industries to grow – enabling environment.

An important issue is insufficient access to financial resources. In the opinion of enterprises, this is one of the main barriers to economic growth. One way of addressing the issue is to promote strategies that increase access to financial resources and services that are conducive to equitable economic growth and a higher employment rate. An integrated assessment of access to financial resources can be undertaken, and the prospects of improvement thereto can be reviewed with the aim of enhancing economic growth and the employment rate. The central bank might wish to play a more active role in promoting the agenda of financial inclusion. International experience has shown that financial inclusion, that is, the process of including those who are left outside the formal financial system, can be source of both direct and indirect job creation and in reducing poverty and vulnerability.

Policies that facilitate structural transformation by increasing the employment share of manufacturing and high-end services have a positive spill over effect by reducing informality. The government may also consider developing strategic document for transition to formal economy foreseeing concrete steps for formalization (experience of the Republic of Bashkortostan, Russia, that made a big progress in transition to formal economy can be studied).

Achieving the right policy mix is essential. Accordingly, policies that address both the root causes of secular stagnation and structural impediments to growth need to be incorporated into macroeconomic policies and placed at the forefront of the policy agenda. The ILO estimates that a coordinated effort to provide fiscal stimulus – an increase in public investment – that takes into account country's fiscal space would provide an immediate jump-start to the economy. In the medium term, such efforts might also remove fears of low growth and, thereby, raise investment demand.

It makes sense for the monetary authorities of the country to explore mechanisms for supporting growth and employment that go beyond its traditional policy instruments making greater emphasis on financial inclusion. At this moment it can be noted that current macroeconomic policy framework in Armenia seems to be not sufficiently growth and employment-friendly. Fiscal policy is focusing on fiscal consolidation and monetary policy has provided inadequate support to aggregate demand to offset the negative growth and employment consequences of fiscal consolidation. It can be suggested to make fiscal rules investment- friendly and ensure that expenditure on health, education, social protection schemes and labour market policies that serve the needy and the vulnerable are protected.

In terms of institutional innovations to make fiscal policy more responsive to growth and employment objectives, the government might consider setting up an independent fiscal commission which would be entrusted with the mandate of reviewing the current debt rule and suggesting appropriate modifications. In addition, it could monitor the sustainable financing of expenditure targets and for improving the efficiency of public expenditure programmes.

2.Sustainable development with emphasis on (youth) employment and labour market policies



The 2030 Agenda for Sustainable Development provides a unique opportunity to incorporate youth policies into comprehensive sustainable development strategies. Improving outcomes for youth through appropriate youth employment and social policies is fundamental to inclusive and sustainable society.

Economic growth that ensures job creation should remain at the centre of attention in policy development. In addition, it is necessary to take into account macroeconomic policies that: support aggregate demand, productive investment and structural changes; promote enterprise sustainability; support business confidence; and eliminate territorial imbalances. The development of an integrated policy framework in the area of employment, based on tripartite consultations and successful implementation of employment policies, creates conditions for sustainable economic growth. A positive effect from public investment in employment can be maximized provided that young people obtain the correct skills and qualifications demanded by employers. In this respect, infrastructure investment corresponding to the labour market policies will help improve the quality and increase the number of jobs for youth. Increasing public investment and social benefits as well as targeting of active labour market programmes have a direct impact on youth employment. Findings show that public expenditure on labour market policies is associated with an increase in the share of employed youth in the total number of the population of economically active persons.

If government employment policies are to be effective, they need to be well coordinated and consistently focused on the individual. Possible form of integration may include the one-stop shop, where a variety of local institutions share common premises, regular meetings of local managers to discuss common problems, and integrated computer systems shared by staff whether these be concerned with job-broking, job-search assistance or benefits. An integrated approach should ultimately benefit the individual jobseeker, since it supports more coherent and consistent efforts to help the individual back to work.

Design and implementation of employment policies should be complemented by the initiatives for greening of production that is a powerful engine for decent work creation and strong and balanced growth and development. Like any process of change at work that will require the combined efforts of governments, employers and workers through social dialogue. If climate change is a consequence of human activity, then that activity is, for the most part, work-related. And if work is the predominant cause of climate change, then inevitably it must be central to strategies to prevent, mitigate and adapt to it. The 2018 edition of the ILO World Employment and Social Outlook (WESO) report will be on “greening with jobs”. As skills gaps and shortages are bottlenecks in Armenia, policy-makers need to make an effort to identify emerging requirements and then act to upgrade skills and qualifications for exiting occupations and develop specific plans to anticipate new ones, including green job skills. This requires modernizing the system of occupational and educational standards, and developing the system of skills validation (experience of Russian Federation may be studied in this regard).

3. Policy coherence and effective interministerial coordination mechanisms

To improve coordination, public-private partnerships could be established, including on local level. This mechanism could include local authorities, social partners (thereby enhancing social dialogue and tripartism in the development, implementation and monitoring of employment policies), education facilities, the private sector, civil society organizations operating at the level of relevant districts, and other key stakeholders. Partnerships may serve as a forum for consultations and discussions among a wide range of actors who will join their efforts. Such partnerships also provide comparative advantages in terms of a practical solution to youth employment issues and issues of quality (for example, addressing the issue of insufficient work experience, which prevents a smooth school-to-work transition). Civil society organizations and institutions that provide practical support to disadvantaged youth may refer inactive and discouraged youth to PES programmes. On the recommendation of such organizations and institutions, employment services, in their



turn, may develop comprehensive services that better target youth at risk of exclusion or who are working in the informal sector. Businesses may also have the opportunity to address directly the barriers they face in recruiting youth, as well as their needs in terms of skills, with government structures, and make direct offers of internship and apprenticeship places for youth. Trade unions and the PES may raise issues related to the quality of the jobs offered by businesses and youth labour rights. It could also be considered, to include youth-related issues and their gender dimension into collective agreements and other trade union documents.

4. Active labour market programmes targeting young men and women

The PES needs to aim for continual improvement in effectiveness and quality. The PES needs clear aims and objectives and these should be reflected in challenging but achievable performance measures. It needs to organize periodic surveys to test the attitudes of employers and jobseekers to PES services. It also needs to adopt a quality approach in which criticisms and complaints are seen as potential stimuli towards better performance. All major PES programmes and innovations need to be subjected to careful evaluation, the findings of which should be taken seriously.

Services and programmes provided by the PES of the Republic of Armenia including the current active labour market programmes are considered relevant. However, the most successful interventions can be enhanced to cover as many people as possible and with better results, by conducting awareness-raising campaigns. It would be useful to test innovative approaches in the field, for example, by piloting youth employment guarantee scheme in order to ensure quality employment or education possibilities for all unemployed youth after several months of unemployment. (The experience of the EU countries can be studied more deeply, since this measure was recommended to all EU members for implementation as an anti-crisis measure). Another measure is to offer young jobseekers individual action plans after their registration with the PES. This will motivate the unemployed to turn to the PES for assistance. Financial resources assigned for the implementation of measures that proved to be ineffective could be reallocated to other initiatives that have proved to be effective. It is important to maintain the focus on the quality of jobs for youth. In this respect, specific policies and targeted initiatives that facilitate the youth transition to the formal economy will produce more results if they are incorporated into macroeconomic policies and include measures to improve the legislative and administrative framework concerning entrepreneurship and reforms ensuring access to labour rights, better working conditions and social protection.

Preventive measures like early career guidance or vocational training are important. Intensification of career guidance at schools with the aim of attracting youth, especially young women, into secondary vocational education institutions, and giving them an opportunity to acquire skills that have traditionally been considered as suitable only for men should be in place. In future, this measure will help reduce horizontal segregation in employment and gender imbalance in vocational education. Encouraging young people to get vocational education will lead to increasing internal mobility and decreasing informality. Broad experience of Krasnoyarsk Territory, Russia, in building effective system of career guidance could be explored.

ALMPs in Armenia might benefit from increased budgetary allocations to match international norms.³² However, multiple evaluations show that the effectiveness of ALPMs depend on the type of intervention and the particular economic circumstances that a country faces. For example, one study that covers 152 impact evaluations across developed, developing and transition economies, arrives at the following conclusions:³³

³² OECD data suggest that member states spent around 0.6 per cent of GDP on ALMPs

³³ Betcherman, G (2008) 'Active Labor Market Programs: Overview and International Evidence on What Works', World Bank, April



- Job-search and vocational training services have produced the most positive impact both on employability and wages;
- Wage subsidies are often a success but can also have negative effects;³⁴
- Public works not always have positive implications;
- Lack of data does not make it possible to draw reliable conclusions concerning entrepreneurship support programmes.

The government could also consider introducing the system of monitoring graduates and establishing career centers at the universities (such initiatives have recently been launched in Russia). In the remote and rural areas of the Republic, mobile employment centers could be very useful for raising awareness among the population on PES services and programmes and delivering them to those who do not have access to the PES (e.g. such mobile centers are used in Russia and Kyrgyzstan). Internal labour mobility remains the challenge as the population tends to move from rural to urban area or migrate to other countries thus leaving the rural area without workforce. E-database of vacancies covering all regions of the country and available to jobseekers and employers may give detailed information on work possibilities and government support in case of reallocation to other region (portal Work in Russia <https://trudvsem.ru/> gives such information to users, including the most recent labour market information and data).

5. Strong employment services that promote job placement and career development and that eliminate skills mismatch

More funds should be invested in developing services offered to employers and jobseekers, thereby building trust and creating a PES that operates effective labour market programmes. Investment should be aimed at staffing the PES to reduce the high workload on its employees and improve the quality of services. The information and communication technology system should also be improved (a good example has been set by the Austrian PES).

Priority should be given to building capacity of PES staff through appropriate education and training, including training in customer relations (job seekers and employers) and in the use of information technology. Given the wide dispersion of PES staff, senior management also needs to pay close attention to internal communications, including measures to seek the views of staff through regular attitude surveys and focus groups.

Serving a greater number of jobseekers through the PES will help the Government regulate the labour market better, especially in periods of ups and downs of economic cycles. Increased staff capacity will also help the PES to deal with the existing and potential programmes and services independently instead of involving external specialists, thereby saving financial resources. Such capacity-building may include, among other things, training staff in integrated monitoring and assessment, methods of dealing with employers and forecasting for the short, medium and long terms.

Many people, including youth, normally do not apply for PES services and programme as they prefer to search for a job themselves. In this regard, it may be considered to conduct an analysis of accessibility and attractiveness of PES services for users.

³⁴ Note: The experience of Scandinavian and other countries in implementing active wage subsidy programmes in the labour market after 2008 testifies to the obvious effects of wage subsidy programmes on employment and wages if applied to certain population groups. Their experience is reviewed in greater detail in such research papers as that of Caliendo, M. and Schmidl, R. (2015): Youth Employment and Active Labour Market Policies in Europe. IZA DP No. 9488, November 2015; Hardoy, (2003) Effect evaluation: Methods and Applications. Accepted Ph.D. thesis (dr. polit) at the University of Oslo, Norway.



Private employment agencies may play the role in servicing rapidly changing and flexible labour market. It is important to have well developed legislation for regulating their activities and monitor enforcement of the legislation. The ILO Employment Agencies Convention (No. 181) could be further studied in this regard. Cooperation between PES and private agencies should be ensured.

These recommendations will be taken into consideration when planning future ILO interventions in Armenia.



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