



Joint Assessment of Employment Policy Priorities in Lithuania

In accordance with the provisions of the Accession Partnership, the Government of Lithuania has prepared, with the European Commission, Directorate General for Employment and Social Affairs, a Joint Assessment of Lithuania's short-term employment and labour market policy priorities. This document presents an agreed set of employment and labour market objectives necessary to advance the country's labour market transformation, to make progress in adapting the employment system so as to be able to implement the Employment Strategy and to prepare it for accession to the European Union. Progress in the implementation of these policies will be assessed regularly.

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(Signed)

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Introduction

In accordance with the provisions of the Accession Partnership, the Government of the Republic of Lithuania and the Employment and Social Affairs Directorate of the European Commission are carrying out an Employment Policy Review. The objective of this review is to examine the extent to which Lithuania has made progress in adapting its employment system so as to be able to implement the European Employment Strategy. The review aims to provide information, for the use of Lithuania and the Commission, on the following issues:

- Are the labour market structures that are already in place appropriate for participation in the Single market?
- Are the labour market and employment policy institutions sufficiently developed to allow an early implementation of the employment strategy in line with the Employment Title of the Treaty?
- Is the overall system in Lithuania moving towards meaningful participation in the EU employment co-ordination process?
- What are the priorities for human resources development strategy as a background for preparatory work for European Social Fund (ESF) or ESF type action planning and programming?

The starting point in the Employment Policy Review is to agree on a Joint Assessment Paper, whose focus is on the fundamental challenges in the field of employment. These challenges consist, first, in recognising that labour markets should reflect the needs of a dynamic market economy as part of a single market, in particular whether labour is mobile, adaptable and skilled. The second challenge is to have policies and appropriate institutions that support the development of a flexible labour market. This includes the need to promote a forward-looking approach to industrial restructuring to adapt to knowledge-based economies and to face up to the impact of demographic change.

The principal tasks of the exercise are summarised under four sections. Section 1 provides a brief description of the economic performance. Section 2 examines the overall labour market situation and the progress made in labour market transformation. Section 3 identifies major challenges and Section 4 draws together the overall conclusions from the review.

1. Economic Situation

With a population of 3.5 million and covering an area of 65,000 km², Lithuania is similar in size to Ireland. It is the largest of the 3 Baltic economies, being in terms of population, area and GDP as big as Latvia and Estonia together. In 2000, GDP per capita (in PPS) amounted to 3300 EUR, or 33% of the EU average.

After the restoration of independence in 1990, the structure of Lithuanian economy was still dependent on the republics of the former Soviet Union. Due to its fairly well-developed infrastructure and qualified workforce, the role of Lithuania in the Soviet system of division of labour was to supply relatively modern industrial products to the military complex. Despite the shortage of natural resources, attention was concentrated on the production of energy products. In addition, Lithuania specialised in the food, textile, and oil processing industries. Trade was highly concentrated towards the COMECON countries.

During the first years after the restoration of independence, import and export relations with the republics of the former Soviet Union broke down, leading to a decline of more than 40% in output between 1990 and 1994, accompanied by a clear deterioration in the standard of living. The labour market impact of this decline remained limited, as many companies still were not yet confronted with a hard budget constraint.

In 1992, inflation started to surge, not only due to the price liberalisation but also due to the peg of the currency to the quickly depreciating Russian rouble. Hyperinflation only came to an end in mid-1994, when Lithuania introduced a currency board system with a peg of the new Lithuanian currency, the lita, to the USD. Thereafter the inflation rate fell significantly despite a slight rise in 2001 where it accounted for 1.3% according to national CPI¹.

From the mid-1990s onwards, economic transition had proceeded far enough to generate positive growth, and by 1998 GDP had risen by over 20% from its 1994 level. However, following the Russian crisis in 1998–1999, Lithuania suddenly lost its export markets in the CIS countries, where it had exported its electricity, agricultural produce and other consumer goods, and the share of exports going to the CIS countries fell from 46% in 1997 to 16% in 2000.

As a result, economic output declined by 3.9% in 1999 compared to 1998. The government tried to mitigate the negative impact of the loss of the eastern export markets on agriculture and industry which resulted in a sharp deterioration of public finances and of the current account deficit. In 1999, the Parliament (the Seimas), seeking to consolidate the internal and external imbalance, adopted an Anti-crisis Budget Saving Programme. During 2000, the government followed a strict course of fiscal policy consolidation, which significantly improved the external and fiscal accounts. In 2000, the current account deficit was close to 6% of GDP and the budget deficit amounted to 3.3% of GDP (accounted according to ESA 95). At the same time, economic growth resumed, with GDP rising by close to 4% in 2000. This growth has continued in 2001 and is estimated at 5.7% according to preliminary results for the whole year.

There has been a significant transfer during recent years from trade with the CIS countries to trade with the EU. During the first half of 2001, the EU accounted for 55.9% per cent of all

¹ According to the interim Harmonised Indices of Consumer Prices, average inflation was 1.6% in 2001

exports, and for 43.3% of imports. The most important export items are refined oil, textiles and machinery.

Lithuania's GDP structure has changed. The development of the services sector, which was poorly developed for historic reasons, was very fast after the restoration of independence, and services accounted for slightly more than 60% of the GDP in 2000.

The share of agriculture in GDP has decreased from 10.6% in 1994 to 7.5% in 2000. Despite this drop, this sector still plays a key part, in particular in terms of employment. The fall in agricultural output has resulted in a less than proportionate employment decline. Approximately 18–19% of the employed population are still working in the sector. Rapid privatisation coupled with the restitution of property rights on land has led to a strongly fragmented ownership structure, resulting in low productivity. The Government supported the profitability of the agricultural sector by granting subsidies. In order for the sector to compete at the international level, significant restructuring will be required, which will have a big impact on employment.

Industry continues to be an important economic sector. After a fall from about one third to just over one fifth over the 1990s, its share in gross value added is expected to reach about 30% in 2001. Approximately 20% of the employed population worked in the sector in 2000. Industry remains strongly export-oriented (about 60% of the output is exported). Oil refining and food processing are the main industrial branches. As prices charged for raw materials and energy approached world prices, the large energy-intensive manufacturing enterprises have been confronted with a sharp price increase of their inputs and simultaneously lost some of their traditional export markets.

There was practically no private sector until the restoration of independence. The industrial sector comprised large enterprises, and the whole agricultural sector consisted of collective farms. A programme of voucher privatisation began in 1991, and succeeded relatively rapidly in privatising a substantial part of the agricultural sector and all small and medium-sized enterprises. However, the state kept an important stake in the larger industrial enterprises, while there was no privatisation in key sectors (e.g. electricity, railways, telecommunications, oil refinery). A second stage of privatisation, including cash payments and various other possibilities, started in 1996, and privatisation is now largely completed; however, the small number of industrial and service enterprises remaining in public ownership still account for a significant part of overall economic activity.

Lithuania has free trade agreements in place with the EU, EFTA, with Latvia and Estonia, and with most of the member states of CEFTA as well as with Turkey and the Ukraine. In April 2001, the Seimas ratified the agreement on Lithuania's accession to the World Trade Organisation, and on 31 May, 2001 Lithuania officially became a member of the WTO.

2. Situation in the Labour Market

2.1. Population and labour force

Lithuania's population has been essentially static in recent years, with a decline of 0.3% between 1990 and 2000. In the early part of the decade, a small excess of births over deaths was offset by net emigration, mainly to former USSR republics. More recently, deaths have exceeded births by a small margin, but net migration has also fallen to very low levels. The number of children aged under 15 in the population has fallen by about 100,000 over the last decade, while the number of persons aged 65 and over has risen by a similar amount. The working-age population (aged 15-64) has been static, at just under 2.5 million. The demographic outlook is for continued stability of the working-age population over the next decade.²

With a stable working-age population, labour force trends have been driven by changes in participation. The participation rate for those aged 15-64 was approximately 76% at the time of the first Labour Force Survey (LFS) in 1995 – down from the high levels (estimated at over 80%) that obtained pre-transition.³ By 2000, the participation rate for those aged 15-64 had fallen further to an estimated 71%, slightly above the EU average of 69% in that year. As a result of these trends, the size of the labour force contracted from 1.98 million in 1995 to an estimated 1.79 million in 2000. The results of the LFS for May 2001 indicate that there has been a further fall in labour force participation over the last year to 70.2 %.

In 2000, the male participation rate for those aged 15-64 was below the EU level (75.5% as against 79.1% in the EU) while the female rate was above that in the EU (67.6% as compared with 59.8% in the EU). In terms of age-groups, participation in Lithuania was relatively low for young people of both sexes and for males age 25-49; it is high relative to the EU among women aged 25-49 and for both sexes aged 50-64.

Participation rates vary across nationality groups. Compared with the overall participation rate of 71.1% in May 2000, it was 71.9% for Lithuanians, 64.8% for Russians and 74.9% for Poles. The further fall observed in 2001 concerned all nationalities, in particular Polish people (the participation rate in May 2001 was 71.2% for Lithuanians, 62.6% for Russians and 65.9% for Poles).

Available data suggest that average educational levels in the labour force are relatively high in Lithuania. The 2000 LFS indicates that 40.7% have post-secondary education,⁴ 38% have secondary education, and 21% have basic education.⁵ The proportion of those with only basic education is lower than the average EU level (30%). However, qualification levels are lower among the younger age-groups in the labour force. During the initial period of economic decline in the early 1990s, participation in education decreased. By the mid-to-late 1990s, approximately 20 per cent of young people were leaving school without completing even basic

² April 2001 saw the total population and housing census take place in Lithuania. The first unofficial data suggests that the population of Lithuania has decreased. Therefore, it may be necessary to recalculate some indicators of economic activity of the country's residents.

³ The Labour Force Survey is conducted twice each year, in May and November. In this section, where data for a particular year are referred to, they are based on the average of the May and November figures for that year.

⁴ Including "specialised secondary education".

⁵ Approximately half of those with secondary education, and one quarter of those with basic education, also have a vocational qualification.

education and only half of the young qualified for a secondary school-leaving certificate. Even higher education had fallen in prestige – the percentage of those awarded a Bachelor's degree in 1997 amounted to only 13 per cent of the corresponding age cohort. Moreover, the majority of qualifications held by older workers in Lithuania are vocational; in many cases these vocational qualifications, gained in the past, are over-specialised and not adapted to current and future patterns of skill demand in the economy.

2.2. Overall employment trends

During the transitional period to a market economy, rapid changes took place in the economic structure, which in turn impacted on employment trends. The employed population decreased by 200 thousand, or a little over 11%, during the first half of the 1990s, whereas GDP fell by 40%. Employment started to rise again from the middle of the decade.⁶ Average employment according to the LFS was 1598.4 thousand in 1999, i.e. 27.7 thousand or 1.8% higher than in 1997. Reflecting overall economic trends, employment fell again, to 1504.9 thousand in 2000, which was 94,000 or 6% less than in 1999. This is the lowest annual level of employment seen during the whole period from the beginning of reforms. Preliminary results from the LFS for May 2001 indicate that employment has continued to decline sharply into this year.

The overall employment *rate*⁷ in Lithuania stood at approximately 61% in May 2000, some 3 percentage points below the EU average of 63%.⁸ The male employment rate of 61.8% was significantly below the EU average of 72.6%, while the female employment rate of 58.5% was above the EU average of 53.1%. In terms of age-groups, Lithuanian employment rates were much higher than the EU average for women aged 25-54 (77% as compared with 65%), and for both genders in the 55-64 age-group. They were below EU rates for young women and for men up to age 54. The gap is particularly noticeable in respect of men aged 25-54, where 86% of the population have jobs in the EU as compared with 75% in Lithuania. By 2001, the employment rate had further decreased to 58.4%⁹.

Between 1997 and 2000, men's employment rate fell by 3.9 points and women's rose by 1.9 points. Men's employment rate remains significantly higher than women's in the age groups under 25 and over 55 years old; however, the female employment rate is now above that for men in the 25-54 age-group.

The employment rate differs across nationality groups. Compared with the total employment rate of 60.9 % in May 2000, it was 61.9% for Lithuanians, 50.5% for Russians and 62.1% for Poles. The decrease observed in 2001 concerns all nationality groups except Russians: in May 2001, the employment rate was 59.5% for Lithuanians and 54.6% for Poles but 51.1% for Russians.

2.3. Structural Changes in Employment

Employment by sector

Large changes in the sectoral composition of employment took place in the early years of the transition. Between 1991 and 1994, agriculture's share of total employment rose from 18% to

⁶ The date of the turning point differs according to the data source. According to the LFS, employment began to rise from 1997, whereas official establishment-based data put the turning point in 1995.

⁷ i.e. employment of persons aged 15-64 as a proportion of the population in the same age-group.

⁸ This gap is likely to have widened in the last year, with a further sharp decline in the rate for Lithuania and some further increase in the EU rate.

⁹ Based on the results of the LFS in May 2001

23%, the share of industry (including construction) fell from 40% to 28%, and the services share rose from 43% to 48%. Agricultural employment grew in absolute terms in 1992–1993 as some of those displaced from other sectors, unable to find alternative employment in the cities, moved to rural areas and became engaged in farming.

In the middle of the decade, approximately in 1995, changes in the sectoral structure of employment slowed down, and employment in agriculture started falling. As a result of these changes, in 2000 18% of the employed were engaged in agriculture, 27% in industry, and 55% in the services sector. As compared to the EU, the biggest difference relates to agriculture, whose employment share is four times higher than the EU level. Employment in the services sector remains relatively low as compared to the EU average.

Employment by occupation

In 2000, 22% of those in employment were working in professional and technical occupations, and 8% held managerial jobs. Skilled and semi-skilled manual jobs accounted for 26% of the employed, with a further 16% being skilled workers in agriculture. Unqualified workers accounted for 10%. Only one-sixth of workers were engaged in the clerical, sales and service occupations. There has been little change in this broad occupational pattern in recent years. Clerical and service jobs still account for a much lower proportion of overall employment than is typical in EU countries.

Employment in the private sector

Substantial changes took place in the employment structure by type of ownership during the 1990s. Initially, although overall employment was falling, the opposite was happening in the private sector – where employment rose from 412.5 thousand in 1990 to 1045.5 thousand in 1995 (approximately 2.5 times). Thereafter, jobs growth in the private sector slowed, with employment rising by only 7.5% between 1995 and 1999. However, rapid changes continued in the employment structure due to the ongoing decrease in the number of public sector employees. Public sector employment in 1995 was one-third of its 1990 level, and it fell by another 12% between 1995 and 1999. Overall, the private sector's share in total employment rose from 22% in 1990 to 68% in 1999. The private share was over 90% in agriculture, construction and distribution, almost 80% in industry, and 40% in the banking and finance sector. The changing public-private split has been driven largely by the privatisation process.

Self-employment

Of all those employed, approximately 80% are employees, 16% are self-employed, and just over 4% are unpaid family workers. One in eight of the self-employed are themselves employers, while the remainder are single-operator businesses. Self-employment is concentrated in agriculture, where it represents 58.1% of workers compared with 2.0% in industry (4.8% in construction) and 5.2% in services. In each of these broad sectors, self-employment is less prevalent than in the EU, where 52% of agricultural workers, 11% of those in industry, and 13% of workers in services are self-employed.

Part-time/full-time

Approximately 7% of those in employment in 1999 were working part-time; part-time work is thus less prevalent than in the EU, where it accounts for 18% of all workers. The difference is particularly marked in the case of Lithuanian women, only 7% of whom work part-time as compared with 34% in the EU.

The extent of part-time working varies by economic sector. About 20% of those employed in agriculture, but only around 5% of those in industry and construction and 9.4% of those in services, work part-time. By comparison with the EU, part-time work is particularly under-developed in the services sector (where 22% of all EU workers are part-time).

Regional differences

The impact of the transition process on the various regions of Lithuania has differed, depending on their initial economic structure and on geographic location. In addition, with a reduced state role (both regulatory and in terms of investment decisions), free markets have tended to direct investment into the most developed areas. As a result of these trends, significant regional differences in employment performance have emerged.

The extent of these differences is not immediately apparent from aggregate employment data. With the exception of Alytus, where the reported employment rate for those aged 15-64 in 1999 was 56%, the employment rate showed relatively little variation across regions, ranging from 64% in Vilnius to 62% in Kaunas. However, a significant part of reported employment in a number of regions (most notably Taurage and Marijampole) is in agriculture, and much of this represents low-productivity subsistence farming. If agriculture is excluded, four broad categories of region emerge:

- Vilnius, where approximately 60% of the working-age population have jobs in the industry and services sectors
- Kaunas and Klaipeda, with an industry/services employment rate of approximately 50%
- Alytus, Panevezys, Siauliai, Telsiai and Utena, with a rate of approximately 45%
- Taurage and Marijampole, where fewer than 40% of the working-age population have jobs outside agriculture.

Productivity

Productivity (GDP per employed person) has been rising consistently since 1995, especially in 1997–1999. In all, productivity rose by approximately one-third between 1994 and 2000.

At a broad sectoral level, output per worker is highest in manufacturing, followed by construction and services, and lowest in agriculture. Productivity varies widely across specific activities in the services sector, being highest in financial intermediation and lowest in health care and social work

2.4. Unemployment

There are two official sources of data on unemployment. The first relates to the number of unemployed registered with the State Labour Exchange, established in 1991. The second is based on the Labour Force Survey, started in 1995 and conducted in line with the internationally-comparable unemployment definition set by the International Labour Organisation (ILO). The description of unemployment trends below is based on LFS data.¹⁰

¹⁰ As in other countries, registered unemployment still diverges from unemployment measured in the Labour Force Survey, despite the overlap between LFS criteria and the registration-based definition of unemployment.

Overall trends

Having risen from a very low level at the beginning of the 1990s, unemployment rate in Lithuania peaked in 1995 when according to the LFS there were almost 350,000 unemployed, representing an unemployment rate of 17.1%. Thereafter, the unemployment rate fell gradually to 13.3% in 1998, when there were 245,000 people out of work. The economic recession which started at the end of 1998 led to a reversal of this downward trend, and by 2000 the average level of unemployment had risen to 285,000 – an unemployment rate of 15.9%. Early indications from the preliminary results of the LFS for May 2001 are that the absolute number of unemployed this year will show little change from the year 2000 level; however, in the light of the continuing decline in the labour force noted earlier, the unemployment rate is likely to rise by a further one percentage point.

Structural features of unemployment

The male unemployment rate in Lithuania in 2000 is estimated at 17.5% while the female unemployment rate is 13.5% – both are high relative to the EU averages of 8% (male) and 11% (female) respectively in mid-2000. Male unemployment has risen steadily over the last few years, from a low of 14.2% in 1997. Women's unemployment fell initially in 1998, and even after the increases seen in 1999 and 2000, remained below its 1997 level of 13.9%.

As in other countries, youth unemployment is higher than unemployment among older workers. In Lithuania in 2000, unemployment among those aged 15-24 stood at 29%, as compared with 15% for persons aged 25-54. This gap between young people and adults is in line with the situation in the EU. While overall youth unemployment was relatively stable between 1997 and 1999, there was a tendency for unemployment to fall among teenagers and rise among young adults. The unemployment rate for young adults (aged 20-24) at over 26%, is particularly high by international standards. While the unemployment rate for older workers (aged 55-64) remains below the overall unemployment rate, it has been rising relatively rapidly in recent years.

In 2000, according to the LFS, 52% of the unemployed (or over 8% of the labour force) had been out of work for over one year. The survey results indicate that there had been a sharp drop in the level of long-term unemployment, from almost 130,000 in 1997 to just over 100,000 in 1999. However, the number of long-term unemployed rose again in 2000, to reach 144,000.

There is some variation in unemployment at the broad regional level. According to the LFS, the Siauliai region had a rate of 18.4% in 2000, and Alytus also had above-average unemployment at 16.3%. The lowest regional unemployment rates were in Taurage, Telsiai and Utena, at under 14%.¹¹ Registration data suggest that the variation in unemployment is much greater at smaller-area level, with unemployment ranging from 7% in the district of Kretinga (in Klaipeda region) to almost 21% in Akmene district (in Siauliai region).

Unemployment varies substantially by level of education. In 2000, according to the LFS, persons with post-secondary education had an unemployment rate of 10%, as compared with 18% for those with secondary education and 22% for those with only basic education. Approximately four fifths of the unemployed registered with the Labour Exchange are

¹¹ It should be noted that reported regional unemployment rates in the LFS have varied more widely from year to year than is the case for the national unemployment rate; this may be due in part to the small sample size for some regions in the LFS.

unqualified, or their qualification is too low or is unrelated to the current needs of the labour market. Half of the young registered unemployed have no qualifications at all.

These educational differences in unemployment are related to the variation in unemployment across occupations. Unemployment is lowest among professional workers (3.6%) managers (8.2%) and technicians (8.4%). Clerical, sales and service, and skilled manual workers have unemployment rates of between 15% and 18%, while unemployment is over 20% for semi-skilled and unskilled workers.¹²

The unemployment rate varies across nationality groups. As compared with the overall unemployment rate of 14.7% in May 2000, the rate for Lithuanians was 13.6%, Russians 22.1%, Poles 17.1%, and representatives of other nationalities 22.9%. These differences are due in part to a concentration of the non-Lithuanian population in socially and economically underdeveloped areas. Unemployed persons from ethnic minorities also tend to have lower levels of general and vocational education than do Lithuanians.

2.5. Wages

Real wages fell sharply in the early 1990s, but began to recover from the middle of the decade. Between 1996 and 2000, average gross wages rose by 63% in nominal terms, while retail prices rose by 17%, so that average real wages grew by 40% over this period. The pace of increase has however been slowing each year; real wages rose by 16% in 1997, 14% in 1998, 5% in 1999, and 1% in 2000. Net wages rose rather more slowly than gross wages – by 53% in nominal terms and 32% in real terms between 1996 and 2000 – as average income tax deductions rose because basic exemptions in the income tax code were not fully indexed to the increase in wages.

Overall nominal labour costs have also risen by 63% — exactly in line with gross wages, as there was no change in the rate of employers' social contributions over this period.¹³ When deflated by output prices,¹⁴ average labour costs rose by 28% in real terms between 1996 and 2000. Again, the annual rate of increase slowed sharply within this period, from 11-12% in 1997 and 1998 to zero in the year 2000. GDP per person in employment rose by 21% between 1996 and 2000, so that real labour costs have been rising rather faster than economy-wide productivity, thus pushing up unit labour costs. This trend was particularly acute between 1996 and 1999, when real unit labour costs in the economy overall rose by 17%, before falling by 9% in 2000. Moreover, the improvement in unit costs in 2000 was due to a large increase in productivity, achieved in part through substantial labour-shedding in low-productivity sectors of the economy. Economy-wide productivity growth is thus likely to have overstated the rate of productivity growth in those enterprises that have continued in business.

The ratio of female to male wages had been relatively constant in the range 71%-74% between 1994 and 1998, but has risen significantly in the last two years. The average monthly wage of women in 2000 was LTL 968, or 81.3% of the male average (LTL 1,143). Women's monthly

¹² Skilled agricultural workers have extremely low reported unemployment, at 2%. However, this probably reflects the recording of those engaged in subsistence farming as being in employment rather than as unemployed.

¹³ These changes are of course in domestic currency terms, and the Lithuanian Lita has been appreciating over this period. Against the Euro, for example, the Lita appreciated by 38% between 1996 and 2000. Thus, the 63% increase in nominal labour costs between 1996 and 2000 represents an increase of almost 125% in Euro terms. As noted earlier, 50% of Lithuania's exports now go to the EU and 40% of imports come from there.

¹⁴ As measured by the GDP deflator

wages, as compared with men's, are relatively lowest in the area of financial intermediation (66.5% per cent), and highest in education, where they exceed men's wages by 1.9%.

According to the *Background Study*¹⁵ there are significant differences in average wages across the main sectors of activity. In 1998, wages in agriculture were approximately 60% of the average for the economy as a whole, while industrial wages were close to the national average. Service sector wages were relatively higher, but showed wide variation across individual types of activity (from 70% of the economy-wide average in hotels and restaurants to 185% in financial services). An examination of trends over the preceding five years suggested that inter-sectoral wage differentials had been narrowing over time.

2.6 Labour market policies

The main institution dealing with employment policy matters at national level is the Ministry of Social Security and Labour. However, it is recognised that the programmes and policies of other ministries have a major influence on employment developments. These include most notably the Ministry of Education and Science, the Ministry of Economy, and the Ministry of Finance. In order to co-ordinate the policies of these ministries in the employment sphere, an Economic Development and Employment Committee (EDEC) was established by resolution of the government in July 2000.

The main strategic policy document on employment is the *Programme of the Republic of Lithuania for increasing employment for 2001-2004*, drafted under the responsibility of the Ministry of Social Security and Labour and approved by the government in May 2001. The Programme's structure corresponds with the four-pillar structure of the European Employment Guidelines, and its main strategic objectives are:

- to cope with negative consequences of structural economic reforms and the external impact on employment and the labour market;
- to increase employment, reduce unemployment and restore balance on the labour market;
- to get ready for participation in the EU employment policy co-ordination process.

More concretely, the Programme aims to curb the increase in unemployment by the first half of 2002, and subsequently to reduce registered unemployment to 7-8 per cent. Over the life of the Programme it is envisaged that the encouragement of business development and investment will lead to the creation of 110,000–120,000 new jobs. A longer-term target is to increase the employment rate so that it reaches the average level of the EU member states and to seek full employment.

Employment policies operate within a legal framework set by laws on: support of the unemployed; vocational education and training; equal opportunities for women and men; employment contracts; individual income security; and state social insurance. One unique feature of the Lithuanian situation is that the Law on Support for the Unemployed provides legal employment guarantees for certain groups in the population – persons under 18 years, women (and single fathers) with children aged under 14, persons within 5 years of reaching pension age, newly-released prisoners, and the disabled. The law provides for the setting of

¹⁵ European Training Foundation, *Background study: Employment and labour market in Lithuania*, September 1999, Table 2.5

legally-enforceable quotas for employment of persons from these groups by private-sector employers.

2.7 Labour market institutions

The main implementing bodies for labour market policies and programmes are the Lithuanian Labour Exchange (established in 1991) and the Lithuanian Labour Market Training Authority (established in 1992). These are two independent institutions under the Ministry of Social Security and Labour.

The Labour Exchange (LLE) is responsible for job-brokerage as well as for managing a range of active labour-market programmes. It also has responsibility for ensuring the legal employment guarantees for the groups identified in the Law on Support for the Unemployed. The LLE operates through 46 district labour exchange offices situated throughout Lithuania, with 26 additional sub-district offices in a number of major settlements.

The Lithuanian Labour Market Training Authority is responsible for organising labour market vocational education and training, vocational guidance and counselling as well as for the supervising of the implementation and quality of labour market vocational training. It has 6 subordinate regional services dealing with the organisation of training and counselling and providing vocational guidance and consulting services to adults and youngsters. In addition, the Authority regulates the activities of 14 labour market training centres. Formerly owned and funded by the Authority, the 14 labour market training centres are now organised as joint stock companies that are self-financing by means of sales of their training services.

3. Identification of main priorities for employment policy

3.1. Strategic issues

The over-riding objective of Lithuania's economic and social policies is to achieve "higher, more sustainable growth, greater employment opportunities, higher incomes and increased welfare for the Lithuanian population". There are three main elements to the policies being followed in pursuit of these objectives. First, the currency board system will be maintained "as the cornerstone of macroeconomic stability". The anchor currency has been switched from the dollar to the Euro in early 2002 in response to the increasing integration of the economy with the EU area. Second, fiscal consolidation will continue, with a target of achieving a balanced budget at the time of EU accession. Third, the remaining key structural reforms will be pursued at a fast pace in order to improve the environment for enterprise, investment and growth. These reforms include streamlining market regulation, giving the "sunset commission" the formal function of monitoring administrative barriers, and completion of the remaining planned privatisations.

It is essential that appropriate labour market policies should contribute to this process. High unemployment and low rates of labour force participation are in part a result of the overall performance of the economy. But they may also reflect structural problems in the labour market, which themselves represent a constraint on improved overall economic performance.

Based on the analysis presented in the previous chapters it is possible to summarise the main features of recent and prospective employment performance in Lithuania:

- Apart from a brief period from 1997 to 1999, employment has fallen continuously during the whole period from the beginning of reforms. By 2000, the employment rate had fallen to 60%, significantly below the level in the EU; and a further substantial fall in employment seems to be occurring in 2001.
- While unemployment fell from 17% in 1994 to 13% in 1998, it has now risen back to approximately 16% — approximately twice the level in the EU. The most recent increase in unemployment has taken place despite continuing sharp declines in labour force participation, which has now fallen below the EU level.
- There are significant structural aspects to the problems in the labour market:- male unemployment is particularly high, and the male activity rate is relatively low; youth unemployment is approaching 30%; over half of the unemployed are long-term; and there are wide regional variations in employment levels.
- Although there has already been substantial change in the employment structure, further restructuring is to be expected. Continued employment decline is likely in agriculture, which accounts for 18% of all employment, but less than 8% of GDP. Further displacement of workers is also likely in the industrial sector, including the nuclear-dominated energy industry.
- Though the unemployment rate is lower among women than among men, other indicators (lower employment rate, wage differences, women and men's professional distribution) demonstrate the continuing obstacles to women's integration into the labour market.
- While the workforce of Lithuania has a relatively high level of education, the professional qualifications and knowledge acquired by at least part of the labour force fail to meet the requirements of the changing labour market. This hinders their adaptation to economic change.

- Wages, both in the private and public sectors, are not always related to labour productivity, and their differentiation is insufficient. In aggregate, medium-term wage developments have not been "employment-friendly".

The remainder of this section discusses the principal policy fields that can have an impact on labour-market performance. Employment policy here is seen as widely defined – encompassing human resources policies, wages policy, the system of taxes and benefits, and the public employment service and its active labour market programmes. Each area is examined to assess how policy might make a greater contribution to meeting national economic and social goals. The discussion also deals with a number of “horizontal” aspects of policy – regional issues, equality of opportunity, and Lithuania’s preparations for the use of European Social Fund support for employment policy.

3.2 Human resources development

3.2.1 Initial education and training

Current situation

Basic schooling in Lithuania starts at age 6/7, and lasts for 10 years. There is a significant level of failure at the basic stage of education. Approximately 80% of children actually pass the final basic school examinations and "graduate"; the remaining 20% either fail to complete the full basic cycle or, although having completed the cycle, fail to meet the graduation standards. While there is provision for those who fail to graduate to continue in "second-chance" schools or in basic vocational education, less than half of them do so at present.

Those who graduate from basic school may go on to general secondary schools (*gymnasiums*) or to vocational schools. While education is compulsory only up to age 16, the 1997 Law on Vocational Education and Training stipulates that young people under 18 years of age shall come to the labour market, or study at labour market vocational training institutions, only if they have already acquired vocational education.

Study at general secondary schools is grouped into one of three broad disciplines – humanities, sciences or technologies. It lasts for two years and leads to examinations for a certificate of secondary education (*matura*). Vocational education may be of two years duration, leading to a "stage 2" vocational qualification, or of three years duration, leading to a combined "stage 3" vocational qualification and *matura*. In practice, the kinds and levels of occupation covered by stage 2 and stage 3 qualifications are very similar, and the main difference between the two forms of schooling is the possibility of acquiring *matura* through stage 3 studies.

Virtually all basic school graduates do in fact continue their education, with about 70% going to *gymnasium* and 30% to vocational school. There has been an increase in the share going to *gymnasium* in recent years. Moreover, within the vocational stream, there has also been a major switch in enrolment from stage 2 to stage 3 studies. As a result, a large majority of young people are now pursuing studies that can lead to a *matura* qualification. Drop-out rates at the level of education are relatively low – it is estimated that up to 90% of entrants to both vocational and general programmes complete their studies and obtain the related qualification.

After *matura* young people can proceed to higher studies in universities or third level colleges, and 60% of those who qualified with a *matura* in 2000 did so. Undergraduate studies at university last at least four years, leading to a bachelor's degree. Third-level colleges are a recent innovation, involving the upgrading of a number of the more advanced vocational

schools that have been assessed as capable of providing third-level courses. The first 4 state and 3 independent colleges were established in 2000 and they typically provide three-year programmes leading to a technologist's diploma.

As an alternative to higher studies, students who acquire *matura* through attendance at *gymnasium*, and thus do not have a vocational qualification, have the option of transferring to a second-level vocational programme. Usually their vocational studies relate to a slightly higher level of skilled occupation, sometimes approaching the technician level. When account is taken of the numbers availing of this option, it appears that approximately 85% of those obtaining *matura* continue in some form of full-time education, with only 15% entering the labour market directly.

Issues and policies

The education system inherited from the Soviet period was very centralised. Secondary education was concentrated on encyclopaedic knowledge rather than the development of individual initiative. Vocational education was based on a large number of detailed specialisms, in each case orientated towards a specific narrow area of activity, which under current conditions aggravates the integration of vocational graduates into the labour market. Finally, while the level of education at higher education institutions was sufficiently high, it was mostly academically orientated.

Reform began immediately after the restoration of independence in 1990. Among the main objectives of reform were: to direct education more towards the development of students' personalities; decentralisation of management of education to regions and education institutions; and the up-grading of teachers' qualifications. An overall national strategy was formulated in the *Lithuanian Education Concept* drafted in 1992. The strategy of the vocational training system is presented in the *White Paper of Vocational Education and Training* and the *Action Plan* for its implementation (1998). Experiments conducted until 1998 and participation in various projects helped gather experience in conducting the reform. A second stage of reform started in 1999, aimed at disseminating the accumulated innovative ideas throughout the whole education system. The first step in this new stage of reform was the extension of basic education from nine years to ten years as from the school year 1999-2000.

The reforms to date in the initial education system have had significant positive outcomes:

- The level of general education being achieved by young people has begun to rise after a number of years of decline. The proportion achieving at least *matura* has risen from a low point of under 50% in 1997 to over 60% at present, and continues to rise.
- A framework has been established to provide a range of vocational education and training options for those completing their general education at both the basic and secondary levels. Those taking vocational routes directly after basic school have the possibility of obtaining general secondary qualifications at the same time, thus widening their options for further education and training later in life.
- Moreover, an increasing proportion of *matura* graduates are continuing their studies either in higher or in vocational education. Their options have been widened through the establishment of the new college programmes leading to sub-degree qualifications.

Nonetheless, some major challenges remain:

- Drop-out rates in basic schooling remain excessively high, with more than 20% of children failing to obtain even a basic education certificate. Thus a substantial minority of young people are excluded from the improved opportunities available at higher levels in the education system.
- In actuality, not all of the options available after basic schooling are accessible to all young people. Some young people from low-income families cannot acquire vocation education due to the lack of funds. There are also great territorial differences in the accessibility of some vocational training programmes. Some regions, for example, have relatively few institutions providing vocational education, and these institutions provide only a narrow range of choice of specialism. Vocational guidance and information for young people is still under-developed – only approximately 20 per cent of young people are provided with qualified consultations before choosing a programme of vocational education and training.
- The growth in numbers continuing in general secondary education is welcome, and reflects government policy as well as student choice. However, there are concerns that it has been accompanied by an excessive downgrading of the prestige of vocational education.
- Concerns remain about the quality of vocational education and its relevance to labour market needs. These concerns relate to the weakness of education institution's links with employers and lack of involvement of employers in curriculum development; and to insufficient investment as yet in school infrastructure and equipment and in the up-dating of teaching methods as well as teacher and trainer training.

A number of measures are being taken to address these problems. The network of basic and secondary schools is being restructured, and curricula are being standardised to ensure consistency of provision across schools. The development of a quality assurance system has been started. It will be based on both self-assessment and external assessment of schools. A basic monitoring system covering the whole education system is under development. The network of state vocational training institutions and their curricula are also being reorganised; more management functions are being delegated to the regions, and smaller institutions are being combined into regional professional training centres. Such centres have been established in three of the ten counties. Regional institutions will allow more flexibility when adapting to the changing demands, and ensure financial efficiency and more efficient use of teaching personnel's services. To facilitate coherent development of vocational education institutions, in July 2000 the rights of the founder of agricultural schools under the Ministry of Agriculture were passed to the Ministry of Education and Science.

A national qualification system reflecting the needs of the labour market and based on standards for each profession and occupation, is under development. All vocational training institutions are moving to competence-based teaching, with programmes being based on the modular approach. These measures should ensure greater transparency of vocational education and training. Steps are also being taken to improve the quality of vocational instruction. In-service training is being provided for existing vocational teachers. A vocational teacher standard has been developed, and it is planned to base vocational teachers' initial development on the standard as from 2002–2003.

Linkages between initial education and the world of work are being improved at a number of levels. Schools are being encouraged to involve representatives of business world when drafting training programmes. Sectoral research studies have been initiated for the purpose of determining training needs; a study of the retail sector was completed in 2000, and studies in the sectors of information technologies, tourism and food processing are currently underway. Responsibility for final evaluation of the vocational qualifications is gradually being passed to the Chamber of Commerce, Industry, and Crafts as well as the Chamber of Agriculture, and this process has already been implemented in four of the ten counties. Finally, improvements are planned in the system of vocational guidance and information to help students make informed choices among the available education and training options. A widely-accessible education information system is being developed using new information technologies. It aims to provide information about learning possibilities of all types.

Assessment

Lithuania' programme of reform of initial education and training is wide-ranging and ambitious. At the same time, specific outcome targets have not been set for many of the reform efforts (e.g. in terms of the proportion of children completing various levels of education). Sustained commitment will be required for successful implementation, and in this context it is not clear that adequate financing is available for some of the most important reforms. Urgent efforts should therefore be made to set quantifiable outcome targets, to identify the full resource costs of the planned reforms, and to put in place a detailed financing plan. At present, the financing of education is over-dependant on the state budget, and other possible sources of funding will need to be explored and developed.

The scale of the reform, combined with the likelihood of continuing resource constraints, also requires that priorities be set between the various measures being undertaken.

The most pressing problem facing Lithuania is the high level of drop-out during and at the end of basic education. Arguably, insufficient attention has been given to this question to date. However, a National Education Forum has now been established, and its first assigned task is to produce proposals to ensure high quality basic education for all. It is essential that this report will come forward with a detailed and targeted plan, and that action to implement its proposals be given the highest priority.

Priority should also be given to improving access, quality and relevance in vocational education, with particular concentration on the basic and secondary levels.

3.2.2 Continuing Training

Current situation

At present, a range of institutions provide continuing vocational education and training:- public vocational schools, colleges and higher education institutions, labour market training centres, private companies (for their own employees) and specialist private training agencies. Only part of this training has been formalised. Most private institutions provide training according to non-formalised programmes, because their adjustment to the changing requirements of the labour market is quicker and more flexible.

In the public education sector, 47 per cent of vocational schools, 37 per cent of colleges and 80 per cent of higher education institutions organise qualification improvement and retraining courses open to all adults. The funding of these courses depends almost entirely on fees paid

by participants. Participation in courses rose from 20,000 in 1994 to 29,000 in 1998, but fell back to under 25,000 in 2000.

The Lithuanian Labour Exchange may commission training courses for both unemployed people and persons threatened with redundancy. Financing comes from the Employment Fund, and training is free to participants, who also receive a training allowance. Total participation in these types of courses in 2000 was 13,500 (11,700 unemployed and 1,800 threatened with redundancy). Approximately 4,300 of these trainees attended courses in centres under the responsibility of the Labour Market Training Authority; the remainder of the training was contracted out to public and private education institutions. The number of training places funded by the LLE in this way rose steadily from 9,000 in 1993 to over 17,000 in 1998, before falling sharply in the last two years as a result of funding cut-backs and uncertainties. As a proportion of the average level of registered unemployment, the number of training opportunities has fallen from a peak of 8% in 1998 to 6% in 2000. The average duration of the training offered to the unemployed has also been reduced over this period.

Apart from their role in training commissioned by the LLE, the institutions under the LMTA also provide training courses for employed people, which may be in response to requests from employers or from the individuals themselves. More than 12,000 people participated in such courses in 2000. The overall number of people trained by the LMTA institutions in 2000 was thus just under 17,000, representing a sharp reduction from a peak of 27,000 in 1998. The reduction in LMTA activity has resulted from several factors:- the overall reduction in LLE-commissioned training, the fact that LLTA has been winning a declining share of the training contracts awarded by the LLE, and finally a slight reduction in training demand from private firms and individuals.

Public institutions acting as employers in such areas as public administration, health care, education and energy organise intensive continuing training courses for their employees. As a result of the declining funding of public institutions, continuing training has been less frequent and shorter in recent years.

Information on continuing training activity by firms and private agencies is not widely available. However, Statistics Lithuania produce estimates of overall participation in vocationally-oriented adult education, both public and private. These showed participation rising from 95,000 (about 5% of the labour force) in 1995 to 170,000 (8% of the labour force) in 1998. The participation has significantly decreased since then reaching 111,000 in 2000.

Issues and policies

Participation in continuing vocational education and training in Lithuania is relatively low, and appears to have declined in recent years. This applies to training for both the unemployed and the employed.

It has been estimated, for example, that one third of the registered unemployed have no qualifications and, even among the qualified unemployed, half of the qualifications they hold do not correspond to employers' current requirements. Despite this, as noted above, training opportunities are provided for only a small minority of the unemployed.

The primary reason for this is to do with insufficient and uncertain funding. Public funding comes largely from the Employment Fund, as a planned VET fund has not in fact been set up.

Moreover, the size of the Employment Fund is subject to large uncertainty, as discussed in Section 3.4.1 below.

Further education and training of the employed is also insufficiently developed, especially in the private sector. Again, financing problems appear to be the main reason. In a recent Vocational Training Accessibility Study¹⁶ respondents reported that the main obstacle to acquiring or upgrading a qualification is the lack of financial resources. Limited public funding means that nearly all adult education courses have to recover the full costs of provision through course fees paid by participants. Neither are expenditures on adult education treated as allowable expenses in calculating personal income tax liability. For individuals, given the low income levels in the country, this makes access to continuing education relatively expensive unless they receive financial support from their employer. Such employer support has become more restricted in the difficult economic circumstances of the last few years; firms have been pre-occupied with the fundamental problems of staying in business, and have tended to cut back on, or even eliminate, their training budgets. Public financial support for companies' expenditures on training is limited to certain small and medium enterprises; under the Law on Development of SMEs, under certain conditions such firms can purchase training and consulting services from public agencies at preferential rates. Finally, there is no legal framework setting out the responsibilities of employers and employees related to qualification improvement (for example, identifying rights of employees to leave for training purposes) as well as no system for giving the employers incentives to finance their employees' participation in training programmes.

Apart from this over-riding question of financing, the main challenges for continuing education are broadly similar to those discussed under initial education above – ensuring quality and relevance of the courses offered, up-grading of both physical and teaching resources in provider institutions, and the development of a comprehensive national system of qualifications.

The government recognises the challenges involved in the development and promotion of lifelong learning opportunities both for the unemployed and those in employment. These issues are addressed under a number of headings of the Programme for Increasing Employment 2001-2004. In the programme, the Ministries of Education and of Labour and Social Security have been given the task of coming forward with urgent proposals to increase employer commitment to workforce training, including refinement of the legislation governing such training. However, while difficulties with financing are recognised in the analysis in the programme, this issue is not directly addressed in the planned actions outlined for the period 2001-2004.

At the same time, Lithuania has just completed a wide-ranging national consultation process on the issue of lifelong learning, centred around key issues raised in the EU Memorandum on this topic. The process has produced a range of proposals for action on access to learning, dealing with access (including financing for participants as well the regional pattern of provision and the development of distance learning) quality and relevance of course offerings, transparency and transferability in the qualification system, and improvements in information, guidance and counselling. Many of the proposals are, however, general in nature. Moreover the status of the proposals is not yet clear. However, actions to include LLL in full in legal documents have already been started: a revised version of the Law on Education is being

¹⁶ Carried out by the National Observatory on Vocational Training in 2000

prepared and open for public discussions, a working group to revise the Law on Vocational Education and Training is set up.

Assessment

Lifelong learning, including continuing vocational education and training, have not yet been sufficiently developed in Lithuania. While some of the problems are institutional, the main barriers remain the insufficiency and uncertainty in financing and the absence of a system giving employers incentives to finance their employees' training.

Urgent attention should therefore be given to the development of a national strategy for lifelong learning, building inter alia on the outcome of the recent national consultations. The strategy should aim to:

- *Identify quantifiable targets in terms of raising qualification levels in the adult population*
- *Clarify the role and contribution of the various actors involved in provision of learning opportunities for the employed and the unemployed (including not only the public and private suppliers of education and training, but also the social partners)*
- *Identify the costs involved in meeting the targets, and indicate how these costs could be met through a combination of financing from public budgets, from employers, and from individuals involved in learning.*

3.3 Wages, taxes and benefits

It is important that wage developments should respond to the economic situation in the country, and be favourable to increased employment and reducing unemployment. There are two broad aspects to this issue. At the macro-economic level, it is important that overall wage developments should reflect economy-wide productivity increases and thus support aggregate employment growth. At a more structural level, it is important that labour costs for lower-skilled workers should not discourage recruitment into moderately-paid employment, while at the same time the net wages offered to such workers should provide incentives for unemployed or inactive people to seek and take up work.

Three features of the labour market can be seen as potential influences on whether wage developments are "employment-friendly" – the overall process of wage-formation, the impact of taxation on labour income, and the design of income maintenance systems for the unemployed.

3.3.1 The process of wage formation

Current situation

The legal framework for wage-determination is set by *The Law on Wages*. Wages are a matter for free bargaining between employers and workers – the Law provides that an employee's wages should reflect the supply and demand of the profession in the labour market, the amount and quality of work and performance of an undertaking. The Law also provides for guarantees of additional payment for working under hazardous conditions, at night, during holidays, and for overtime pay. In practice, collective bargaining has extremely limited coverage. Only 10% of the workforce are covered by collectively-negotiated agreements. Such agreements are most common in public services such as healthcare and public utilities.

The main government involvement in the wage-formation process is through the setting of the legally-binding national minimum wage. This is set as a single rate binding in all employments, with no variation according to sector, region, or characteristics of the individual employee, such as age or experience. The principle underlying the establishment of the minimum wage was that it should "ensure the satisfaction of the minimum socially acceptable needs of the employed person and his/her children dependant on him/her".

The minimum wage is adjusted at intervals by Government Resolution after consultation with the social partners through the national Tripartite Council. The arrangements for this consultation procedure were agreed between the government and the social partners in 1999. Initial proposals for changes in the minimum wage are drawn up by the Standing Wages Commission of the Tripartite Council, after consideration of information on recent and prospective trends in prices, average wages, productivity and employment. The standing commission's proposals are considered, and may be amended, by the plenary Tripartite Council before it makes a recommendation to government. The final decision rests with government.

The minimum wage was last adjusted in early 1999, when it was set at Litas 430, equivalent to 44% of then average earnings. Prior to that, the ratio of the minimum to average earnings had risen significantly, from 17% in 1994 to 45% in 1997-98. In the absence of any adjustment since 1999, this ratio had fallen to 40% in the first half of 2001.

In practice, movements in the minimum wage appear to exert a significant influence on overall wage trends. In the civil service, for example, the salaries of various category of worker are set as multiples of the minimum wage, ranging from a multiple of one for unqualified personnel up to eleven for the highest category of civil servant. Movements in average earnings in the economy overall suggest that a similar approach may be widespread in the private sector as well.

Issues and policies

The government's main concern on wage-formation relates to the absence of widespread collective bargaining, and the resulting dominance of changes in the centrally-determined minimum wage in influencing wage developments throughout the economy. This may have contributed to the unfavourable trends in overall wages relative to productivity in 1996-99 and to the subsequent sharp loss of employment. It may also limit the extent to which wage developments in individual firms, sectors, regions and occupation can adjust to changes in economic circumstances and to the need for structural change in employment.

At the aggregate level, the tripartite arrangements put in place in 1999 for deciding on adjustments to the minimum wage appear to have ensured that wage developments since then have taken account of trends in productivity and in the overall employment situation. Consideration of these broader issues has been established as a formal element in the negotiation procedures. Indeed, the most recent negotiations on the minimum wage were broadened to include alternative ways of increasing net incomes for those on low wages, while minimising the impact on labour costs. Employers and unions have agreed that the minimum wage should not be increased in 2001. Instead, taxation on low wage workers would be reduced through a substantial increase in the basic tax-free allowance in the personal income tax code. This recommendation has been accepted by government and included in the budget proposals for 2002.

While the social partners have devoted significant attention to the process of adjusting the minimum wage, there has been little discussion on whether the relativity between minimum and average wages is itself appropriate, or on whether it might be desirable to have differentiated minima for certain categories of worker. The ratio of minimum to average wages has fluctuated in recent years between 40% and 45%, which is relatively high by international standards – the ratio is typically around 30% in the other countries of central and eastern Europe. A minimum wage at this level is unlikely to affect the employment prospects of experienced workers. However, it may be imposing an artificially high "floor" on wages for young entrants to the labour market, particularly those requiring on-the-job training in their early years in employment.

The near-absence of branch- and firm-level collective bargaining, remains a matter of concern for the government. To address this, new legal provisions on collective agreements are included in the draft Labour Code, which is planned to be passed in 2002. It is intended that the code will provide a more detailed positive legal framework for collective bargaining, including the provision of training for employers and worker representatives on bargaining procedures.

Assessment

The national tripartite structures for adjusting the minimum wage have worked well in the recent past, and contributed to employment-friendly wage developments over the last two years. However, government and the social partners should consider whether the level of the minimum wage should be differentiated, particularly for young entrants to the labour market.

More widespread sector- and firm-level collective bargaining could support wage developments more responsive to structural change. The new Labour Code will encourage the conclusion of collective contracts and sector-and-rate agreements, along with better representation, consultation and information for employees.

3.3.2 Taxes and social contributions

High levels of taxation on labour (including the impact of social contributions) can depress demand for labour in the formal economy while also encouraging the growth of the black economy. The overall impact of taxes and contributions can be summarised in terms of the *tax wedge*.¹⁷

Present position

Currently, personal income tax for employees in Lithuania is levied, at a single rate of 33%, on all income in excess of a personal tax-free allowance of 214 Litas per month. This allowance is equivalent to just over one-fifth of average monthly earnings in the country. Married couples are taxed as individuals – i.e. the tax-free allowance is not transferable in a situation where only one spouse is working. Special tax treatment for families is available only where there are three or more children, when basic tax-free allowance is increased to 368 Litas; this higher allowance is available to each of the partners where both are working. A tax-free allowance of 278 Litas is applied to single parents raising a child under 18; the amount is increased by 45 Litas for each subsequent child.

¹⁷ Calculated as the sum of income tax plus employer's and employee's social contributions, as a percentage of total labour cost (the gross wage plus the employer's social contribution).

In addition, the rate of social contributions is 34% (31% payable by the employer and 3% by the employee). Social contributions are levied on all wage income, without any minimum threshold; neither is there a ceiling on the earnings to which they apply.

A final noteworthy feature of the tax system is the very different treatment of income from self-employment. Natural persons willing to engage in commercial activity on their own may start it not only by registering an enterprise but also by acquiring a patent for a certain type of activity¹⁸. A list of activity types as well as the lower and upper limit of the patent fee is established by the Government, and municipalities are entitled to set the specific amount of the patent fee for a certain type of activities within the above limits¹⁹.

Natural persons engaged in certain types of activities (translation/interpretation services, building activity, designing works, etc.) have no right to provide services to an enterprise or another legal person which is engaged in an analogous activity,

An additional patent fee has to be paid only when the income generated over the calendar year concerned from the activity specified in the patent exceeds LTL 100,000.00 (net of VAT). Municipal councils may reduce patent fees at the expense of their budgets or grant exemptions to disabled natural persons, old age pensioners as well as single-parent families with at least one child below the age of 18, two-parent families with three or more children below the age of 18 or with a disabled child.

Income from patent activity is not subject to any additional income tax. At present there is no obligation to declare income from patent activities but such duty will come into force from 2003 on. It is also planned to introduce a duty to keep count of income from patent activity, based on the same income limit than the one applied to those having to register as VAT payers. Self-employed people with patents have to pay social contributions at the rate of 50% of the basic pension (which makes 69 LTL) per month.

Issues and policies

The combined rates of income tax and social contribution are high, leading to a high effective "tax wedge". For a person on two-thirds of average earnings, the tax wedge resulting from these tax and contribution provisions represents 42% of total labour costs, and this proportion rises to 45% at average earnings. For a married couple with fewer than three children, with joint income equivalent to average earnings, the wedge ranges from 45% where only one partner is working to 40% where both have jobs paying half the average wage. The burden of tax and social contributions on lower-paid single workers is particularly high by international standards.²⁰

¹⁸ Actual prices in Vilnius city are, for example 500 Litas per year for translation/interpretation services, 700 Litas per year for building activities and 2500 Litas per year for restoration/conservation of buildings. The price of patents for trading (when the trading is carried out in the whole territory) is 1000 Litas per year. Except for trading for which patents can be issued for a shorter period, one month is the shortest period for which a patent can be granted.

¹⁹ The patent system excludes activities such as accountants' or doctors' private practice which are licensed activities to be registered as enterprises. The patent fee on trading may be calculated proportionally subject to the period covered by the patent (several days, a week, a month).

²⁰ In 1998, the latest year for which comparable international data are available, the lowest wedge for a single worker on two-thirds average earnings in the EU was in Ireland, at 23.4%. The median value across the EU member states was just over 39%. (*Taxing Wages 1998-99*, OECD 2000)

Moreover, the *marginal* tax burden is high even at relatively low earnings levels. The marginal tax wedge, including employer's social contributions, represents over 50% of incremental labour costs for a single worker at two-thirds average earnings.

There are grounds for concern that these high effective tax and social contribution rates may depress formal employment and encourage both employers and employees towards informal employment. These issues have received limited attention in the policy debate in Lithuania – indeed, the impact of the taxation system on wages and labour costs is not discussed in the *Programme for increasing employment for 2001-2004*. Indeed, social contributions were actually increased in 2000 (from 30% to 31% for the employer, and from 1% to 3% for the employee). Although the impact of this change will be offset to some degree by the proposed increase in the basic tax-free allowance next year, the resulting reduction in the tax wedge will be small.

Over the medium term, the government is considering transferring the cost of some expenditures (including active labour-market) from the Social Fund to the general state budget, and this would lead to a reduction in social contributions. Consideration is also being given to further reductions in the personal income tax beyond those planned for 2002.²¹ The revenue shortfalls resulting from both the income tax and social contribution changes would be made good through increased consumption and real estate taxes and through improvements in tax administration.

Assessment

The high tax wedge represents a significant barrier to the creation of jobs at relatively low wages, and a disincentive to the unemployed in taking up such jobs. Moreover, high marginal rates of tax and social contributions promote employment in the "grey economy". Reductions in the tax wedge, particularly at lower earnings levels, should thus be an urgent policy priority.

3.3.3 Income support for the unemployed

Unemployed persons registered with the State Labour Exchange are entitled to unemployment benefit if they have worked and paid social contributions for least 24 months during the last 3 years. Unemployment benefit is payable for a period of six months. The monthly rate of payment varies according to the length of previous insured employment – from a minimum of LTL 135 up to a maximum of LTL 250 (for persons with length of service of twenty-five years or more). Relating the level of benefit to length of insured service is seen as encouraging persons working in the private economic sector to seek legal labour relations and regular payment of state social insurance contributions. The minimum rate represents approximately 19% and the maximum rate 34%, respectively, of the net monthly earnings of a person on the average wage in Lithuania. At present, out of a total of 217,000 registered unemployed, only 33,000 are receiving unemployment benefit.

People on low incomes can also apply to their municipality for social assistance. The social assistance system has three main elements – a social benefit payment, a housing/heating

²¹ *Memorandum of economic policies of the Government of Lithuania July 2001-December 2002* Specific recommendations on the income tax reform have been made by the International Monetary Fund. These would see the basic tax allowance rise further to Litas 290 by 2003 and Litas 320 by 2005, with the personal income tax rate falling to 30% in 2003 and 29% in 2005. Reform along these lines, combined with possible reductions in social contributions, would lead to a significant fall in the tax wedge, with proportionately larger reductions for lower-paid workers.

"guarantee", and free access to certain social services such as healthcare and pre-school and school-based childcare.

The social benefit is a means-tested payment calculated on a household basis. It is based on a target income of LTL 135 per household member; and the payment is calculated as 90% of the difference between the household's actual income and this target level. For a single adult with no other income, therefore, the payment is LTL 121 per month; for a family of four with no other income, the payment is LTL 484. Clearly, families where no-one is working and only one of the adults is receiving unemployment benefit would also be entitled to a certain level of social benefit.

The housing/heating "guarantee" is based on a formula designed to ensure that a household pays no more than 25% of its monthly disposable income (after an allowance of LTL 125 per household member for food costs) for the cost of heating. Based on typical heating costs in urban areas, it is estimated that the monthly value of the guarantee is LTL 75 for a family of four whose sole income comes from social benefit, and LTL 44 if the same family has one person in employment on average earnings. For a single person, the value of the guarantee is estimated at LTL 43 if he/she is dependant on social benefit, and zero if in employment earning any wage above the national minimum.

Access to all aspects of social assistance requires that the recipient, if able-bodied and of working age, should be registered as unemployed. Data are not available, however, on what proportion of the registered unemployed actually receive social assistance.

Issues and policies

Coverage of the unemployed by income-support measures appears relatively low in Lithuania. In general, moreover, the rates of payment are low relative to net earnings when in employment. There are, however, some instances where people on social assistance could face disincentives to moving into employment. A person with one adult and two child dependants receiving the maximum level of social assistance, for example, would have an income equivalent to over 70% of the net income s/he would receive if earning the average wage.²² This "replacement rate" would obviously be higher if the person concerned were lower-skilled and thus likely to find employment only at below-average earnings. Replacement rates for young single people are significantly lower – not exceeding 50% even for someone considering taking a job at the minimum wage.

These replacement rates are, moreover, theoretical. While exact figures are unavailable, it is estimated that less than half of all people with a theoretical entitlement to social assistance actually receive it. There are a number of reasons for this. First, it is possible to receive unemployment benefit and social assistance only for a combined period of twelve months. Although some municipalities extend this limit in certain circumstances, the operation of this rule would tend to disqualify the long-term unemployed. Second, in a means-tested system of the kind in operation, it is possible that a significant number of those eligible for social benefit would be entitled only to relatively small payments, and thus have little incentive to apply.

The government has a number of concerns about the system of income maintenance for the unemployed. The first relates to the limited operation of the insurance principle. Second, the

²² This calculation takes account of the relative value of the housing "guarantee" in these two sets of circumstances. It does not take account of possible differences in childcare costs.

coverage of the system is patchy and does not always direct available resources to those most in need. There is concern that inadequate means testing under social assistance means that individuals can receive assistance in cash and make use of privileges irrespective of other income and property they have at their disposal; at the same time long-term unemployed with real needs may be excluded because of the duration limit on receipt of assistance. Third, the system is not properly designed in order to support active re-integration of the unemployed. Despite the patchy coverage, therefore, there is concern that for at least a minority of unemployed the system encourage passive receipt of social assistance requiring compliance with a complex set of rules. Finally, there is concern that significant numbers of people who are not actively seeking work are encouraged to register as unemployed in order to gain access to certain aspects of the social assistance system – particularly the healthcare and childcare entitlements.

To address these problems, the *Programme for increasing employment for 2001-2004* sets out the government's intention to reform the income maintenance system. The first element of the reform involves a new law on unemployment insurance, a first draft of which will be prepared in 2002. The objectives of the reform, as set out in the *Programme*, will be to: put the funding of unemployment benefit on a stable footing independent of the overall Social Fund and of the funding of active measures; to increase the level of benefits and relate them more closely to duration of both unemployment and previous employment; and to improve control on the validity of payments. The second element of the reform will deal with the social assistance system as it affects the unemployed. The objectives here will be to: improve the means-testing system to direct assistance to those who need it most; and to streamline the links between the unemployment registration system, unemployment benefits, and the (municipal) administration of social assistance.²³ Detailed proposals for reform along these lines are to be prepared by the Ministry of Social Security and Labour before the end of 2001.

Assessment

The combined systems of unemployment benefit and social assistance do not provide adequate income maintenance coverage for the unemployed. At the same time, there are concerns that the system creates disincentives and encourages a passive approach for some recipients.

The proposed reforms of unemployment benefits and of social assistance should be brought forward as an urgent priority, with the objectives of improving coverage for unemployed people, elimination of disincentives, and emphasising activation rather than passive receipt of benefits.

3.4 The public employment service and active labour market programmes

3.4.1 The public employment service

Current Situation

An effective public employment service is an important instrument of employment policy in a period of economic transition and re-structuring. The PES has a critical role in people's adjustment to changed circumstances – supporting and encouraging mobility and flexibility, by helping people identify and acquire the skills, attitudes and other attributes that are required in new and developing parts of the economy. Particularly in the context of the continuing restructuring of the economy in Lithuania, there is a need for a more active and preventive

²³ This last issue is discussed further in Section 3.4.1 below.

approach to unemployment. The capacity of the PES to develop such an approach depends in part on the level of resources devoted to it and on how these resources are deployed.

Currently, the LLE has an overall staff of 1,350, representing a ratio of one staff member for each 210 unemployed.²⁴ Approximately 50 people work in the national headquarters. Of the 1,300 staff in the 46 local labour exchanges, approximately 800 are front-line consultant and clerical staff engaged in direct registration and client services, 170 are engaged in the administration of active labour market programmes, and the remainder are involved in general corporate administration. The ratio of front-line staff to total unemployment is therefore 1-to-360, which is extremely high by international standards.

The capacity of a public employment service can also be enhanced through the application of information technology. In fact, however, use of computer technology in the LLE is relatively under-developed, and largely restricted to routine operations such as the maintenance of the job-seekers' register and the administration of unemployment benefits. Application to job-broking and related PES functions is particularly limited. This restricts the ability of district offices to offer appropriate self-service facilities that might reduce the routine work-load of front-line staff and free them for more intensive work with priority groups among the unemployed. The relatively large workload and limited resources of the LLE is reflected in the limited extent to which the service is able to engage directly in supporting and encouraging active job-search among the unemployed.

The treatment of unemployment benefit recipients differs from that of the remainder of the registered unemployed. On first becoming unemployed, UB recipients are assigned to an individual consultant who, if they are identified as not "job-ready", helps them prepare an employment plan that outlines both job-search options and other potential steps such as participation in training or other active measures. (For those identified as "job-ready", an employment plan is prepared only if they remain unemployed after a further three months). UB recipients must visit the labour exchange once each month for a short interview with their assigned consultant. This meeting is used to review their progress in job-seeking, including a review of their employment plan if one exists. It may result in an offer of either a job or of a place on an active programme. The monthly visit also serves as part of the control process in relation to continued eligibility for UB payments. Where someone refuses two suitable offers of either a job or a place on a programme, this can lead to a review of his/her benefit entitlement.

Employment plans are not drawn up for those not receiving UB, who constitute the vast majority of the registered unemployed. Whether or not these people are invited to visit the labour exchange regularly is at the discretion of the individual consultant dealing with their case. The exchange thus contacts them less frequently – perhaps only every two months – than it does those on UB.

The operations of the LLE are also affected by its responsibility for the legal employment guarantees described in Section 2. The groups covered by these guarantees now account for approximately one-third of the registered unemployed. Legally, they must be given priority in the provision of all LLE services, including reference to vacancies as well as access to active programmes. In addition, municipalities may set quotas specifying that people from these groups must make up a given percentage of the workforce in any private sector firm that

²⁴ Based on the estimate of 284,000 unemployed in the LFS for the second quarter of 2001.

employs more than ten people. The LLE is responsible for monitoring whether these quotas are met, and may compel employers who do not meet them to move towards compliance. If the LLE refers a job-applicant from one of the target groups to a "below-quota" firm, the firm must employ that worker, either to fill a naturally-occurring vacancy or, if necessary, through the creation of an additional job.

Issues and policies

Overall it is clear that the staffing, other resources, and administrative structures of the LLE are inadequate to allow it to deliver services consistent with the needs of Lithuania's changing labour market and to contribute effectively to the implementation of an active employment strategy. In this context, a number of specific problems that limit the effectiveness of the service have been identified by the government.

The first of these is uncertainty in the arrangements for funding of the LLE. At present, all of its activities are financed from the overall Social Fund. However, expenditure from the Social Fund goes initially, as an absolute priority, to certain "entitlement" programmes such as old age pensions. Any shortfall in the social contributions income of the Social Fund below that anticipated for the fiscal year therefore translates into a more-than-proportionate decrease in the allocations to the employment service. Within the LLE budget in turn UB payments are given absolute priority, so that all of the decrease falls on the actual provision of employment services, including active programmes.

A second problem for the LLE relates to its relationship with the administration of municipal social assistance. Indeed, most contact between the majority of registered job-seekers and the labour exchange appears to be driven largely by the way in which social assistance is administered. Each application for certain aspects of the social assistance regime – e.g. for a free once-off visit to a health centre, or for free child-care – must be accompanied by a certificate confirming that the applicant is registered as unemployed.²⁵ Routine issuing of these certificates represents a major administrative burden – in 2000 alone, labour exchange offices issued approximately 70 000 certificates per month. This increases the workload of the staff of the exchange offices and decreases their efficiency in fulfilling their direct responsibilities.

Third, the operation of the legal employment guarantees for certain groups is seen as restricting the flexibility of the LLE in dealing with priority client groups. It is not clear that the groups identified in the law are necessarily those requiring absolute priority given ongoing change in the labour market. The monitoring and enforcement of quotas involves the LLE is inevitably administratively complex, and is seen as adversely affecting its relationship with employers. More generally, these quotas are now seen as representing excessive interference in firms' employment practices in a market economy.

Fourth, decision-making in the LLE is seen as over-centralised. District exchanges do not have sufficient freedom of action to respond positively to the specific situation in their local labour markets.

The government has set out its overall strategy for addressing these and other problems in the *Programme for increasing employment for 2001-2004*. The main elements of the strategy include:

²⁵ Indeed, a single visit to a health centre may require the applicant to bring a number of separate certificates if several different services of the centre are involved in the treatment.

- Separation of the financing of unemployment benefits from that of other employment services and programmes.
- Implementation of the reform of social assistance and of the LLE's involvement in it, to ensure that all of the registered unemployed can benefit from an active employment service
- Moving away from the current system of employment guarantees, and integrating the treatment of the groups concerned with that of other groups among the unemployed
- Effective decentralisation of management of the LLE by introducing an intermediate regional management structure in line with the overall public administration reform. Regional offices will have greater capacity to analyse local labour markets, and to contribute to local employment plans, than do the existing district offices.

As a detailed objective, the government intends, by the end of the period covered by the *Programme*, to ensure that every person remaining unemployed three months after first registering can be offered a chance to participate in an active labour market measure.

This strategy will involve a major reform of the current organisation of the LLE's activities, and in particular the frequency and nature of its contacts with people during their first three months of unemployment. In turn, this will require significant investment in the human, technical and organisational resources of the LLE. To assist the LLE and the Ministry of Social Security and Labour in these reforms, a twinning project *Preparation for participation in the European Employment Strategy*, is being developed in co-operation with the Danish national labour market authority.

Assessment

The proposed reforms in the funding and organisation of the LLE represent the minimum necessary steps towards the provision of a modern employment service capable of contributing to more active employment policies in line with the European employment strategy. The government should therefore develop and implement a more detailed plan for these reforms as soon as possible.

An active strategy will require additional resources to be devoted to the front-line PES activities of the LLE (job-broking, support for individual job-search, preparation of individual employment plans, regular engagement with the unemployed). It is important therefore, that:

- ***reform to provide stability in the funding of the LLE should be accompanied by an increase in the level of funding provided***
- ***every effort be made, e.g. through increased investment in technology, to release LLE staff from other activities and increase their focus on front-line services.***

3.4.2 Active labour market programmes

Current Situation

Total expenditure on active labour market programmes was LTL 39.1 million in 2000 – equivalent to 0.09% of GDP in current prices. Actual expenditure was below the total of LTL 64 million originally budgeted for the year, reflecting the funding uncertainties discussed in the preceding section. Apart from provision of re-training for the unemployed, the main other active measures include a programme providing temporary public works jobs, a number of recruitment subsidies for private employers, and provision of support for "job clubs". Out of

the total expenditure of LTL 39.1 million, 46% was used for retraining programmes, 34% for temporary public works, and 17% for employment subsidies.

The main features of training provision have already been described in Section 3.2.

The public works scheme supports the creation of temporary jobs by municipalities or by not-for-profit companies approved by the municipality. Participants must be paid at least the minimum wage, and the LLE pays the employing organisation a subsidy equal to half of the minimum. The duration of employment can be up to six months, but is typically for two months.²⁶ In the year 2000, almost 27,000 people were employed under the scheme, generally for short periods, and the average number of jobs being subsidised at any time was approximately 3,000. Eligibility for participation is not limited to the registered unemployed. Municipalities appear to use the scheme primarily to give jobs to people who would otherwise be drawing social assistance from the municipal budget, and to give short-term jobs to students and pupils during the school holidays.

Recruitment subsidies relate in part to the operation of the employment "guarantees"; where an employer has to create an additional job in order to comply with the employment quota, the LLE may pay a subsidy equal to the minimum wage for a period of twelve months (or twenty-four months where the recruit concerned is disabled). About 1,000 jobs were created in this way in 2000. In addition a "supported work" scheme subsidises periods of work experience for certain categories of people – inexperienced workers, persons completing training programmes, and people returning to the labour market after a period of absence related for example to childcare. The subsidy – equal to the minimum wage – is paid for six months, and social contributions are also waived for this period. Some 2,500 people were recruited under the scheme in 2000.

The LLE has been organising job clubs since 1994. These involve short-duration training in job-search techniques, and are intended for persons newly registered with the Labour Exchange and for the long-term unemployed. The main focus is on changing the attitudes of the trainees and motivating them to search actively for employment and to consider other options such as self-employment. Support for job clubs is the least costly active programme, given that the duration is short and participants do not receive a training allowance. Thus, while over 42,000 people participated in clubs in 2000, the programme accounted for less than 1% of all expenditure on active programmes.

Issues and policies

A number of problems can be identified in relation to the current range of active programmes.

First, programme expenditure and participation are extremely low relative to the scale of Lithuania's unemployment problem. The average number of participants on programmes in 2000 (excluding job clubs) is estimated at no higher than 8,000, equivalent to just over 3% of the average number of registered unemployed. The demand for places, particularly in vocational training, greatly exceeds supply.

Second, the balance within programmes is over-concentrated on the provision of temporary jobs, which accounts for one-third of total programme expenditure, and for an even higher

²⁶ Subject to approval of a local tripartite advisory council, the district labour exchange can in certain circumstances increase the duration of a temporary work subsidy to twelve months, and the level of the subsidy to 100% of the minimum wage.

proportion of the average number of programme participants. Short periods of temporary employment are unlikely to contribute to the longer-term employability of participants.

Finally, it is not clear that recruitment to programmes is appropriately targeted. Recruitment overall is constrained by the operation of the employment "guarantees", and the groups covered by these guarantees are not necessarily those to which greatest priority should be accorded in the light of changing labour market circumstances. Targeting is particularly loose on the public works scheme, where eligibility criteria are not closely related to the current structure of unemployment. For example, given the limited resources available for active programmes, and the high level of long-term unemployment, it is difficult to justify the use of this scheme to provide holiday jobs for students.

In part, these problems will be addressed by some of the measures planned in the *Programme for increasing employment for 2001-2004*. The proposed reorganisation of the funding of active programmes will allow more certainty in the annual planning process, and should also involve some increase in expenditure. The reorientation of the LLE towards a more active engagement with all of the registered unemployed, together with the abolition of employment "guarantees", should lead to a more rational and targeted approach to recruitment onto programmes.

However, the *Programme* does not sufficiently address the need to reorient active programmes away from provision of temporary work towards training and other programmes designed to increase the longer-term employability of participants. In addition, it seems clear that the overall programme expenditure levels envisaged in the *Programme* will not be adequate to meet the objective of involving people in an active programme within three months of becoming unemployed.

Assessment

Ensuring that labour market programmes contribute to a more active employment strategy will require a more targeted approach to recruitment to these programmes, as is already planned. But it will also require a re-balancing of programmes away from temporary work in favour of training and other measures designed to increase employability, as well as a significant increase in overall participation and expenditure beyond currently planned levels.

As part of the detailed plan for the LLE suggested at 3.4.1 above, the government should include a formal assessment of the level and composition of programme activity that will be required if the objective of involving people in an active measure within three months of becoming unemployed is to be met in the coming years. The assessment should include estimates of the likely financial costs involved and a financing plan.

3.5 Regional aspects of employment policy

Current situation

There are already significant regional differences in employment performance. Regions also differ in their vulnerability to future employment shocks from ongoing restructuring.

Addressing regional labour market problems requires two broad sorts of approach. One of these is that local actors (e.g. district exchanges, municipalities, social partners etc.) should have the flexibility to respond to the specific characteristics of their own area, while respecting national policy priorities. But second, it is also necessary that the allocation of resources

between regions should adequately reflect the different needs of the regions. This is true not only in relation to the activities of the LLE, but also across a range of other government policies that affect regional development.

There have already been some limited initiatives aimed at stimulating increased local involvement in the development process.

In 1999, an EU PHARE project “Development of Local Employment Initiatives on a Tripartite Basis” was implemented in five locations (the districts of Alytus, Lazdijai, Marijampolė, and Varėna, and the city of Druskininkai). It was implemented by the territorial Labour Exchange offices in co-operation with other local social-economic partners. Representatives of ministries, labour exchange offices, trade unions, and employer organisations were trained to administrate PHARE assistance and familiarised with the EU structural policy.

Overall the PHARE project was seen as successful in demonstrating that the solution of practical employment issues at the local level requires co-operation between local and national public institutions, employers, trade unions, civic organisations and local communities. It was estimated that 50 new jobs were created during the implementation of the project by using PHARE grants.

In 2001, the pilot local employment initiatives projects were implemented. LTL 1.5 million from the state budget were used to finance these projects. State grants were provided for job creation projects satisfying a number of criteria:

- they should aim at co-ordinating local development efforts and create, to the extent market conditions allow, more opportunities for local residents to participate in economic activities and to solve social-economic problems themselves;
- they should speed up the growth of development possibilities and adjustment to structural economic reforms in various regions;
- they should build up more active and mature communities capable of independent solution of social-economic problems.

Attempts have also been made to ensure that the allocation of employment policy resources as between different areas of the country reflects differences in the scale of labour market problems. Thus, for example, the allocation of LLE budgets to individual district exchanges is based in part on the level of unemployment in each district. However, as already noted, a large part of total expenditure is absorbed by passive measures such as unemployment benefit and by staff and administrative costs. The amount left for active programmes is relatively small, which limits the potential for regional differentiation in such programmes to have a significant impact on the areas with the greatest problems.

Issues and policies

At present, the authorities are concerned that decisions on employment issues are taken at too centralised a level and that there is too little scope for local initiative. This perception exists in spite of the existence of district-level consultation procedures involving the social partners (see 3.7 below). In addition, the possibilities of municipalities as partners of the LLE in dealing with employment issues in the local community have not been fully exploited. Part of the problem here may be to do with the limited capacity of the social partners and of other parts of the public administration, at the local level, in terms of their ability to make an effective input

into the formal consultation process on labour market issues. This in turn reflects the small size of individual districts.

The planned reorganisation of local administration in Lithuania will involve the creation of an intermediate regional or "county" tier between the district and national levels. A similar regional structure is to be introduced into the LLE, with county exchange managers responsible for delivery of services across the entire county. It will be possible to provide these larger regional units with greater specialist resources in areas such as labour market analysis and planning than is possible for the current much smaller districts. The social and other partners of the LLE, with a wider pool of expertise and representatives to draw on at the county level, should also be able to make a more effective contribution in their co-operation with the exchange.

Steps are also under way that will improve the framework within which central LLE management can make informed decisions on the allocation of resources across regions. The work on the three-year National Development Plan (NDP) has involved the development of a number of social and economic indicators to identify the socio-economic level and differing needs of the various areas of the country. This has led to an initial identification of four "typical zones" – the larger cities, with relatively diversified economies; areas that are heavily dependant on a single large industry; resort areas where economic activity is subject to large seasonal fluctuation; and the remainder of the country, principally rural areas and smaller urban centres where industrial and services activity is underdeveloped.

Assessment

The scope for developing effective regional employment policies has been constrained in the past by:

- *the absence of an effective regional management structure in the LLE and among the partners which with it interacts*
- *the absence of a coherent national strategy for broader regional development across all economic and social areas .*

These problems are being addressed through reforms in the local and regional structures of the LLE itself as well as other parts of the public administration, and through the ongoing work on the NDP.

3.6 Equal opportunities policies

Current position

In certain respects, the relative position of women on the Lithuanian labour market is a favourable one. Female unemployment, at 13.5% in 2000, was significantly below the male rate of 17.5%. While women's employment rate is slightly below that of men, the gender-gap is relatively small when compared to the situation in EU member states.

However, some negative aspects of women's situation have been identified. First, sectoral and occupational patterns of employment are very different for men and women. At the sectoral level, women are heavily concentrated in education and healthcare – accounting for 29% of total female employment, but only 7% of men's jobs. In terms of occupations, women are more likely to work in professional and technical occupations (20% and 10%, respectively, of all women workers, as compared with 8% and 5% respectively for men. Women are under-represented in senior management jobs and in skilled and semi skilled manual work.

Although the gender pay-gap has narrowed somewhat in recent years, women's pay is still only slightly over 80% of men's. This gap persists despite the fact that women's average educational levels are higher than men's, and that more women work in higher occupations such as professional and technical work. The main factor underlying the gap appears to be that pay levels are relatively low in education and healthcare, where women are heavily over-represented in terms of their share of employment.

Issues and policies

Lithuania has taken steps to ensure that its legislation and all economic and social policies support equal opportunities for men and women in the labour market. The Law on Equal Opportunities for Men and Women was passed in 1998, the Office of Equal Opportunities' Ombudsman was established in 1999 and an Equal Opportunities' Commission was established in 2000 with representatives from 16 ministries and government agencies. Women's rights on the labour market are provided for in the Law on Support of the Unemployed, the Law on Employment Contract and the Law on Safety and Health at Work. The cumulative impact of these laws is that, when hiring employees, employers are legally obliged to apply the same selection criteria for men and women, except for jobs that can be done only by representatives of a respective gender. They must provide men and women with equal working conditions and opportunities to upgrade their qualification, ensure equal application of benefits and requirements with regard to the quality of work done, and pay equal salary for the same work. A Programme for Advancement of Women was adopted in 1998, together with a detailed action plan for its implementation over the years 1998-2000.

The authorities' assessment is that there are several main reasons for the persistence of gender-segregation, despite the extensive legislative provision for equal opportunities. First, there is residual gender discrimination by employers in recruitment. A number of laws dealing with both labour relations and social security provide for privileges for women with children that do not apply to men with children or to childless persons of both sexes. As these impose some additional costs on employers, it is felt that this affects the attitude of at least some employers to the recruitment of women with children, and that existing equal opportunities legislation is not sufficiently strong to discourage such discrimination. Second, there is insufficient provision of information on gender equality in the labour market. Very often employees are not aware of the guarantees they are entitled to in compliance with the provisions of existing laws. Due to prevailing stereotypes or simplified understanding of gender equality, employers and employees regard gender equality as a mere formality. Third, flexible work patterns are relatively underdeveloped in Lithuania, as are opportunities for women to maintain their skills and qualifications while on maternity leave. Together with difficulties in access to pre-school childcare, these factors make it difficult for women with young children either to remain in the labour market or to return to it after a long absence. Finally, women are less likely to enter self-employment, which accounts for a significant proportion of newly-emerging job opportunities.

A number of measures to address these problems are outlined in the *Programme for increasing employment for 2001-2004*. These include:

- refining existing labour legislation in order to provide equality of treatment of men and women with young children
- training and information seminars for the social partners on gender equality on the labour market

- introduction of special training programmes for women meant to help them return back to work after a longer break
- provision of unemployed women willing to become self-employed with basics in business organisation and necessary information
- carrying out a national assessment to establish the need for childcare institutions and produce recommendations on how to develop the existing network of institutions and improve the quality of their services.

However, the main and a definition of indirect discrimination are still lacking.

Assessment

Despite substantial progress in the implementation of the principles of equal opportunities for women and men in the labour market, certain aspects women's situation in the labour market remain relatively unfavourable.

Further actions are already planned to address these outstanding problems. In addition to these planned actions, the impact of existing equal opportunities legislation could be strengthened by:

- *introducing provisions concerning shift in the burden of proof in cases of discrimination based on sex*
- *extending the legislation to include indirect discrimination.*

3.7 Involvement of the social partners in employment policy

Current situation

Social partners are involved in the formulation and implementation of employment policies at a number of levels, through a range of tripartite advisory bodies. These bodies consist of an equal number of representatives from public administration institutions, trade unions, and employer organisations.

The main national forum for social dialogue is the Tripartite Council of the Republic of Lithuania, set up in 1995 as a result of the consensus between the Government, trade unions and employer organisations. The Council was set up to solve social, economic and employment problems on the basis of reciprocal consensus. Its functions in relation to the setting of the minimum wage were described in Section 3.3.1. In addition, an Employment Council consisting of 15 members has been established under the Ministry of Social Security and Labour. Its responsibilities include investigation of employment problems and the factors underlying them, and submitting proposals to the Ministry of Social Security and Labour on labour market policy measures and their implementation and financing. Social partners are also included in the process of preparation for accession to the EU. A National Trade Unions Integration Commission has been established which is responsible for analysing, in co-operation with the representatives of public institutions, the main issues related to EU accession. Trade unions are involved directly in some groups engaged in the development of negotiation positions of the Republic of Lithuania.

Social partners are also involved in consultation at the level of policy implementation.

The LLE has tripartite advisory bodies at both the national and district level. The National Tripartite Commission (consisting of 9 members) advises the LLE on strategic issues, including the overall balance of labour market programmes, including financing priorities. District commissions (consisting of 6 members each) consider and advise on activity reports

submitted by the district Labour Exchange, and may have oversight of the detailed operation of specific programmes at the local level.²⁷ It is intended that this process of tripartite consultation will be maintained under the new regional management structures of the LLE.

The Lithuanian Vocational Training Council which was created by the Law on Vocational Education and Training was set up. This council is a national tripartite body to advise both the Ministry of Education and Science and the Ministry of Social Security and Labour on strategic vocational training policy issues.

An Expert Council (consisting of 15 members) established on a tripartite basis aims at providing assistance to the Lithuanian Labour Market Training Agency in the development of the system of labour market vocational education, training and consultation, and in improvement of its relations with labour market partners.

Assessment

The appropriate structures are in place to facilitate social partner involvement in the formulation and implementation of employment policy.

3.8 Preparations for Implementation of the European Social Fund

This Joint Assessment constitutes an important preparatory document for developing a national and regional strategy for potential assistance by the European structural funds after accession of Lithuania to the European Union and, until then, through the PHARE programme. The employment policy priorities identified here will be reflected in the Human Resources Development Strategy currently under development, which is part of the National Development Plan.

Lithuania is currently developing the institutional structure for the implementation of the support of EU structural funds (hereinafter referred to as the SF). The proposed institutional system of implementation of the SF support in Lithuania is based on the provisions of Regulation No. 1260/99 of the EU Council as well as the assumption that Lithuania - considered as a single region for the EU SF - will be granted SF support on the basis of the Single Programming Document for Objective I.

The Governmental Resolution No 649 of 31 May 2001 has provided for the distribution of responsibilities among state institutions for the implementation of EU Structural Funds support. The Ministry of Finance has been appointed as the managing authority performing all functions defined by the EU and Lithuania legal acts. The Ministry is responsible for reliable and effective management of SF support in accordance with the SF regulations.

The Ministry of Social Security and Labour has been assigned the function of paying authority for the European Social Fund (hereinafter referred to as the ESF). Beside that, the Ministry of Social Security and Labour and the Ministry of Education and Science are responsible for the implementation of support for human resource development.

According to the Governmental resolution No 953 of 31 July 2001, the Ministry of Social Security and Labour and the Ministry of Education and Science have been assigned the functions of development of the PHARE Economic and Social Cohesion Programme support to human resources development. Thus when administrating the EU Accession Support Programme, before becoming an EU Member-State Lithuania will gather the necessary

²⁷ See, for example, footnote 22 above.

experience, develop appropriate structures and reinforce institutional capacities which will later be employed when acquiring the funds of the ESF.

Assessment

Lithuania is preparing for the use of the support provided by EU structural funds. Appropriate structures and their network are being developed. The institutions that will be responsible for development and implementation of individual programmes have been determined. Technical assistance of the PHARE Twinning Project “Preparation for the European Employment Strategy” has been provided for

The Government of the Republic of Lithuania is committed to timely formation of the structures necessary for working with the European Social Fund. In further work in this field, particular attention should be paid to strengthening administrative capacity, particularly in the areas of financial management, monitoring and evaluation.

4. Conclusion

Lithuania has made substantial progress in the restructuring of its economy and in its approximation towards a market-oriented and socially oriented economy.

The Commission's *Regular Report 2001* stated that "Lithuania is a functioning market economy. Provided that it makes further substantial efforts to continue with the vigorous implementation of its structural reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term. Lithuania has preserved macroeconomic stability, improved the fiscal and external imbalances and reduced state interference. The privatisation of banking, other sectors and land is nearing completion. New bankruptcy and enterprise restructuring laws finally came into force". However, the *Regular Report* also emphasises the need to further address the structural problems on the labour market, to properly implement the new legal framework for business, specifically the bankruptcy laws and to advance and implement the planned pension reform.

High unemployment is one of the significant macro-economic problems facing Lithuania. This assessment has also identified a number of important structural aspects of the country's labour market problems – including the relatively low employment and high unemployment levels for men, extremely high youth and long-term unemployment, and wide regional variations in employment. Employment policies will thus have a crucial role to play in supporting sustainable macro-economic policies and the programme of broad economic reforms in order to ensure the competitiveness of Lithuania and thus underpin economic and social progress.

The Government of the Republic of Lithuania has already identified promotion of employment as one of its strategic priorities, and approved the *National Programme for Promotion of Employment during 2001–2004*. This was an essential step towards approximating the Lithuanian employment and labour market policy to the structure and aims of EU employment policy.

This Joint Assessment Paper has identified a number of priority policy areas where progress is still needed in the Lithuanian labour market and where ongoing monitoring should be carried out in the context of the Employment Policy Review:

- Sustained commitment to successful implementation of current education reforms, with a particular focus on reducing drop-out in basic education, on improving access, quality and relevance in vocational education, and on developing and implementing a national strategy for lifelong learning
- Promoting employment-friendly wage developments through support for the collective-bargaining system and through consideration of whether the minimum wage should be differentiated, particularly for young people
- Reducing the "tax wedge", particularly at lower earnings levels
- Reforming unemployment benefits and social assistance for the unemployed in order to improve coverage, eliminate disincentives, and emphasise activation rather than passive receipt of benefits
- Developing a detailed action plan for the reform of the public employment service, including a necessary increase in the service's resources, so that it can play a more active role in the reintegration of unemployed people

- Expansion of active labour market programmes, while re-balancing provision away from temporary work in favour of training and other measures designed to increase employability
- Ensuring effective regional management and consultation structures for labour market services, in the context of a coherent national strategy for economic and social development across all regions
- Further strengthening equal opportunities legislation
- Finalising arrangements for the use of ESF funds in support of employment policies, with particular attention to strengthening administrative capacity in the areas of financial management, monitoring and evaluation

These priorities will be reflected in the process of implementing the *National Programme*.

The Commission and the Government of Lithuania intend that the preparation of this Joint Assessment will form the first stage in the process of employment policy review. Further co-operation will concentrate on joint monitoring of progress in implementing the measures proposed above, based on regular implementation reports delivered by the Lithuanian government.