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Understanding youth labour market disadvantage: Evidence from south-east Europe

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Youth labour market disadvantage is increasingly viewed as an important policy issue in south-east Europe (SEE). The lack of decent work opportunities for young people is indeed one of the most daunting challenges faced by countries in this subregion.[1] A troubled entry into the world of work has serious welfare repercussions for young people, including a higher risk of income poverty and deterioration of their human and social capital. It also induces responses which are not always socially desirable. Yet there has so far been no comprehensive analysis of the problems that young people face in SEE labour markets, largely because the necessary data are simply not available from any integrated, centralized sources.

For the purposes of this study, therefore, an attempt has been made to construct comparable indicators of youth labour market outcomes for ten SEE countries and/or territories based on data from labour force surveys (LFSs) and living standard measurement surveys (LSMSs) conducted around 2001. The data from these surveys show that more than

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[1] See, for example, UNICEF (2000). For the purposes of this article south-east Europe should be understood to include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, the former Yugoslav Republic of Macedonia, Moldova, Romania, Slovenia and Serbia. In accordance with the standard United Nations definition, the terms "youth" and "young people" refer to individuals aged between 15 and 24, while the term "adult" refers to those aged 25 and over.

ten years after the beginning of transition, and despite obvious signs of economic recovery, the average youth unemployment rate in SEE remained 2.5 times higher than the European Union average, and three times higher than the adult unemployment rate. In addition to open unemployment as defined by the ILO, other disturbing trends in the subregion include the emergence in some areas of large pools of jobless youth who do not even look for work, and large numbers of young people working in unprotected environments.

The remainder of this article is organized into six sections. The first starts by discussing some of the problems related to the assessment of youth labour market disadvantage in the SEE subregion. The second section profiles youth labour market disadvantage, while the third explores some of its consequences and the fourth reviews and tests a number of hypotheses as to the causes of high youth unemployment. The fifth section outlines and discusses government policies aimed at supporting youth employment. A final section concludes with a summary of the main findings of the study.

Assessing youth labour market disadvantage

What are the nature and extent of the problems that young people face in the labour markets of south-east Europe? How have youth labour market outcomes changed in recent years? The lack of comprehensive, integrated and centralized databases remains a major obstacle to answering these questions. And when centralized databases do exist, they typically cover only youth unemployment, which is but one narrow measure of youth labour market disadvantage. A further problem is that reported indicators of youth unemployment are often not comparable over time and/or across countries because they refer to different concepts of unemployment (registered versus self-reported unemployment).

Good labour market data do exist, however, for several countries and territories of SEE (see ILO, 2004a and 2004b). These are generally LFS or LSMS data.[2] But these data have so far not been centralized in a regional database, so this article draws on seven LFSs and six LSMSs to create comparable indicators of youth labour market disadvantage in SEE. Besides data limitations, another challenge in assessing youth labour market disadvantage is that there is no single indicator that can capture the full range of underlying problems.[3]

[2] Although these data are meant to be comparable across regions, there are still some problems associated with seasonality and timing (not all surveys were conducted the same month or the same year), and aggregation (some indicators refer to annual averages of quarterly data, others refer to the month of the survey).

[3] See Anker et al. (2003), for a general discussion on measuring decent work.

Youth labour market disadvantage as a lack of jobs

The most basic and widely used measure of youth joblessness relates to the international standard definition of unemployment.[4] In this article, we use two absolute and two relative measures of youth unemployment, each representing a different aspect of the problem: (i) the youth unemployment rate (youth unemployment as a percentage of the youth labour force); (ii) the youth unemployment ratio (youth unemployment as a percentage of the youth population); (iii) the ratio of the youth unemployment rate to the adult unemployment rate (also referred to as the "relative youth unemployment rate"); and (iv) the share of youth in total unemployment. Two indicators of the nature of youth unemployment were also constructed: (i) the share of youth in total long-term unemployment (one year or more) and (ii) the share of unemployed youth with no work experience. But even this selection of indicators provides only a narrow view of youth labour market disadvantage. On the one hand, they take account neither of the number of discouraged (unemployed) youths who are no longer looking for a formal job, nor of the number of idle youths who are not in employment or education. On the other hand, they do not capture the extent of underemployment. In order to get a more accurate picture of the true extent of youth joblessness, three additional indicators were constructed: (i) the "relaxed" variant of the standard definition of the unemployment rate, which includes unemployed young persons who are not searching for work because they are discouraged, (ii) the not-in-employment-not-in-education ratio, which is the share of young people who are neither in school nor in employment, whether or not they are looking for a job, and (iii) the share of the youth population not in school and not in the labour force, which measures the proportion of jobless youth not in school who are not looking for a job (see box 1).

Youth labour market disadvantage as the holding of low-quality jobs

The quality of employment is another major dimension of youth labour market outcomes that needs to be monitored. There is no international definition of a "low-quality job", but for the purposes of this article, this notion will be understood to refer to jobs with no written contract and/or no social security coverage. The choice of this definition is dictated by the fact that young people in such jobs are extremely vulnerable in the labour market, even if they are well-paid, because they do not enjoy the protection of the labour code (no contract) or adequate protection against health risks and old-age (no social security contributions).

[4] The relevant resolution of the 1982 Thirteenth International Conference of Labour Statisticians is available at www.ilo.org/public/english/bureau/stat/download/res/ecacpop.pdf

Box 1. Unemployment indicators and definitions

Registered unemployment: The "registered unemployed" refers to individuals who are registered at labour offices as unemployed. This administrative approach reflects national rules and conditions and usually generates figures that are different from those resulting from surveys relying strictly on the so-called ILO concept of unemployment or on some similar concept.

International standard definition of unemployed: The strict concept is based on three criteria and defines as unemployed those people who (1) are without work, (2) are currently available for work and (3) have been seeking work in a recent past period.

Unemployed relaxed criterion: The alternative definition of unemployment is more relevant for transition countries. It relaxes the third criterion to include the discouraged unemployed who have not been looking for work because they have lost all hope of finding a job. This category is generally referred to as "idle" in this article.

Youth unemployment rate and unemployment-to-population ratio: The youth unemployment rate is the percentage of the youth labour force (unemployed and employed) which is unemployed. A different indicator is the unemployment-to-population ratio, which refers to the share of the unemployed in the overall youth population.

The ratio of youth neither in employment nor in education: This ratio gives the share of the overall youth population that is neither employed nor in education. It includes the unemployed, as defined by the ILO, and discouraged young people who are not in the education system.

The ratio of youth neither in education nor in the labour force: This ratio captures the proportion of jobless youths who are not in education but who are neither in employment nor looking for a job. This category is generally referred to as "discouraged" in this article.

Note: Unemployment definitions are based on the Resolution of the 13th International Conference of Labour Statisticians, 1982 (see note 4).

A profile of youth labour market disadvantage

The indicators of youth unemployment introduced in the previous section are presented in table 1, compiled from LFS and LSMS data.

Large-scale unemployment

The LFS and LSMS data provide estimates that are not necessarily identical,[5] but the evidence shows that youth unemployment is a serious problem in SEE. Around 2001, youth unemployment rates averaged 38.6 per cent according to the data from the seven LFSs, and 31.2 per cent according to the data from the six LSMSs. For comparison, the youth unemployment rate in the European Union (15) based on LFS data for the same period was 14.9 per cent. Table 1 also shows wide disparities across the subregion, with LFS-based unemployment rates ranging from 16.2 per cent in Moldova to 56.1 per cent in the former Yugoslav

[5] The fact that LFS and LSMS data provide different estimates of youth unemployment may arise because of differences between survey questionnaires and interview periods.

Table 1. Selected indicators of youth labour market disadvantage, circa 2001

	ALB	B&H	BUL	CRO	KOS	MAC	MOL	ROM	SER	SLO
GDP per capita (constant 1995 US dollars)	952	1 498	1 604	5 461	850	2 431	796	1 539	—	11 996
Labour Force Surveys										
Unemployment rate (%)	—	—	19.4	15.3	41.2	30.5	7.3	6.4	—	6.4
Youth unemployment rate (%)	—	—	38.4	41.1	69.2	56.1	16.2	18.4	—	18.1
Teenager (15-19) unemployment rate (%)	—	—	58.8	—	79.8	57.5	19.0	24.7	—	24.2
Young adult (20-24) unemployment rate (%)	—	—	34.2	—	64.7	55.7	14.5	16.4	—	16.8
Ratio of youth to adult unemployment rates	—	—	2.2	3.6	2.1	2.2	2.8	3.9	—	3.7
Youth unemployment ratio (%)	—	—	12.6	16.3	17.1	22.4	5.3	7.4	—	6.9
Youth employment ratio (%)	—	—	20.7	23.4	7.6	17.5	27.6	32.8	—	31.4
Youth labour force participation rate (%)	—	—	32.9	39.6	24.7	39.9	32.9	59.5	—	38.3
Share of youth in total unemployment (%)	—	—	21.3	—	40.6	28.1	30.1	36.5	—	32.0
Share of youth in total long-term unemployment (%)	—	—	16.9	—	3.0	72.0	—	42.6	—	23.4
Share of youth unemployed with no work experience (%)	—	—	74.0	—	92.1	—	66.7	75.3	—	71.5
Living Standard Measurement Surveys										
Unemployment rate (%)	9.3	15.8	26.7	—	11.6	—	—	6.8	10.3	—
Youth unemployment rate (%)	13.7	44.6	52.4	—	25.2	—	—	17.9	33.6	—
Teenager (15-19) unemployment rate (%)	12.7	64.3	78.4	—	23.5	—	—	20.5	43.3	—
Young adult (20-24) unemployment rate (%)	14.7	39.3	46.7	—	26.1	—	—	17.2	31.0	—
Ratio of youth to adult (25+) unemployment rates	1.6	3.9	2.3	—	3.1	—	—	3.4	4.2	—
Youth unemployment ratio (%)	5.9	10.3	20.6	—	7.6	—	—	6.8	11.0	—
Youth employment ratio (%)	36.8	12.9	18.7	—	22.6	—	—	31.0	23.9	—
Youth labour force participation rate (%)	42.7	23.2	39.3	—	30.2	—	—	37.8	32.8	—
Share of youth in total unemployment (%)	28.0	36.7	25.8	—	45.3	—	—	33.4	29.5	—
Share of youth in total long-term unemployment (%)	39.4	5.7	24.6	—	43.0	—	—	—	7.4	—
Share of youth unemployed with no work experience (%)	77.7	82.7	—	—	—	—	—	—	—	—

Note: ALB = Albania, B&H = Bosnia and Herzegovina, BUL = Bulgaria, CRO = Croatia, KOS = Kosovo, MAC = Macedonia, MOL = Moldova, ROM = Romania, SER = Serbia, SLO = Slovenia.

Sources: World Bank staff estimates based on LFS and LSMS data; GDP figures based on World Bank Live Databases. GDP figure for Kosovo refers to unofficial estimates and is still preliminary. LFSs conducted in November 2001 for Croatia, June 2001 for Bulgaria, October 2001 for Macedonia, and December 2001 for Kosovo and Romania; 2001 annual average for Moldova and Slovenia. LSMSs conducted in April-July 2002 for Albania, September-November 2001 for Bosnia and Herzegovina, April-May 2001 for Bulgaria, September-December 2000 for Kosovo, June 2002 for Romania, and June-August 2002 for Serbia.

Republic of Macedonia and even 69.2 per cent in Kosovo.[6] The highest youth unemployment rates were observed in Kosovo, Macedonia, Bulgaria, and Bosnia and Herzegovina.

Other worrying figures are the very high youth to adult unemployment ratios, indicating a strong disadvantage for young people relative to adults. Youth unemployment rates were two to four times higher than adult rates. Young people's relative disadvantage was particularly pronounced in Serbia, Bosnia and Herzegovina, Romania, Slovenia and Croatia. In Romania and Slovenia, however, the absolute share of the youth population unemployed was among the lowest in the region.

Unemployment rates were generally higher among teenagers aged 15-19 than among young adults aged 20-24. Table 1 also shows significant disparities as to the extent of long-term youth unemployment. While in Macedonia the majority (72 per cent) of unemployed youth had been unemployed for more than one year, in other countries, like Bulgaria, the proportion was less than one in five. Also remarkable is that, throughout the subregion, the vast majority of the young unemployed had no work experience at all.

Widespread youth discouragement and idleness

Table 2 provides some recent evidence of youth discouragement and idleness in SEE, based on LSMS data collected around 2001. Indeed, youth discouragement or the emergence of large pools of jobless young people who do not even look for work is another disturbing trend in several countries of central and eastern Europe (UNICEF, 2000). Moving from the standard definition to the "relaxed" definition of unemployment to capture the discouraged unemployed, the (unweighted) average youth unemployment rate for the countries in the table increases from 31.2 per cent (strict rate) to 41 per cent (relaxed rate). The proportion of jobless youth who do not report looking for work is particularly high in Kosovo, Serbia, and Bosnia and Herzegovina, where the grey economy seems to be substantial (World Bank, 2003a, 2003b, and 2003c).

Also worrying is the large proportion of idle youths, as measured by the share of the youth population neither in school nor in employment. Around 2001, while the proportion of SEE's overall youth population that was unemployed averaged 10.4 per cent, those who were jobless and out of school accounted for more than 35.6 per cent. In Albania, Bosnia and Herzegovina, Bulgaria, and Kosovo, about one in three teenagers aged 15-19 was neither in education nor in employment. Remarkably, a

[6] To some extent, the high unemployment rate observed in Kosovo is due to seasonality. The Kosovo LFS was conducted in December, at a time when many farmers were temporarily unemployed. A more realistic figure is the youth unemployment rate of 25 per cent obtained from the 2000 LSMS. For a discussion on the reliability of the unemployment figures for Kosovo, see World Bank (2003a).

Table 2. Selected indicators of SEE youth idleness and discouragement, circa 2001

	Albania	Bosnia and Herzegovina	Bulgaria	Kosovo	Romania	Serbia
Living Standard Measurement Surveys						
Standard youth unemployment rate (%)	13.7	44.6	52.4	25.2	17.9	33.6
Teenager (15-19) standard unemployment rate (%)	12.7	64.3	78.4	23.5	20.5	43.2
Young adult (20-24) standard unemployment rate (%)	14.7	39.3	46.7	26.1	17.2	31.0
"Relaxed" youth unemployment rate (%)	27.0	64.6	55.7	33.3	18.0	47.2
Teenager (15-19) "relaxed" unemployment rate (%)	27.2	82.6	82.1	37.9	20.8	56.5
Young adult (20-24) "relaxed" unemployment rate (%)	26.7	57.9	49.0	30.3	17.2	44.6
Youth unemployment-to-population ratio (%)	5.9	10.3	20.6	7.6	6.8	11.1
Teenager (15-19) unemployment-to-population ratio (%)	4.9	6.2	11.8	4.7	3.4	6.2
Young adult (20-24) unemployment-to-population ratio (%)	7.1	14.5	28.5	10.9	10.2	15.6
Share of youth neither in education nor in employment (%)	41.6	42.3	43.3	46.0	19.0	21.7
Share of teenagers (15-19) neither in education nor in employment (%)	32.7	28.8	32.6	35.6	12.3	12.9
Share of young adults (20-24) neither in education nor in employment (%)	52.7	55.8	52.8	57.7	26.0	30.0
Share of youth neither in education nor in the labour force (%)	35.7	32.0	22.7	38.4	12.2	12.8

Sources: World Bank staff estimates based on LSMSs conducted in April-July 2002 for Albania, September-November 2001 for Bosnia and Herzegovina, April-May 2001 for Bulgaria, September-December 2000 for Kosovo, June 2002 for Romania, June-August 2002 for Serbia.

large majority of the general youth population in this category were not looking for a job either. These "idle" young people represent a group that warrants special attention. Often, they are engaged in the grey economy which typically means that they are exposed to unsatisfactory working conditions and occupational safety, with no benefits in case of illness, job loss or retirement. The group also includes those at risk of being enrolled in the illicit economy, including the sex and drug trades.

High incidence of low-quality jobs

Table 3 shows that a very large proportion of the wage-employed in Albania, Bosnia and Herzegovina, and Bulgaria were in low-quality jobs around 2001. The incidence of low-quality employment was also much higher among the youth population than among adults. In Bulgaria, for example, 41 per cent of young people – as opposed to 21 per cent of adults – were in wage employment without social security coverage.

Although SEE is generally characterized by its lack of decent work opportunities for young people, not all of those in this age group face the same risk of being jobless. Based on the standard definition of unemployment, table 4 shows that more young men than young women were unemployed around 2001: the unemployment rate was higher for young men in seven of the ten countries/territories covered by the data. However, young women were at a strong disadvantage relative to young men in Kosovo and, albeit to a lesser extent, in Croatia and Slovenia. Except in Kosovo, there was also a greater proportion of young men who were neither in education nor in employment.

Not all countries/territories show positive returns to education in terms of employment outcomes. In Bosnia and Herzegovina, Bulgaria and Serbia, the higher the level of educational attainment, the lower the unemployment rate, with a significant unemployment rate differential between the least and the most educated. In Moldova, Romania and Slovenia, however, the incidence of unemployment seems to be more equally spread across the different levels of education – with the highest rates actually observed among the most educated youths. A higher incidence of unemployment among the highly educated may be an indication of their higher reservation wages and greater capacity to afford being unemployed, since better educated young people tend to come from

Table 3. Incidence of low-quality wage employment in selected SEE countries, circa 2001 (percentage of overall wage employment)

	Albania	Bosnia and Herzegovina	Bulgaria	Romania	Serbia
Youths (15-24)					
No contract or no social contributions	—	—	43.9	—	18.4
No contract	—	—	17.8	2.8	13.9
No social contributions	58.7	51.2	41.1	—	10.8
Adults (25+)					
No contract or no social contributions	—	—	22.5	—	7.9
No contract	—	—	7.9	1.0	4.3
No social contributions	36.5	31.9	21.0	—	4.9

Sources: World Bank staff estimates based on LSMSs conducted in April-July 2002 for Albania, September-November 2001 for Bosnia and Herzegovina, April-May 2001 for Bulgaria, and June 2002 for Romania, June-August 2002 for Serbia.

Table 4. Standard youth unemployment rates by socio-economic characteristic in SEE, circa 2001 (percentages)

	ALB	B&H	BUL	CRO	KOS	MAC	MOL	ROM	SER	SLO
Labour Force Surveys										
All	—	—	38.4	41.1	69.2	56.1	16.2	18.4	—	18.1
Male	—	—	42.0	37.9	63.7	57.4	18.3	19.7	—	15.9
Female	—	—	34.5	45.0	78.8	54.5	13.8	16.6	—	20.9
Higher education	—	—	25.7	—	39.5	—	15.1	22.1	—	19.3
Secondary education	—	—	37.5	—	62.8	—	16.4	18.1	—	16.8
Primary or less	—	—	72.2	—	78.2	—	14.0	17.0	—	23.9
Urban	—	—	36.6	—	55.0	—	29.3	28.0	—	22.5
Rural	—	—	43.1	—	75.5	—	9.6	10.0	—	14.5
Living Standard Measurement Surveys										
All	13.7	44.6	52.4	—	25.2	—	—	17.9	33.6	—
Male	16.0	44.8	60.9	—	21.7	—	—	20.9	34.3	—
Female	11.5	44.3	42.6	—	32.6	—	—	14.2	32.7	—
Higher education	7.9	9.0	21.1	—	29.4	—	—	22.8	9.8	—
Secondary education	26.0	40.4	53.2	—	24.7	—	—	17.8	34.4	—
Primary or less	11.4	73.8	86.2	—	24.3	—	—	17.2	32.6	—
Urban	44.0	48.7	47.6	—	43.1	—	—	—	33.5	—
Rural	4.5	38.6	61.9	—	18.2	—	—	—	33.7	—
Disabled	6.7	—	—	—	30.2	—	—	0.0	—	—
Roma	0.0	—	90.5	—	50.4	—	—	13.2	—	—

Note: Youth refers to persons aged 15-24. ILO definition of unemployment.

ALB = Albania, B&H = Bosnia and Herzegovina, BUL = Bulgaria, CRO = Croatia, KOS = Kosovo, MAC = Macedonia, MOL = Moldova, ROM = Romania, SER = Serbia, SLO = Slovenia.

Sources: World Bank staff estimates based on LFSs and LSMSs; LFS conducted in November 2001 for Croatia, June 2001 for Bulgaria, October 2001 for Macedonia, and December 2001 for Kosovo and Romania, 2001 annual average for Moldova and Slovenia; LSMS conducted in April-July 2002 for Albania, September-November 2001 for Bosnia and Herzegovina, April-May 2001 for Bulgaria, September-December 2000 for Kosovo, June 2002 for Romania, June-August 2002 for Serbia.

better-off families. However, if this is combined with a relatively high incidence of idleness among highly educated youths, as in Romania, it can also reflect labour market mismatches, i.e. over-supply of highly educated youth labour relative to actual demand. Another interesting point about the incidence of unemployment by educational level is that inter-country differences are much more pronounced for the least educated than for the better educated. The smaller variations observed among the most educated could indicate greater cross-country mobility within this group, in which case this observation would also point to the high vulnerability of young people with little education who may not be able to take much advantage of the global economy.

Unemployment rates also differ widely between urban and rural areas. The incidence of youth unemployment is generally higher in urban areas (table 4), though that of youth idleness is higher in rural areas (table 5). This pattern is hardly surprising, however. Indeed, outside agriculture, the employment opportunities available to young people in rural areas of SEE are very limited, and much more so than in urban areas. As a result, more rural youths become discouraged and give up looking for a job.

No systematic information is available on youth employment outcomes by ethnic group, but there are indications that some ethnic minorities may be at a disadvantage in securing employment. As shown in table 4, the incidence of unemployment among Roma youths is not consistent across the subregion. However, table 5 points to a consistently

Table 5. Share of youth neither in education nor in employment by selected socio-economic characteristic in SEE, circa 2001

	Albania	Bosnia and Herzegovina	Bulgaria	Kosovo	Romania	Serbia
Living Standard Measurement Surveys						
All	41.6	42.3	43.3	46.0	19.0	21.7
Male	42.2	44.1	45.8	31.4	19.3	22.6
Female	39.0	40.4	40.8	59.7	18.7	20.9
Achieved higher education	15.1	3.6	21.9	0.8	23.8	14.9
Achieved secondary education	41.1	42.2	41.0	32.2	18.3	29.0
Achieved primary education or less	29.3	57.9	91.0	61.7	23.3	13.4
Urban	48.2	34.9	34.4	42.8	—	18.4
Rural	37.6	46.1	66.1	47.4	—	27.1
Disabled	60.9	—	—	57.8	89.0	—
Roma	39.8	—	83.5	86.3	44.6	—

Sources: World Bank staff estimates based on LSMSs conducted in April-July 2002 for Albania, September-November 2001 for Bosnia and Herzegovina, April-May 2001 for Bulgaria, September-December 2000 for Kosovo, June 2002 for Romania, and June-August 2002 for Serbia.

higher incidence of youth idleness in this ethnic group, except in Albania. Finally, with regard to disability, the evidence points to the great labour market vulnerability of young people with disabilities. Without a single exception, the proportion of young people neither in education nor in employment was the highest among those with disabilities (table 5).

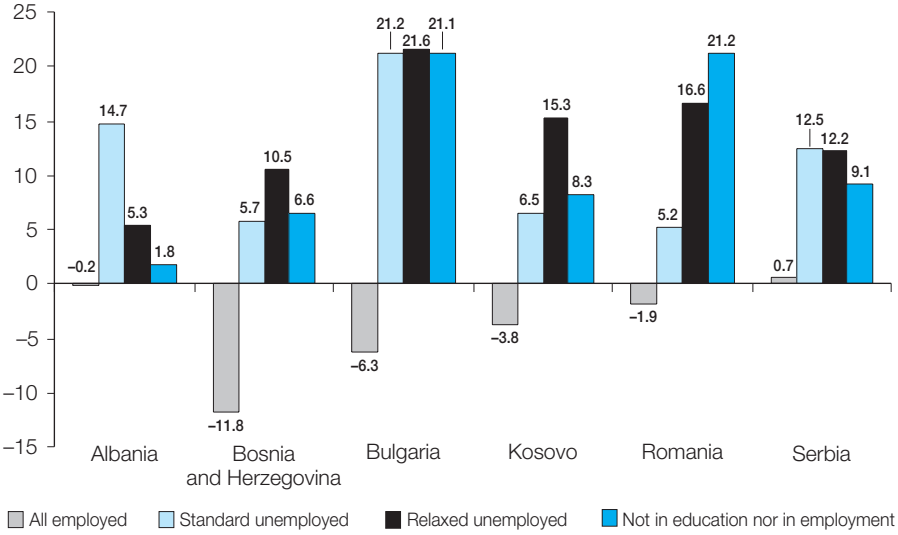
Consequences of youth unemployment

The first objective of this article was to present the multidimensional nature of youth labour market disadvantage beyond a narrow focus on unemployment. Here, in this second section, the objective is to draw attention to its wider consequences beyond the income poverty of the unemployed. Because of data limitations, however, this section looks mainly at the consequences of youth unemployment, rather than youth idleness or other indicators.

As shown in figure 1, the lack of a job is a strong correlate of poverty in SEE, though there is considerable cross-country heterogeneity in the extent to which joblessness affects the relative risk of poverty. For instance, compared to the employed, the relative position of unemployed youth (standard definition) appears much more favourable in Bosnia and Herzegovina, Kosovo and Romania than in Albania, Bulgaria or Serbia. Figure 1 also shows the high incidence of poverty among those jobless young people who are usually not included in unemployment statistics. In Bosnia and Herzegovina, Kosovo and Romania, the relative poverty rates among idle youth (not in education nor in employment) and discouraged youth ("relaxed" unemployment definition) were higher than the poverty rates observed among youth in the standard unemployment category. Another consequence of unemployment and joblessness that adversely affects welfare is the alteration of human and social capital. This has been documented for the region by a number of studies (UNICEF, 2000).

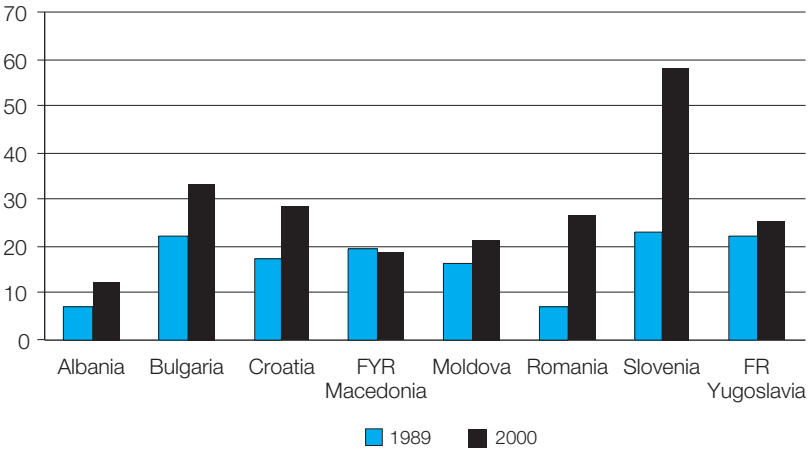
Aside from its direct welfare repercussions, a poor start in the world of work influences young people's behaviour in a number of ways. Here, some outcomes are positive, others are not. Perhaps the most positive way youths have responded to poor labour market conditions in SEE is to stay on longer in education in order to delay their entry into the labour market and increase their chances of finding a job. This shows up in figure 2. In Bulgaria, for example, tertiary enrolment has indeed increased and the risk of unemployment is lower among the highly educated. Acquiring more education may thus be a viable strategy for youth in Bulgaria, with likely pay-offs in the medium term. In Romania and Slovenia, however, the incidence of unemployment was not lower for the most educated (table 4), and the increase in tertiary enrolment in these countries failed to translate into any visible improvement in young people's employment prospects. Besides, staying on longer in education might not be

Figure 1. Relative poverty risk associated with different youth labour market outcomes in selected countries/territories of SEE, circa 2001 (percentages)



Sources: World Bank staff estimates based on LSMSs conducted in April-July 2002 for Albania, September-November 2001 for Bosnia and Herzegovina, April-May 2001 for Bulgaria, September-December 2000 for Kosovo, June 2002 for Romania, and June-August 2002 for Serbia.

Figure 2. Higher education enrolment in SEE (gross rates, percentages of 19-24 population)



Source: UNICEF MONEE project database.

an option for members of disadvantaged groups, particularly those from poor families and/or minority groups.

Another of young people's responses to high unemployment in SEE has been emigration, particularly to the European Union. Although this was a predictable outcome of transition, the monitoring of migration flows in the region has been difficult for want of accurate data. Generally, the number of persons emigrating from eastern Europe to the West appears to have fallen significantly since the beginning of the 1990s, with the resumption of growth and political stabilization in the former Yugoslavia. But labour migration from SEE remains considerable – especially illegal seasonal migration as opposed to permanent emigration. Such mobility is often viewed positively as an opportunity for young people and their households to exit unemployment and poverty through work abroad, but it is important to recognize that labour migration also has a number of negative effects, including the brain drain and lost investment in education in home countries (on Moldova, for example, see Sleptova, 2003). Furthermore, recent empirical studies also point to a negative effect of remittances on economic growth in the recipient countries (Chami, Fullenkamp and Jahjah, 2003).

In addition to its economic costs, migration also has dramatic social effects. Long absences have negative repercussions on family relationships, sexual behaviour and child welfare. Large-scale emigration of young people is also associated with increased xenophobia in the host countries, where their cheap labour is often perceived as a threat to domestic jobs. Often, though, young migrant workers are employed in hard, low-paid and low-skilled jobs, and turn out to be the "new poor" in the host countries. Young migrant workers are also at risk of enrolment in criminal activities and exploitation – including sexual exploitation – because many of them often have no choice but to work in informal jobs.[7] Finally, illegal labour migration can also have significant negative political consequences, contributing to the deterioration of relations between sending and receiving countries, and undermining the international image of the sending countries.

Unemployment and poverty in transition economies have also been instrumental in the development of a large informal economy. At the micro level, evidence suggests that informal employment often helps to mitigate but not necessarily to prevent income poverty. In Kosovo, for instance, informal job-holding and income poverty were not strongly correlated (World Bank, 2003a). In Bulgaria, however, wage employment with no written contract was associated with a higher risk of income poverty compared to contract employment; and, to a large extent, the welfare effects of informal wage employment were similar to those of being

[7] According to various estimates, there were some 3.3 million foreign residents in an irregular or undocumented situation in western Europe in 2000 (ILO, 2005).

unemployed (World Bank, 2002a). At the macro level, the development of a large informal labour market in SEE has a strong negative impact on the ability of states to collect taxes and to finance the provision of essential public services.

One of the worst aspects of labour migration and participation in the grey economy is human trafficking. This complex phenomenon is linked to "push" factors like low-paid work and unemployment in countries of origin and "pull" factors like the demand for domestic and sex workers, and exploitation of this situation by organized crime in countries of origin and destination alike. Though reliable statistics are lacking in most countries, data collected by the police, ministries of justice and NGOs tend to show that the magnitude of human trafficking and sexual exploitation has grown in the region.

Lastly, anecdotal evidence also suggests an association between youth unemployment and other social problems such as violence, suicide, alcohol and drug abuse, and crime. However, comparable SEE data on risky behaviours broken down by employment status and age group are not yet available.

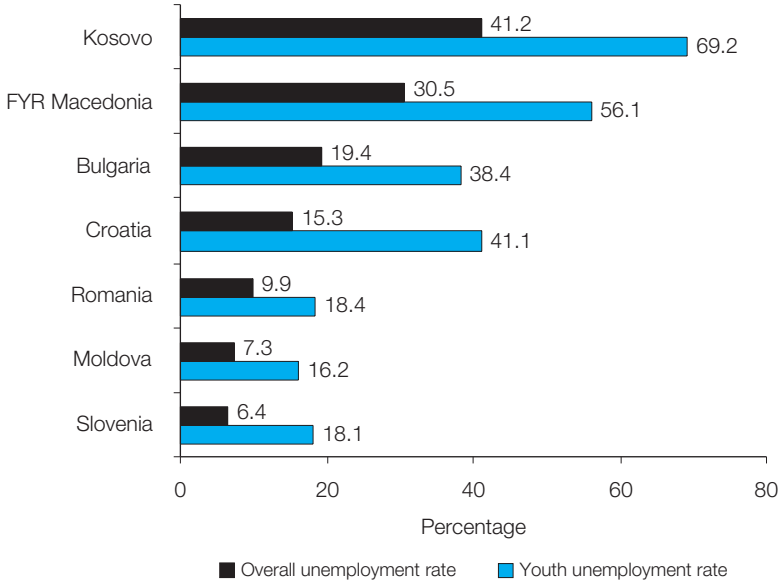
Causes of youth unemployment

There are multiple reasons behind youth unemployment; some are specific to young people, while others are not. Indeed, to a large extent, high youth unemployment in SEE simply mirrors the overall high level of aggregate unemployment characterizing the subregion's labour markets. As shown in figure 3, the higher the overall unemployment rate, the higher the youth unemployment rate. The reduction of youth unemployment will thus largely depend on international context and the effectiveness of macroeconomic policies in promoting sustainable growth that leads to the creation of viable jobs. Yet the fact that youth unemployment in SEE remains two to four times higher than adult unemployment, and that countries with similar levels of GDP have very different youth unemployment rates, suggests other factors also contribute to young people's strong relative labour market disadvantage in the subregion.

Skills mismatches have been suggested as an explanation for the unemployment rate differential between young people and adults. What is remarkable is that higher educational attainment does not necessarily reduce the risk of being unemployed among the young.[8] Among adults, by contrast, more education does reduce the risk of being unemployed in all countries/territories. However, education often does seem to reduce the risk of youth idleness. In Bulgaria and Romania, while higher schooling

[8] The marginal effects of schooling (net of other factors) are based on the estimation of probit models of the probability of being unemployed. Results, which are available upon request to the authors, are not reproduced here.

Figure 3. Sensitivity of youth unemployment to overall unemployment in SEE, 2001

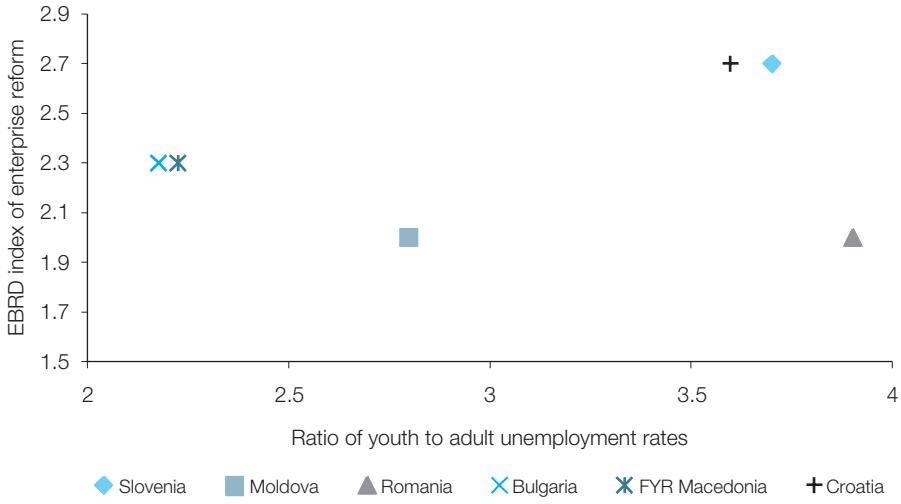


Sources: World Bank staff estimates based on LFSs conducted in November 2001 for Croatia, June 2001 for Bulgaria, October 2001 for Macedonia, and December 2001 for Kosovo and Romania. 2001 annual average for Moldova and Slovenia.

does not reduce youth unemployment as defined by the ILO, it does reduce the probability of young people being out of work.

A second factor that may determine youth labour market outcomes and explain some of the youth unemployment rate differentials between SEE countries is the extent of enterprise restructuring. Indeed, it is widely believed that countries that have failed to restructure rapidly may have managed temporarily to preserve existing jobs and the welfare of senior workers at the expense of young people, making it harder for them to enter the labour market and, possibly, accounting for why they constitute a disproportionately large share of the unemployed. At the same time, though, intensive restructuring is likely to generate large-scale job reallocation and thus create structural unemployment that may affect young people and adults equally. To shed some light on these hypotheses, it is interesting to look at the relationship between the extent of enterprise restructuring – as measured by the index of enterprise reform of the European Bank for Reconstruction and Development – and youth unemployment (figure 4). But this shows no obvious correlation between the extent of enterprise restructuring and the relative position of young people in the labour market.

Figure 4. Progress in enterprise reforms and relative youth unemployment rate, 2001

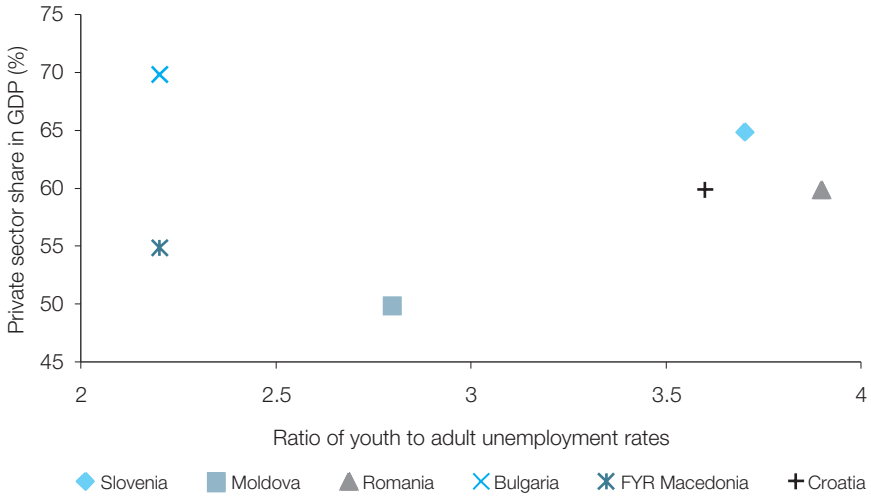


Sources: World Bank staff estimates based on LFSs conducted in November 2001 for Croatia, June 2001 for Bulgaria, October 2001 for Macedonia, and December 2001 for Kosovo and Romania. 2001 annual average for Moldova and Slovenia. 2000 EBRD index of enterprise reform.

A third possibility – also a common assumption – is that the development of the private sector in the subregion might be the key to job creation. This was indeed expected to reduce unemployment, especially among young jobseekers whose outlook was presumed to be more attuned to the needs of the new private sector. Yet, looking for possible links between private sector shares of GDP and the relative youth unemployment rates in the six countries for which data are available, one cannot find any straightforward association (see figure 5). This is hardly surprising, however, because much of the private sector in SEE actually consists of (privatized) former state enterprises as opposed to newly established private firms. Besides, most labour market flows occur from employment to employment, and from unemployment to inactivity, but seldom from unemployment to employment.

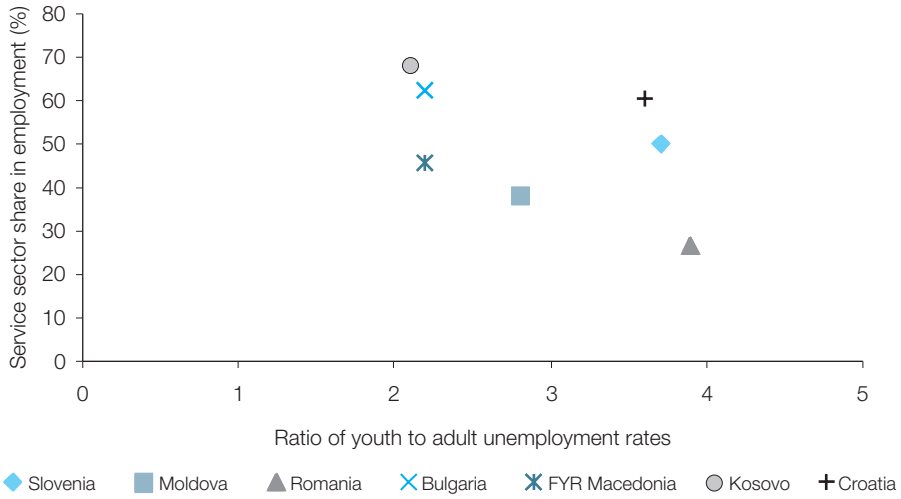
A fourth possibility, and yet another widespread belief, is that growth in sectors that usually hire young people – i.e. retail trade, services like hotels and restaurants, and information technology – should have a positive effect on youth employment in the subregion. In order to test this possibility, figure 6 gives the ratios of youth to adult unemployment in relation to shares of services in total employment. This simple graph shows what appears to be a negative association between these two variables. Thus, while enterprise restructuring and private-sector development *per se* seem to have had no clear effects on youth unemployment, there are

Figure 5. Private sector shares of GDP and relative youth unemployment, 2001



Sources: World Bank staff estimates based on LFSs conducted in November 2001 for Croatia, June 2001 for Bulgaria, October 2001 for Macedonia, and December 2001 for Romania. 2001 annual average for Moldova and Slovenia. 2000 EBRD index of enterprise reform.

Figure 6. Ratio of youth to adult unemployment rates and share of services in total employment, 2001



Sources: LFSs conducted in November 2001 for Croatia, June 2001 for Bulgaria, October 2001 for Macedonia, and December 2001 for Kosovo and Romania. 2001 annual average for Moldova and Slovenia.

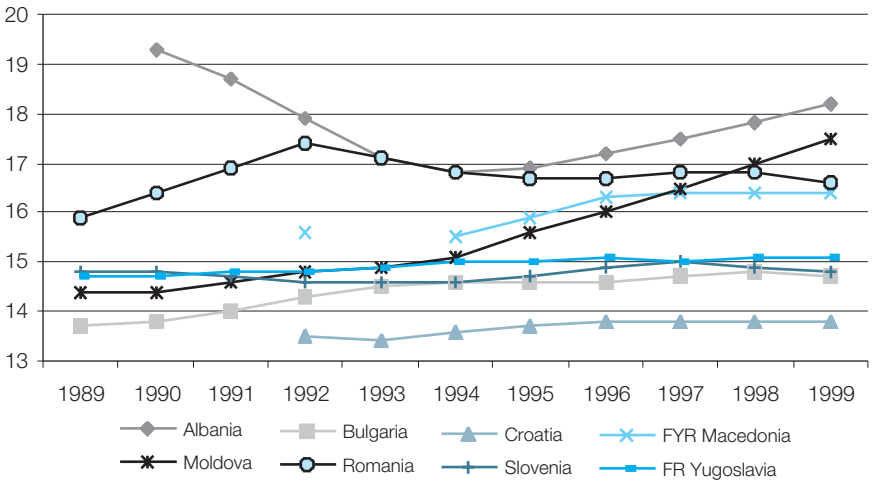
reasons to believe that differences in service-sector employment may explain some of the differences in relative youth unemployment rates between SEE countries/territories. This is in fact one of the key findings of this article, not least because it contrasts with the situation in the industrialized countries, where the post-1970 shift in the industrial composition of employment and technological changes failed to produce the expected effect: youth employment prospects have since deteriorated in virtually all OECD countries.

A fifth possibility that might explain the differences observed in youth unemployment between SEE countries and within countries over time centres on the relative sizes of youth cohorts and changes in their size over time. Among the countries/territories for which time-series data are available, Macedonia is the only one to display an apparent connection between demographic and labour market developments (figure 7). The rise in Macedonia's youth unemployment rates over the period 1995-1997 coincided with an increase in the youth population. The data for 2001 (on six countries) suggests that demographic factors could contribute to explaining the difference in youth unemployment rates across countries only in Moldova and Romania. Indeed, in 2001, Moldova and Romania both had a relatively larger youth population and a higher ratio of youth to adult unemployment rates than the SEE averages.

Given the extent of corruption and the lack of transparency in human resources and recruitment policies in parts of SEE, there is some evidence that connections and money are important determinants of labour market outcomes in the subregion. A study by Redmon, Schneps and Suhrcke (2001), based on the 1999 round of the International Social Survey Programme, shows that survey respondents consider "knowing the right people" and "coming from a wealthy family" to be much more important in getting ahead in central and eastern Europe than in the advanced industrialized countries. Available LSMS data for five SEE countries/territories confirm the importance of family and friends in finding a job, and the limited use that young jobseekers make of employment services (table 6). In Albania, Bosnia and Herzegovina, and Romania, a much higher proportion of unemployed young people indicated that they were looking for a job by relying on friends rather than on public employment offices. Ideally, employment services in the subregion should be disseminating useful information to first-job seekers, but this does not seem to be the case. Often, moreover, employment offices lack funding for training programmes; and their job-search strategies are limited and not market-oriented.

Another possible reason for youth unemployment could be traced to systems of unemployment compensation and work incentives. Available studies show that generous unemployment benefits do tend to increase the level and duration of unemployment, though they can also facilitate labour relocation and help to limit entry into low-quality jobs

Figure 7. Proportion of 15-24 year-olds in total population (percentages)



Source: UNICEF MONEE project database.

by improving the quality of the job search (see, for instance, Vodopivec and Raju, 2002). In SEE, however, young jobseekers are typically not eligible for unemployment benefits because of their lack of formal work experience or – as in Kosovo, for example – because there is no unemployment compensation scheme. Only a small proportion of the young unemployed (according to the ILO definition) are actually receiving unemployment benefits, and proportionately fewer young than adult unemployed receive benefits (table 7). In other words, SEE's high absolute and relative youth unemployment rates can hardly be imputed to unemployment compensation schemes.

The standard view about minimum wage regulations is that they raise the relative wages of young workers in the formal sector in a way that can discourage their formal employment if minimum wages are such that they prevent employers from recouping the cost of training by paying lower youth wages. Since nearly all countries in SEE have mandatory minimum wages, but set at very different levels,[9] it is interesting to see whether those with the highest relative youth unemployment rates are also those where the relative wages of young workers are the highest, indicating possible wage rigidities due to statutory or collectively agreed minimum wages. Figure 8 relates relative youth unemployment to relative youth wages for six SEE countries/territories for which LSMS data are available. The figure shows no clear relationship, and thus gives little credence to the idea that high relative youth wages in the region may explain observed differences in relative youth unemployment rates.

[9] See www.ilo.org/travaildatabase/servlet/minimumwages

Table 6. Youth job search: Friends and relatives *vs.* the employment office

	Albania	Bosnia and Herzegovina	Bulgaria	Romania	Serbia
Living Standard Measurement Surveys					
Percentage of (standard) unemployed youth relying on friends and relatives to look for a job	68.0	42.6	28.6	75.6	19.4
Percentage of (standard) unemployed youth relying on employment office to look for a job	23.9	40.7	31.4	4.7	53.5

Sources: World Bank staff estimates based on LSMSs conducted in April-July 2002 for Albania, September-November 2001 for Bosnia and Herzegovina, April-May 2001 for Bulgaria, June 2002 for Romania, and June-August 2002 for Serbia.

Table 7. Percentages of young people and adults receiving unemployment benefits in selected SEE countries

	Albania	Bosnia and Herzegovina	Bulgaria	Romania	Serbia
Living Standard Measurement Surveys					
Share of standard unemployed youth receiving unemployment benefits	0.0	50.1	15.5	28.3	2.3
Share of standard unemployed adults receiving unemployment benefits	2.7	56.3	24.6	42.3	6.3

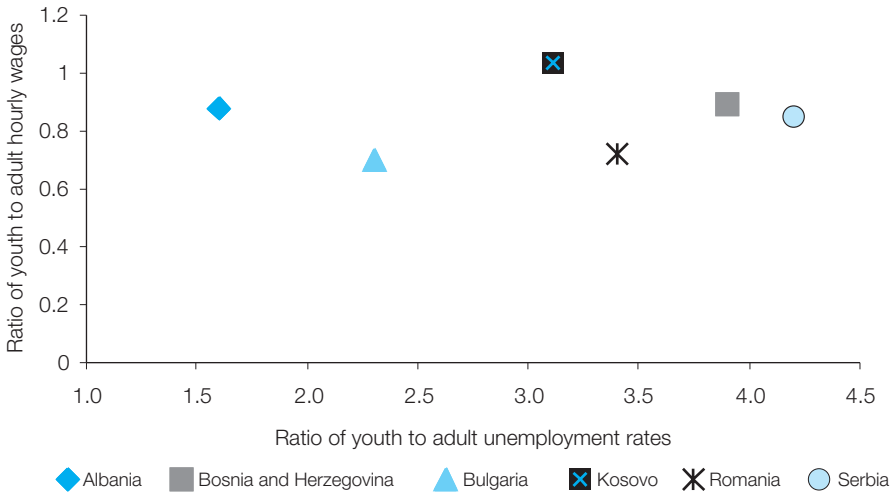
Sources: World Bank staff estimates based on LSMSs conducted in April-July 2002 for Albania, September-November 2001 for Bosnia and Herzegovina, April-May 2001 for Bulgaria, June 2002 for Romania, June-August 2002 for Serbia.

There is no comprehensive study of the effects of labour market regulations (minimum wage and employment protection legislation) on young people in SEE. A study by Haltiwanger, Scarpetta and Vodopivec (2003), however, shows that the employment protection legislation of the transition countries closely resembles that of western continental and southern European countries.[10] In Bulgaria and Romania, the level of protection given to regular employment is similar to that obtaining in the United States and the common law countries, though temporary employment seems to be more protected. In Bosnia and Herzegovina, employment protection legislation and regulations on fixed-term contracts are comparable to – and in some instances more liberal than – the equivalent regulations in force in developed market economies (World Bank, 2002b). In Kosovo, employment legislation is very flexible, even compared with that of the more liberal Western countries. In Slovenia, however, the legislation on regular employment is much stricter than in almost all OECD countries.

Lastly, possible reasons why proportionately more young people than adults are unemployed may also include the reluctance of employers to hire first-job seekers and barriers to self-employment.

[10] For another perspective, see Cazes and Nesporova (2001).

Figure 8. Relative youth unemployment and hourly wages in selected SEE countries/territories, circa 2001



Note: ILO definition of unemployment. Monthly wages for Romania.

Sources: World Bank staff estimates based on LSMSs conducted in April-July 2002 for Albania, September-November 2001 for Bosnia and Herzegovina, April-May 2001 for Bulgaria, September-December 2000 for Kosovo, June 2002 for Romania, and June-August 2002 for Serbia.

Government policies supporting youth employment

This section reviews active labour market programmes (ALMPs) that could assist young people in overcoming the multiple barriers to employment outlined above. Such programmes comprise public works programmes, job search assistance and training – including training for a guaranteed job – and subsidized employment. However, the experience of the OECD countries shows that job-creating economic growth remains central to any strategy aimed at reducing youth unemployment, and that targeted programmes can only provide complementary resources. Recent evidence also shows that preventive strategies or "first chance" programmes that focus on young people *before* they become unemployed – e.g. formal and informal education-related interventions and measures that link schooling to work through internships and apprenticeships – may be more effective than remedial strategies (OECD, 2002).

According to a recent review of nearly 200 evaluations of remedial "second chance" programmes (Betcherman, Olivas and Dar, 2004), job-search assistance programmes are usually found to be the most cost-effective interventions, providing positive returns on both earnings and employment. Stand-alone training activities for vulnerable youth seem to produce no positive results. Some wage and employment subsidy

programmes do yield positive returns, but they generally tend to perform poorly in terms of their net impact on the future employment prospects of participants. Public works programmes are expensive and typically fail to enhance subsequent employment opportunities or earnings, but they can be a useful safety net for the short term. Finally, micro-enterprise development and self-employment promotion programmes do have positive returns but only for a small number of participants (generally the best educated).

What makes some interventions more successful than others?

- *Better targeting of the needs of specific groups.* There is clearly a need to distinguish between teenagers and young adults. Specifically, the most desirable solution to the employment problems of teenagers is to help them to remain in school, whereas for young adults in their 20s, it is more important to help them acquire work experience since it is too late to get them back to school.
- *A tightening of the work-search requirement*. Broader "activation strategies" quite often seem to have a positive impact on exit rates from unemployment, even among youths. In Australia, for example, when "mutual obligation" requirements were applied to youths who had been unemployed for six months, rates of exit from unemployment at that point increased (QED, 2003).
- *The provision of comprehensive packages of services*. Better designed ALMPs that integrate and combine services and offer a comprehensive "package" seem to be more successful. In the United Kingdom, the relative success of the British New Deal for the young unemployed was attributed to the fact that it combined job search assistance, training and strict job-search monitoring (Van Reenen, 2003).
- *A better match with labour market needs.* Many training programmes have been designed with no proper connections with local or national labour market needs. Yet, mobilizing and involving the private sector and communities to assess local or national demand for skills and community needs is most important to project design.
- *Greater involvement of employers' and workers' organizations, as well as government*. The effectiveness of programmes can be enhanced when employers' and workers' organizations are involved in the design and implementation of youth employment programmes, and when there is a tightly controlled system of certification to ensure programme quality (OECD, 1996; O'Higgins, 1997).

Not all SEE countries have government policies supporting youth employment, and such ALMPs as are pursued are generally very limited in scope. A rigorous quantitative impact evaluation of ALMPs is available only for Bulgaria, Bosnia and Herzegovina, Macedonia and Romania (table 8). However, these programmes are not necessarily

Table 8. Evaluation of selected ALMPs in SEE

Programme	Cost per placement	Appear to help	Comments
Bulgaria			
Temporary employment programmes	12 880 levs	More effective among older and least educated people, the long-term unemployed and those in depressed areas.	Most expensive programmes. Hence the need to target temporary employment programmes at the most vulnerable groups in the labour force that cannot rely on any other programme to improve their chances of finding a job.
Training with non-guaranteed jobs	485 levs	More effective among people with low education, older individuals, and people living in depressed areas.	Among the least expensive programmes. Continue with this programme but put more effort into monitoring and assuring the quality of future training.
Training with guaranteed jobs	450 levs	More effective for youth.	Among the least expensive programmes. Continue with this programme but put more effort into monitoring and assuring the quality of future training.
Subsidized employment	202 levs	Significant overall positive impact, but more effective among youth, women, and people with secondary education.	Least expensive programmes. Continue with this programme with better targeting at new entrants.
Self-employment programmes	1 391 levs	More effective among those with more education and those with shorter record of unemployment.	More expensive than training and subsidized employment. Continue with this programme but put more effort into monitoring and assuring the quality of business skills training.
Macedonia			
Counselling	299 US$	More effective among older and more educated people.	Among the least expensive programmes. Continue with this programme but improve quality and combine with training when necessary.
Training with guaranteed jobs	505 US$	More effective for youth and those with little education.	Twice as expensive as training with non-guaranteed job. Continue with this programme with sharper focus on those who benefit most.
Training with non-guaranteed jobs	256 US$	More effective for males.	The least expensive programmes. Continue with this programme but put more effort into monitoring and assuring the quality of future training programmes.
Public works	2 252 US$	Little positive impact.	Most expensive, partly because of the focus on infrastructural works. Reconsider the use of this programme or redesign it with more service sector work.

Table 8. Evaluation of selected ALMPs in SEE *(concl.)*

Programme	Cost per placement	Appear to help	Comments
Romania			
Training	131 US$	Positive impact on employment for women; no impact on earnings.	Continue with this programme. But may need better targeting.
Self-employment	102 US$	Positive impact on employment for women, and older and better educated workers, but no impact on self-employment; positive impact on earnings.	Continue with this programme. But may need better targeting.
Job assistance	60 US$	Positive impact on employment for males and better educated workers; overall positive impact on earnings.	The least expensive programme. Continue with this programme.
Public works	2 233 US$	No positive impact on employment or earnings.	Most expensive programme. Reconsider the use of this programme as a way to increase employment.
Bosnia and Herzegovina			
Job search assistance combined with training for demobilized soldiers	n/a	Positive impact on wage employment and earnings for all subgroups. Stronger employment impact for males, older individuals, and those with very little education.	This programme has proved effective in reintegrating demobilized soldiers.

Source: Walsh et al. (2001) for Bulgaria; World Bank (2001) for Macedonia; Benus and Rodriguez-Planas (2002) for Romania; Benus, Rude and Patrabansh (2001) for Bosnia and Herzegovina.

tailored to the specific needs of youth, and most of them are remedial strategies targeting individuals who are already unemployed (Bulgaria, Macedonia), workers from restructured industries (Romania), and displaced workers (Bosnia and Herzegovina). The overall impact of these ALMPs on the employment and earnings of participants, relative to non-participants with similar characteristics, is positive. But their impact varies widely according to programme type and subgroup characteristics (age, sex, education). Cost-effectiveness also varies a lot across the programmes (training, wage subsidies and job counselling generally have a positive impact, while public works programmes have no impact). However, the results of these evaluation studies should be interpreted with care as they provide no information on long-term employment impact.

Concluding remarks

This article has sought to contribute to a better understanding of the nature, causes and consequences of youth labour market disadvan-

tage in SEE. It has also examined some of the approaches which have been – or could be – adopted in seeking solutions to this problem.

The evidence shows that, more than ten years after the start of transition and despite the resumption of economic growth in most SEE countries, youth employment prospects remain bleak. In 2001, the average youth unemployment rate in SEE was 2.5 times higher than the European Union average, and three times higher than the adult unemployment rate. In addition to unemployment, several of the countries examined have witnessed the emergence of large pools of jobless youth who do not even look for work and/or large numbers of young people working in unprotected environments. Youth labour market disadvantage does not affect all young people equally. Those with little education, those with disabilities and those from certain minorities, like the Roma, are disproportionately affected. There are also – sometimes related – inequalities in youth labour market outcomes depending on location and other effects of educational attainment differentials.

The consequences of young people's troubled entry into the world of work include an increased risk of income poverty, the deterioration of human and social capital, socially undesirable responses, and emigration which, while allowing young people to exit unemployment and poverty, also has negative effects such as a brain drain and lost investment in education. Perhaps the most positive way in which youths have responded to labour market disadvantage is by staying on longer in education in order to delay their entry into the labour force.

Unemployment and poverty in the SEE subregion have also contributed to the development of a large informal sector. But while informal activities may help to mitigate income poverty, they do not necessarily prevent it. Also related to the informal economy and labour migration is the growth of human trafficking – another disturbing trend in several countries of SEE.

Youth unemployment is essentially part of the wider problem of high aggregate unemployment and low economic output in SEE. Yet the high incidence of youth unemployment relative to adult unemployment also points to the existence of specific barriers to youth employment. These include the poor quality of the skills possessed by labour market entrants, the lack of incentives for employers to hire first-job seekers, the lack of mechanisms that would allow young graduates to acquire work experience, and credit constraints. There is no evidence that a substantial share of youth unemployment could be attributed to work disincentives from unemployment compensation systems (though this article did not investigate the role of other safety nets, like public social assistance and private remittances from workers abroad).

Given the lack of transparency in hiring practices in several countries of SEE, "connections and money" are important determinants of the disparities in youth labour market outcomes. The evidence also shows

wide disparities between SEE countries/territories in the relative position of young people in the labour market, with ratios of youth to adult unemployment ranging from 1.6 in Albania to 4.2 in Serbia. Albeit preliminary, the findings of this study suggest that the share of service-sector employment – rather than that of private-sector employment generally or progress in enterprise reform – is negatively related with relative youth unemployment and may explain some of the disparities across countries. At the same time, there is no evidence that the observed differences in relative youth unemployment rates could be attributable to high relative youth wages – due to minimum wage regulations or collective agreements – or demographic factors.

Finally, a review of government policies shows that some of the active labour market programmes adopted in SEE have produced positive results. Such programmes, however, cannot be seen as a panacea for youth unemployment, which remains overwhelmingly determined by general macroeconomic conditions. The experience of the industrialized countries also shows that the effectiveness of the programmes could be improved through sharper targeting, a tightening of work-search requirements, provision of comprehensive and integrated "packages" of services, a closer match to local labour market and community needs, and greater involvement of employers' and workers' organizations in the design and implementation of youth employment policies.

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