

# Evaluation of impact and efficiency of labour market service 'My first job'

## Summary

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The evaluation focuses on the labour market service 'My first job' (M1J), which includes a wage subsidy and compensation of training costs for employes hiring young people aged 16-29 with no or little previous work experience. The measure aims at supporting hiring of young unemployed people and reducing youth unemployment. Employers are eligible for the measure in case hiring youth aged 16-29 who have with little or no previous work experience, are registered as unemployed and have not been employed over the past three months (or have been temporarily employed for less than 30 days).

Implementation of the M1J measure started in 2015. In 2017, a mid-term evaluation was undertaken which resulted in several adjustments in the conditions of the measure. This significantly widened access to the measure for youth and shortened the period for accessing the measure. **This evaluation aims to analyse the current implementation of the M1J measure, including the impact of the changes made in 2017 on implementation and take-up of the measure. It also aims to evaluate the impact the measure has on its recipients and make recommendations for further development of the measure** to provide sustainable support to unemployed youth upon labour market entry and raise the effectiveness of the measure.

The following points briefly summarise the use of M1J measure:

- Since 2015, young people have started working with the M1J measure 3468 times. Before the changes in the measure in 2017, an average of 26 young people starting working with the measure in a month. After the changes, this has risen to 74 young people per month. According to forecasts made in the analysis, an average of 90-100 young people would start working in a month with the measure up to 2022.
- The measure is widely accessible for young unemployed people registered in Unemployment Insurance Fund. About 80% of all young people registered as unemployed are eligible for the M1J measure. Of all the people who are eligible, about 9% have started working with the M1J measure.
- The people participating in the M1J measure are on average 23 years old, mostly with (vocational) secondary education. About half of the participants have acquired a professional qualification (mostly vocational education) and the other half have acquired general education. The share of men and women is roughly equal among participants. The M1J measure is used the most in North-East region of Estonia, where the overall unemployment is also the highest of all Estonian regions.
- Six months after the end of the M1J measure, 64% of participants are still employed, which is slightly lower of the target of 70%. Still, participation in the measure ensures a stable employment. One year after starting with the M1J measure, 74% of participants are still employed (most of them still with the wage subsidy). Two years after, employment holds at 70%. At the same time, those young people who qualify for the measure but started working without the wage subsidy, are slightly less often employed one year after entering their first employment (62-67%) as well as after two years (63-67%).

**M1J is a cost-effective measure** since the expenses made on the measure since the beginning of 2015 are in balance with the tax income and unpaid employment support that come with being employed. This does not include and assessment of the development of work habit or productiveness of employees so the actual

efficiency is even higher. M1J is also a cost-effective measure for employees, which is confirmed by registry data as well as employers themselves.

**The changes in the measure implemented in 2017 have had a positive effect.** The widening of the target group of the measure increased significantly the number of young people using the M1J measure and taking up employment with the measure. For instance, since the implementation of changes, about half of the participants in the M1J measure have a professional qualification while before the changes, young people with professional education did not qualify for the measure. This shows the high demand for the measure also among young people with professional qualifications. The changes in the measure have also increased cost-effectiveness of the measure. While before the changes in 2015-2015, the total costs were about 1.1 million euros higher than the benefits, after the changes in 2018-2020, benefits are higher by 0.8 million euros.

The measure is particularly necessary in regions of high unemployment, where young people with little or no work experience have to compete for the same jobs with more experienced people. The measure also becomes particularly important now that the Covid-19 pandemic has led to increasing unemployment particularly in sectors most often employing young people (catering, accommodation and other services). Hence, **the measure is becoming particularly important in the current labour market situation where it becomes increasingly difficult for young people to enter employment.** The measure is considered necessary by all the target groups interviewed for the evaluation, including labour market experts, employers and young people themselves.

Considering the ups and downs of the M1J measure, its' role among all of the wage subsidies offered by Unemployment Insurance Fund must be considered. For instance, whether it is necessary to have different wage subsidies offered to different target groups (young people, long-term unemployed, people with reduced work ability) or would a universal wage subsidy offered to all target groups under the same conditions suffice? Compared to the other wage subsidy measures currently offered, M1J offers an opportunity to provide support to young people immediately after they have registered as unemployed to support quick entry into a first job and avoid longer unemployment spells. The training cost subsidy is also an important component of the M1J measure which the other wage subsidy measures do not have, although its' take-up has been low over the years. Still, M1J offers more favourable conditions for young unemployed to support entry into the labour market.

The results of the analysis suggest that further development of the M1J measure mostly needs to support the main challenges identified in implementation of the measure while the conditions of the measure do not need any significant (additional) changes.

The recommendations made based on the analysis are divided into four larger categories.

### **1. Timely signalling of M1J and its conditions to the employer**

The measure offers wide opportunities for young people in the selection of vacancies (they can apply for any job they wish, including outside of the offers mediated by the Unemployment Insurance Fund). The key role for young people is played by the consultant in the Unemployment Insurance Fund who provides information on the M1J measure, supports submitting applications to job ads and contacting the employer to explain M1J measure when necessary. Hence, the consultant has a mediating role between the young person and the employer to come to an employment relationship.

One of the challenges upon implementation of the measure is the timely signalling of the opportunity to use M1J measure for employers. Often employers do not know that the applicant can be employed with a wage subsidy or they find out after they have made the hiring decision. This means that the M1J measure cannot impact the hiring decisions of employers and, hence, cannot fill its aim to raise the attractiveness of young people with little or no previous work experience for employers. Timely informing of employers is the key to achieve this aim.

### **Recommendations:**

- ✓ informing M1J participants of the opportunity to signal the measure and the opportunity for employers their CVs upon application while keeping it strictly voluntary.
- ✓ informing all Unemployment Insurance Fund consultants of the possible actions to inform employers of the measure, its proper timing and actions to support youth. This would support in achieving the aims of the measure and informing employers before the hiring decision.

## **2. Enhancing the take-up of training cost subsidy among employers**

A challenge of the measure is the low take-up of the training cost subsidy. The results of the evaluation refer that young people who have participated in training within the measure have better employment outcomes and lower drop-out rates compared to those not participating. At the same time, employers' motivation to provide training to youth is low while the jobs offered within the measure are mostly low skilled, can be acquired on the job and do not need additional training. Also the knowledge and skills of employers are different in assessing the training need of their employees and the suitable training offers.

### **Recommendations:**

- ✓ Consider (partial) subsidy of training provided by the company to meet employers' internal training needs, support guidance of young people at the workplace and meet the increasing tendency to provide internal training instead of training providers outside the company;
- ✓ Offer employer counselling some time after that start of the M1J measure (e.g. within the follow-up contact with Unemployment Insurance Fund) to remind employers of the opportunity to use the training cost subsidy, help employers to evaluate training needs and introduce training offers supported by the Unemployment Insurance Fund;
- ✓ Consider (and pilot) division of training responsibilities between employers and the Unemployment Insurance Fund – in this case Unemployment Insurance Fund would evaluate the training needs of youth considering the competitiveness of young people more widely (including general skills like digital or language skills) and provide the training opportunities while the employer would have to allow participation in training next to working with certain regularity or in an agreed amount of hours.

## **3. Relieve the conditions for employers to end employment relationship within the M1J measure**

According to the current conditions of the M1J measure, employers do not have to pay back the wage subsidy they have received in case the employment relationship is ended by the employee, upon agreement with the employee or by the employer due to breach of job duties. At the same time, if employers would end the employment relationship due to unsatisfactory results of the probationary period, they would have to pay back all the wage subsidies they have already received for the person. This is an important challenge for employers while they take a risk in hiring young people with little or no work experience for at least a year while not knowing whether they would be able to keep up to the tasks of the particular job.

**Recommendation:** in order to motivate employers to hire young people with little or no work experience, enable employers to end the employment relationship due to unsatisfactory results of the probationary period without any additional sanctions on employers (i.e. without the need to pay back the wage subsidy already received for the particular employee).

## **4. Combine M1J with additional activities that support achieving the aims of the measure**

M1J addresses only one aspect of the challenges faced by youth in entering employment by offering employers an additional motivation to hire young people and provide them their first job opportunity. At the same time, youth are a diverse group and the challenges in entry to employment can vary to a great extent. The evaluation offers some suggestions to support M1J measure. These activities are not necessarily part of the M1J measure package, although these can in combination with M1J provide additional support upon entry to employment to meet the needs of the target group.

**Recommendations:**

- ✓ Increase awareness of young people about the job search process and the rights and obligations that come with employment. Youth do not always know what to expect from the job search process and the challenges this included (e.g. not receiving any feedback on job applications, possible length of the job search process etc). Experience counselling within the job clubs or job search workshops for youth could support the self-awareness of youth in the job search process, increase their awareness of the possible set-backs in the process and maintain their self-confidence. This requires the inclusion of young people with some experience in job search to share their stories with other young people still at the beginning of the job search process. Young people also need information on the world of work, including practical knowledge on how to handle different situations while in employment (e.g. illness, possible personal issues etc), how to communicate with the employer, the rights and obligations of employees etc. In addition to the services of the Unemployment Insurance Fund, these topics should be covered in career studies provided in schools as well as in youth centres.
- ✓ Increase awareness of young people of the services and opportunities offered by Unemployment Insurance Fund for young people seeking a job. This information should be included in school career studies programmes and information offered in youth centres in addition to the events organised for youth by the Unemployment Insurance Fund themselves. Awareness of the measures offered by Unemployment Insurance Fund tends to remain low among young people which creates barriers in registering as unemployed. Young people need to overcome the biases attached to seeking help from Unemployment Insurance Fund.