



## **ABSTRACT WORKING PAPER 5.20**

### **Skill Mismatch, Education Systems, and Labour Markets in EU Neighborhood Policy Countries**

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According to models of endogenous growth, the skill levels of the workforce are an important driver of economic development. This paper investigates the ability of educational systems in the European Neighbourhood Policy (ENP) region to provide a skilled workforce that is well matched to the changing needs of the labour market. Different patterns of skill mismatch can be expected in transition countries and emerging market countries. We identify an inverted-U pattern of mismatch across education groups with especially severe mismatch among secondary educated, especially those who graduate from vocational schools where curricula are inappropriate to the labour market needs and funding for new equipment is relatively constrained. In the emerging market economies we find some evidence that a quite different pattern of mismatch is present, with the highest rate of mismatch among highly educated university graduates, especially male graduates. This is partly due to different patterns of structural change and partly associated with demographic factors. Countries with high population growth rates may experience over-supply of educated school leavers; countries with falling populations may experience under-supply of both skilled and unskilled workers. There is also evidence of gender-biased mismatch in the emerging market economies of the ENP region. Among the main challenges to the development of effective skill matching systems and corresponding policy design in transition countries and emerging economies in the ENP countries are weak capacities of government institutions including the employment services, underfunding of state provided training services, slow reforms of the education systems and low level of in-house training by employers. There are also significant information gaps in many of the ENP countries, while there is also a greater need for information due to market uncertainty; yet at the same time there is a lack of administrative capacity for skills analysis, forecasting and anticipation.