

**EVALUATION OF ACTIVE
LABOUR MARKET PROGRAMMES
BETWEEN 2001–2006
AND THE MAIN CHANGES IN 2007**

MÁRIA FREY

From January 1, 2007 the system of active labour market programmes has undergone fundamental change. Therefore it is justified to overview the experiences of the system between 2001–2006. The first part of the current paper summarizes the findings of a related study¹ and the second part presents the changes introduced in 2007.

1. THE IMPACT OF ACTIVE LABOUR MARKET PROGRAMMES (ALMPs), 2001–2006

This chapter presents an evaluation of the impact of active labour market programmes in the period between 2001–2006. It is based on existing information sources, official documents and statistical analyses.

It should be noted in advance that the active labour market programmes in this analysis include instruments defined by the Employment Act and administered by the county job centres (until the end of 2006), such as labour market training, wage subsidy, business start-up subsidies for the unemployed, public work etc. These were the dominant schemes to tackle unemployment in the nineties, however their relevance has been diminishing since 2000 when new labour market services and programmes were introduced that are better designed than these individual measures to help alleviate the complex problems of the long-term unemployed and inactive people. However, even the basic information is lacking to assess the impact of labour market services, and complex labour market programmes are so diverse that even if they were evaluated, general conclusions could not be drawn.

In addition to the Employment Act, other acts (on personal income tax, corporate and capital return tax, health care contribution) also grant reduced contributions and tax reliefs that are related to the employment and training of job seekers, disadvantaged people, and people with a disability. Linked to the Start Card, universal contribution reductions are also available from the Labour Market Fund as of November 2005.

Further, in the early 2000s the pre-accession funds of the European Union and later the European Social Fund became available. These funds support integrated employment programmes implemented by non-profit partnerships or the Public Employment Service. The large number of programmes helped

¹ Under the title “Impact analyses of active labour market schemes between 2001–2006.”, the study was elaborated in the Institute for Social Policy and Labour, in June 2007. The authors of the study were the researchers of the Institute: Dorottya Boda, Ilona Dögei, Mária Frey (project manager), Ilona Gere, Péter Mód and Péter Simon.

many disadvantaged people to return to the labour market, to an extent that the different organizations were almost competing for participants.

As a result an unmanageably large variety and often overlapping arrangements emerged over the recent years that aimed to prevent unemployment and help the return to the labour market. However, their information base did not develop to an extent that would allow a comprehensive evaluation of the impact of the full range of training and employment policies. For the time being evaluation is only possible in the case of individual ALMPs.

First of all, changes in active labour market spending will be addressed. Then the trends in the total and average number of beneficiaries will be presented, exploring the relationship between unemployment rates and participation in ALMPs by county. Finally, I will evaluate the most important active labour market programmes, namely labour market training, public work, wage subsidy, measures supporting young entrants and business start-up subsidies for the unemployed.

1.1. Trends in ALMPs spending

The Labour Market Fund (LMF) has been the source of funding for passive and active labour market policies since January 1, 1996. Its main, though, not only, source of revenue are the contributions paid by employers and employees. Its rate for employers has been set at 3 per cent of the gross wage paid to the employer since January 1, 1999. Employees pay 1.5 per cent of their gross wage since September 1, 2006 (previously it had been 1 per cent). The amount of money collected in this way substantially exceeds the amount paid out for benefits (low level subsidy for a limited number of unemployed people) and tightly controlled spending on ALMPs.

Table 1 gives an overview of unemployment-related spending broken down by main categories in the period of 2000–2006. Measures were categorized as “active” or “passive” based on their scope. Passive measures include both contribution-based benefits and allowances such as the income-replacement allowance that is currently being phased out or the regular social welfare allowance paid by local governments and financed from the LMF. Among the ALMPs community service work – organised by the municipalities for regular social assistance recipients – can also be found, as well as all other LMF-funded measures that serve to prevent unemployment or assist in the return to work.

Figures reveal that the labour market budget increased by nearly 50 per cent between 2000–2006, however its share in the GDP remained around one per cent – that is approximately half of the EU Member States’ average. The share of active measures, services and programmes within the labour market budget fluctuated: it was 28.4 per cent in 2000, 40.8 per cent in 2002, 33.7 per cent in 2004 and 38.9 per cent in 2006.

The labour market budget increased by nearly 50 per cent between 2000-2006

The share of the labour market budget in the GDP remained about one per cent

Table 1: Labour market budget and its use, 2000–2006 (thousand million Forints)^a

Categories	2000	2001	2002	2003	2004	2005	2006
A) Wage replacement benefits							
Unemployment benefit + SI + HCC	55.2	53.2	60.8	65.2	70.8	77.4	16.0
Job-search benefit	-	-	-	-	-	-	67.3
PRUA + SI + HCC	1.3	1.8	1.8	1.8	1.6	1.7	1.2
Pre-pension	4.6	1.0	-	-	-	-	-
Support promoting job search + SI + HCC	-	-	-	0.8	5.0	6.8	-
Administration and travel costs reimbursement	0.6	0.6	0.6	0.6	0.8	0.8	0.9
Total	61.7	56.6	63.2	68.4	78.2	86.7	85.5
B) Income-replacement allowance	18.9	8.5	1.4	0.2	0.1	-	-
C) Social welfare allowance paid by local governments	6.8	29.1	37.4	32.5	36.3	29.3	30.0
1. RSA	1.8	17.3	21.5	18.5	20.2	14.3	15.0
2. Community service work	3.8	10.5	14.6	13.0	15.1	14.0	14.0
3. Administration	1.2	1.3	1.3	1.0	1.0	1.0	1.0
D) Running costs and development of PES	12.2	14.8	17.6	21.8	21.8	21.7	22.5
E) Active measures	34.2	45.3	57.7	53.5	46.3	55.5	64.9
1. Employment Sub-Fund	31.6	41.9	54.1	48.9	42.9	46.8	49.2*
2. Ministry of Economy targeted scheme	2.6	3.4	3.6	-	-	-	-
3. Adult training	-	-	-	4.6	1.5	3.1	4.2
4. Public work, non-profit organisations	-	-	-	-	1.9	0.3	3.9
5. EU funding	-	-	-	-	-	4.6	5.9
6. Discounts and rebates on contributions	-	-	-	-	-	0.7	1.7
Total spending (A + B + C + D + E)	133.8	154.3	177.3	176.4	182.7	193.2	202.9
Share of GDP	1.02	1.01	1.03	0.9	0.9	0.9	0.9
Total Spending = 100 %; share of:							
Passive measures (A + B + C1 + C3)	62.5	54.2	49.3	49.9	54.4	52.8	50.0
PES	9.1	9.6	9.9	12.4	11.9	11.2	11.1
Active measures (C2 + E)	28.4	36.2	40.8	37.7	33.7	36.0	38.9
From the employment and training budget							
Centralised ES budget	3.9	7.0**	18.6**	10.6	8.4	10.1	10.8
Decentralised ES budget	27.7	34.9	35.5	38.3	34.5	36.7	38.4*
Total ES budget	31.6	41.9	54.1	48.9	42.9	46.8	49.2
Ministry of Economy job creation scheme	2.6	3.4	3.6	-	-	-	-
Adult training budget	-	-	-	4.6	1.5	3.1	4.2
Total	34.2	45.3	57.7	53.5	44.4	49.9	53.4
From ES budget							
Centralised budget (%)	12.3	16.7	34.4	21.7	19.6	21.6	22.0
Decentralised (%)	87.7	83.3	65.6	78.3	80.4	78.4	78.0

^a Forint (HUF) is the Hungarian currency, 1 Euro = 250 forints.

* 5,000 Forints million were used from the Employment Sub-Fund for the new funding arrangements of regional training centres in 2006.

** An ad hoc support was included among the active measures in 2001 and 2002 that compensated employers for the additional costs of the minimum wage increase. This amounted to 2,000 million Forints in 2001 and 15,000 million Forints in 2002. It was funded from the central budget of the Employment Sub-Fund.

Abbreviations: PES = Public Employment Service, ES = Employment Sub-Fund, PRUA = Pre-retirement Unemployment Allowance, HCC = Health-care Contribution, RSA = Regular Social Allowance for the Non-employed, SI = Social Insurance.

Source: Labour Market Fund Management Department, Ministry of Social Affairs and Labour.

The Employment Sub-Fund available directly for the employment offices decreased

It has already been pointed out that the number of labour-market interventions falling outside the scope of the Employment Act is increasing, and as a consequence the share of the Employment Sub-Fund within the broader active labour market measures is shrinking. It stood at 88.6 per cent in 2000, but it was only 79.8 per cent in 2006. The other clear trend is the increasing share of the central budget within the Employment Sub-Fund: 12.3 per cent in 2000 and 22 per cent in 2006. This centralisation was most marked in 2002 when 15,000 million Forints were spent on compensating the additional costs of employers in labour intensive sectors arising from the increase in the statutory minimum wage. Since 2003 a substantial share of the Employment Sub-Fund has been spent on job-creation schemes that were re-incorporated in the Employment Act.

1.2. Changes in the total and average number of participants in ALMPs

The total and average number of participants in ALMPs decreased significantly

Table 2 shows that on average 2.6 per cent of the economically active population benefited from different individual active labour market policies in 2001. In 2006 this figure was only 1.5 per cent. This leads to two conclusions. On the one hand, the unemployment rate would have been proportionately higher had jobless or redundant workers not received preventive or active support. On the other hand, the role of active policies in mitigating labour market tensions decreased in a period when unemployment started to grow. This aggravated tensions on the labour market instead of alleviating them by exerting an anti-cyclical effect on labour market processes.

Table 2: Unemployment rate, activation rate and the share of ALMP-participants within the economically active population

Year	Activation rate* (%)	Participation in ALMPs** (as % of economically active population)	Unemployment rate based on the number of registered unemployed*** (%)
2001	19.4	2.6	8.9
2002	20.0	2.1	8.4
2003	19.8	2.1	8.3
2004	16.7	1.8	8.7
2005	14.9	1.7	9.4
2006	13.8	1.5	10.0

* The number of beneficiaries of ALMPs divided by the sum of the same number and the number of registered unemployed.

** The number of beneficiaries of ALMPs divided by the number of economically active population as of the previous year January 1.

*** Unemployment rate based on official registration data in January of each year.

Source: Employment and Social Office, Labour Market Survey by the Central Statistical Office, Labour Force Indicators by the Central Statistical Office.

Therefore, statutory active labour market policies reached a diminishing share of actual or potential unemployed in the period studied. The so-called *activation rate*, that compares the number of participants in ALMPs with the sum increased by the number of registered unemployed, stood around 20 per cent in the early 2000s, then fell to *16.7 by 2004, 14.9 by 2005 and 13.8 per cent in 2006*.

The statutory active labour market policies reduced the number of unemployed persons to a falling extent year by year: in 2001 the average number of participants in ALMPs was nearly 105 thousand, this figure did not reach 63 thousand in 2006 which indicates a *40-per cent decline (Table 3)*.

Table 3: The average number and distribution of active measure beneficiaries, 2001–2006

Active labour market measures	2001	2002	2003	2004	2005	2006
Participants (persons)						
Labour market training	27,187	23,410	25,044	17,919	11,838	13,040
Public work	23,185	17,751	17,534	14,235	15,790	12,953
Wage subsidy	26,547	21,693	20,439	18,909	18,417	16,935
Job-creation schemes*	6,943	1,708	1,270	2,717	2,742	2,588
Support for business start-up	1,616	1,269	1,250	953	1,137	799
Contribution to commuting costs	3,483	3,294	3,088	2,112	1,836	1,448
Schemes for new entrants	7,094	6,827	7,686	7,908	8,086	7,884
Subsidy for self-employment	5,142	5,204	4,642	3,963	3,111	2,393
Job-protection schemes**	156	2,209	3,419	2,923	4,284	2,219
Contribution assumption	3,399	3,116	3,878	3,324	3,821	1,871
Support for intensive job-search	-	-	10	2	2	-
Subsidy for part-time employment	-	-	-	357	584	561
Total	104,752	86,481	88,260	75,233	71,648	62,691
Increase from previous year (previous year = 100)	101.0	82.6	102.1	85.3	95.1	87.5
Distribution (%)						
Labour market training	26.0	27.1	28.3	23.8	16.5	20.8
Public work	22.2	20.5	19.8	18.9	22.0	20.7
Wage subsidy	25.3	25.1	23.1	25.1	25.7	27.0
Job-creation schemes*	6.6	2.0	1.4	3.6	3.8	4.1
Support for business start-up	1.5	1.5	1.4	1.3	1.6	1.3
Contribution to commuting costs	3.3	3.5	3.5	2.8	2.6	2.3
Schemes for new entrants	6.8	7.9	8.7	10.5	11.3	12.6
Subsidy for self-employment	4.9	6.0	5.3	5.3	4.3	3.8
Job-protection schemes**	0.2	2.6	3.9	3.9	6.0	3.5
Contribution assumption	3.2	3.8	4.6	4.4	5.3	3.0
Support for intensive job-search	-	-	-	-	-	-
Subsidy for part-time employment	-	-	-	0.4	0.9	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

* The number of participants in job-creation schemes indicates the number of newly created and filled jobs (in accordance with relevant labour regulations) during the year.

** The scheme was re-designed in 2002. In the earlier version in 2001 participation was very low.

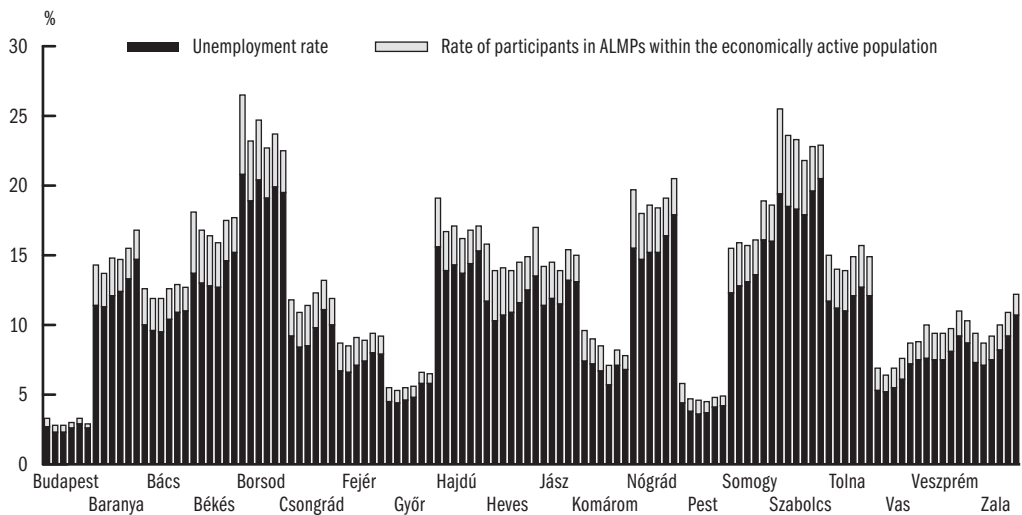
Source: Employment Office

1.3. The relationship between unemployment rates and participation in ALMPs at the level of counties

The share of participants in ALMPs within the economically active population is higher in counties with higher unemployment rates, and vice versa

Given that the main criteria in allocating the decentralised budget of the Employment Sub-Fund are unemployment and labour market indicators, it is expected that *the share of participants in ALMPs within the economically active population is higher in counties with higher unemployment rates, and vice versa* (Figure 1). In the period studied the unemployment rate in most counties showed a slight downward trend, which was followed by a decline in the relative share of active measure participants. However this trend also continued when unemployment started to increase, even though its opposite would have been necessary.

Figure 1: Number of ALMP-participants, rate of participants in ALMPs within the economically active population, 2001–2006



Unemployed people can participate in ALMPs for shorter and longer periods. Therefore, the real number of participants in a given measure is considerably higher than the yearly average. The total number of participants includes everybody who benefited from ALMPs for at least a day in a given period. *Table 4* presents information on this. This shows that *the total number of beneficiaries decreased by 30 per cent between 2001–2006*.

The total number of beneficiaries in ALMPs was three times the average number of participants in the observed period. The specific proportions were heavily influenced by the length of support. When resources started to shrink, counties responded by cutting down the length of time and amount of support.

Table 4: Total number* and distribution of participants in ALMPs, 2001–2006

Active labour market measures	2001	2002	2003	2004	2005	2006
Participants (persons)						
Labour market training	91,519	82,835	82,895	59,894	43,725	47,141
Public work	80,742	84,498	76,892	63,998	79,429	66,403
Wage subsidy	48,089	40,838	41,064	36,313	37,708	33,150
Job-creation schemes**	9,086	6,452	4,595	4,710	3,816	3,325
Support for business start-up	5,016	4,326	4,011	3,225	3,394	2,736
Contribution to commuting costs	9,356	9,774	7,495	5,517	5,015	3,910
Schemes for new entrants	16,758	16,108	17,551	17,527	18,206	17,976
Subsidy for self-employment	6,025	6,138	5,493	4,689	4,086	2,941
Job-protection schemes***	653	12,634	12,668	10,698	13,703	7,390
SI contributions assumption	9,702	10,008	11,883	10,092	10,753	6,552
Support for intensive job-search	-	100	109	64	64	-
Subsidy for part-time employment	-	-	-	791	1,285	1,253
Total	276,946	273,711	264,656	217,518	221,184	192,777
Increase from previous year (previous year = 100)	94.0	98.8	96.7	82.2	101.7	87.2
Distribution (%)						
Labour market training	33.0	30.2	31.3	27.5	19.8	24.5
Public work	29.1	30.8	29.1	29.4	35.9	34.5
Wage subsidy	17.4	14.9	15.5	16.7	17.0	17.2
Job-creation schemes**	3.3	2.4	1.7	2.2	1.7	1.7
Support for business start-up	1.8	1.6	1.5	1.5	1.5	1.4
Contribution to commuting costs	3.3	3.6	2.8	2.5	2.3	2.0
Schemes for new entrants	6.1	5.9	6.6	8.1	8.2	9.3
Subsidy for self-employment	2.3	2.4	2.1	2.2	1.8	1.5
Job-protection schemes***	0.2	4.6	4.8	4.9	6.2	3.8
SI contributions assumption	3.5	3.6	4.5	4.6	4.9	3.4
Support for intensive job-search	-	-	-	-	-	-
Subsidy for part-time employment	-	-	-	0.4	0.7	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

* The total number includes all those who participated in active policies at least for a day in the given period.

** The number of participants in job-creation schemes indicates the number of newly created and filled jobs (in accordance with relevant labour regulations) during the year.

*** The scheme was re-designed in 2002. In the earlier version in 2001 participation was very low.

Source: Employment Office.

Table 5 explores whether there is a *relationship between the unemployment rate and the relative importance of different ALMPs in the management of labour market tensions at the level of counties*. To this end I took the average figures from 2001–2006 and ranked the distribution of participants in ALMPs by county. Counties are also ranked by their unemployment rate in an increasing order.

Table 5: Relationship between distribution of participants in ALMPs and unemployment rate based on the number of registered unemployed, averages of 2001–2006 ranked according to unemployment rate in increasing order

County	Participants in						Unemployment rate
	Training	Public work	Wage subsidy*	Business start-up subsidy**	Young entrants' scheme	Other measures	
	as % of the total number of beneficiaries of ALMPs						
1. Budapest	39.9	34.5	<i>11.6</i>	<i>5.5</i>	<i>2.5</i>	6.0	2.6
2. Pest	30.5	46.2	<i>10.2</i>	4.3	2.3	6.5	4.0
3. Győr-Moson-Sopron	39.2	23.5	21.1	<i>7.5</i>	5.2	3.5	5.0
4. Vas	52.9	7.9	<i>10.6</i>	<i>8.7</i>	5.1	14.8	6.1
5. Komárom-Esztergom	34.8	29.5	18.5	5.6	10.1	1.5	6.8
6. Fejér	36.9	21.6	25.9	4.2	3.8	7.0	7.3
7. Veszprém	35.1	24.5	22.3	4.0	3.1	11.0	8.1
8. Zala	41.6	16.2	16.6	5.2	2.6	17.8	8.3
9. Csongrád	36.4	17.1	26.7	4.0	9.1	6.7	9.5
10. Bács-Kiskun	34.1	22.8	20.1	5.5	9.9	7.6	10.2
11. Heves	27.7	21.6	25.6	3.8	7.9	13.4	11.3
12. Tolna	24.7	19.3	25.9	5.1	11.3	13.7	11.8
13. Jász-Nagykun-Szolnok	29.7	27.5	16.7	3.7	8.8	13.6	12.4
14. Baranya	32.2	22.5	27.7	1.9	6.6	9.1	12.5
15. Békés	25.3	34.1	21.1	3.7	7.9	7.9	13.7
16. Somogy	24.0	34.9	17.3	3.4	4.3	16.1	14.0
17. Hajdú-Bihar	30.8	23.4	18.3	3.8	<i>11.7</i>	12.0	14.5
18. Nógrád	17.4	30.0	22.0	3.2	<i>10.3</i>	17.1	15.8
19. Szabolcs-Szatmár-Bereg	19.7	42.3	15.5	1.3	9.5	11.7	19.0
20. Borsod-Abaúj-Zemplén	14.4	45.2	18.0	1.7	7.7	13.0	19.8
Total	27.5	31.5	19.3	3.6	7.4	10.7	8.9

* Including contribution to the expenses of commuting.

** Including self-employment subsidy.

Source: Own calculation based on data from the Employment Office.

The table highlights the active labour market policies that were administered everywhere and during the whole period. The measures that have a minor impact on the labour market were grouped under the category “Other measures”. The two different business start-up schemes for unemployed people were merged and so were the wage subsidy and the contribution to the expenses of commuting because most counties paid these together in the period observed. It should also be mentioned that many counties spend increasing sums of money on complex labour market programmes. Their beneficiaries however do not appear separately in the statistics but under the beneficiaries of the statutory ALMPs.

In *Table 5* figures appear in italics if there is a *significant* – positive or negative – *correlation between unemployment and the distribution of beneficiaries in ALMPs*.

What conclusions can be drawn from the data?

– *Training* is provided most in counties with a relatively favourable labour market situation (Vas County, Budapest, Győr-Moson-Sopron). It is considerably less prominent in counties where there is less demand for labour (Somogy, Nógrád, Szabolcs, Borsod-Abaúj-Zemplén) – acknowledging and understanding that training does not guarantee success in finding a job.

– *Public work* is intended to be a “last resort” in areas and for people who cannot find employment on the jobs market. This is partly supported by the examples of Somogy, Szabolcs-Szatmár-Bereg and Borsod-Abaúj-Zemplén counties; although its opposite is also true in Vas and Zala counties. However, it is difficult to explain why the percentage of participants in public work is highest in Pest County which has the second lowest unemployment rate. Furthermore, the above-average share of participants in Budapest is also somewhat puzzling.

– It has been mentioned that *wage subsidy and contribution to commuting expenses* were merged because these were awarded together by job centres during most of the observed period. These measures are typically most used by counties that rank in the middle by unemployment rate (Baranya, Csongrád, Heves, Tolna, and Fejér). It also stands out that the share of people receiving wage subsidy is lowest in Budapest, Pest and Vas counties. In Vas County apparently training receives priority; however in Budapest and Pest this measure could replace public work.

– *Business start-up schemes* can generally be seen as rather marginal, however their share in the total is closely correlated with the labour market situation. The low proportion of jobless persons in a county might be a sign of a prosperous local economy and a healthy demand that gives a chance to a small number of unemployed persons to become independent and create their own jobs. Counties with the lowest unemployment rates – Vas, Győr-Moson-Sopron and Komárom-Esztergom – and Budapest spent an above-average amount on this measure. On the contrary, in Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg counties there was hardly any uptake. This suggests that the majority of unemployed people did not consider that this measure provided adequate support for starting an own business.

– As regards programmes for young entrants, it is suggested that most young people could find a job without subsidy in counties with a better labour market situation (such as Budapest and Pest). However young entrants’ schemes made up a considerable share of active policies in counties such as Szabolcs, Hajdú-Bihar and Nógrád where unemployment was higher.

Table 6 shows a significant correlation with unemployment rate. Support for young entrants and other measures increase when unemployment rate increases (positive correlation), training and business start-up subsidies decrease when unemployment grows (negative correlation). There is a positive

correlation between training and business start-up subsidies; there is a negative relationship between training and public work, training and support for young entrants, and business start-up subsidies and public work.

Table 6: Unemployment rate significant correlations

	Training	Public work	Wage subsidy	Business start-up	Young entrants	Other	Unemployment rate	Mean	Std. deviation
Training	1							31.37	9.07
Public work	-0.673**	1						27.23	9.96
Wage subsidy	-0.209	-0.312	1					16.90	4.28
Business start-up subsidy	0.794**	-0.570**	-0.214	1				4.31	1.79
Support for young entrants	-0.459*	-0.064	0.377	-0.241	1			6.99	3.14
Other measures	-0.276	-0.246	-0.013	-0.311	0.092	1		13.26	5.27
Unemployment rate	-0.808**	0.331	0.171	-0.749**	0.588**	0.531*	1	10.64	4.73

**Significant at 0.01 level, * significant at 0.05 level.

In conclusion: counties with persistently high unemployment between 2001–2006 put most emphasis on public work and the support of young entrants among the active labour market policies. Business start-up schemes were not very popular, nor realistic. Counties were wary of enrolling people in training programmes without the later prospect of finding a job. This leads to disappointment at the individual level and a waste of public money at the societal level. At the other extreme are counties with a vibrant jobs market, relatively high employment and low unemployment rates. These counties gave a prominent role to labour market training to ensure adequate supply for the changing demands of the jobs market. Young entrants with good qualifications could find jobs without any support. The employment of disadvantaged young entrants and adults was supported by wage subsidies paid to their employers. The share of unemployed people who received support to start their own business was above the average. Public work was by-and-large limited to those who could not find any other employment.

1.4. Evaluation of main active labour market schemes

Four measures had a central role in preventing and mitigating unemployment: *labour market training, public work, wage subsidy and schemes supporting the employment of young entrants.*

1.4.1. Labour market training

If there is adequate labour-demand, this is one of the most important active labour market measures able to improve the employability of unemployed persons and increase their chances of finding a job. However, in the absence of demand for labour, training might become futile. This diminishes efficiency and nor is it advantageous from the perspective of the individual.

The average number of participants in labour market training halved (decreased from 27,000 to 13,000), and the total number reduced (from 91,000 to 47,000) in 2001–2006. Nevertheless, according to the average number of participants this was the active measure that reached the most unemployed people – with the exception of the year 2005.

As regards the selection of participants, it emerges that *mostly those were involved in training who were likely to succeed based on their previous education and who had good chances of finding a job after the completion of the course.* Nevertheless the share of those who required enhanced efforts and resource input (both by themselves and their instructors) to improve in terms of employability was fairly high, especially in the recommended training courses. It should also be kept in mind that besides the decentralised Employment Sub-Fund budget, other sources also supported training programmes.²

According to *Table 7 job finding rates of unemployed persons leaving training programmes did not reach 50 per cent* in any of the years between 2001–2005. Training organised for workers proved to be the most effective: on average 9 out of 10 participants succeeded in staying in their job. However this type of training concerned only one tenth of the beneficiaries of training.

Table 7: Job finding rates after completing labour market training*

Year	Recommended training	Approved training	Total training for unemployed persons	Training for workers
2001	45.4	49.3	47.0	94.2
2002	43.3	45.8	44.4	92.7
2003	43.0	46.0	44.4	93.3
2004	45.5	45.6	45.5	92.1
2005	43.8	51.4	46.2	90.4

* The proportion of those in employment in the third month after completing training. Source: Monitoring data by the Employment and Social Office.

Table 8: Proportion of training-related jobs in total jobs

Form of training	2001	2002	2003	2004	2005
Recommended	82.2	80.7	79.9	80.2	78.4
Approved	86.5	84.6	82.0	81.9	81.3
Training of workers	98.3	96.8	98.4	99.0	99.6

Source: Monitoring data by the Employment and Social Office.

A decreasing proportion (recently around 80 per cent) of unemployed people taking up employment after labour market training could use the new knowledge and skills in the job. The rate is similar for both recommended and approved training programmes. It can be seen as clearly negative that one fifth of the beneficiaries of these programmes financed by the decentralised labour market budgets found jobs where the new knowledge and skills were not necessary. This suggests that a fairly large number of people who probably

² For example Programmes 1.1 and “Take a step forward!” in the Human Resources Development Programme. The second had 14,000 participants, half of them jobless persons with only primary education, in the 15 months between January 2006 and March 2007.

would be able to find a job anyway because they have marketable knowledge, also take part in labour market training.

1.4.2. Public work

Public work has been the most extensively used active labour market measure with the highest spending. It involved nearly *81,000 people in 2001 which reduced to 66,000 by 2006*. However it still constituted more than one third (34 per cent) of the (total) number of participants in ALMPs.

From the perspective of tackling long-term unemployment, public work has the positive effect of providing regular employment – even if it is only for a limited period – for those who otherwise had no chance of finding jobs on the open market. On the negative side however, public work requires very significant funding each year but hardly has any lasting impact in helping participants to find regular, non-subsidised jobs. At the end of public work programmes only a very small proportion, 1–1.5 per cent of workers stay with the same employer without any subsidy.³ Another factor that prevents the continued employment of public workers is that this measure is largely *trapped by local interests and conflicts*.

As a result of low educational attainment, most people in public work programmes perform tasks related to community infrastructure that require low qualifications. Initially, employers offered only manual jobs in maintenance and provision of community services that required a low education level or none at all.

However, with time the proportion of those employed in jobs that demand higher skills increased, for example in social and health care, education, auxiliary activities in school and preservation of the cultural heritage. The amendment of Employment Act as of February 1, 2000 also contributed to the broadening of activities. In order to increase the number of participants involved by local governments the amendment expanded the scope of activities eligible for support in public work programmes to include not only core services but also *optional council services*. Nevertheless the majority (77–80 per cent) still worked on the maintenance of community infrastructure in the period observed. Structures became rigid in the case of other activities as well (*Table 9*).

Besides job-finding rates, a *cost-benefit assessment* was also carried out to evaluate public work (*Table 10*). Our starting point was that when a *jobless person on unemployment-related benefits* enters a public work programme and stops receiving the benefit that constitutes a saving and the contributions and taxes paid on the income constitute revenue. Calculations indicate that when public work replaces an average benefit, the gains from terminating unemployment cover 72.3 % of its cost. In the case of minimum benefit, this ratio is two thirds.

³ This figure only shows the proportion of those who move into non-supported jobs with the same employer.

Table 9: The distribution of public workers according to types of activities and rate of continued employment (%)

Type of activity	2001	2002	2003	2004	2005	2006
Community infrastructure	77.7	77.6	78.9	77.3	80.4	76.6
Health and social care	7.1	6.9	6.9	7.6	6.1	7.2
Culture and education	4.4	4.6	4.3	4.7	4.1	5.3
Other	10.8	10.9	9.9	10.4	9.4	10.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
Continued employment	1.5	1.8	1.4	1.3	0.9	1.1

Source: Employment and Social Office.

Table 10: Comparison of monthly expenditure on public work and unemployment in 2006

Expense categories	Forint/person/month	
1. Expenditure of public work		
Wage	62,500	
Social Insurance contribution (29 %)	18,125	
Fixed-sum health-care contribution	1,950	
Employer's contribution (3 %)	1,875	
Overheads	10,000	
Total	94,450	
	Average benefit	Minimum benefit
2. Savings from public work		
Job-search benefit	43,500	37,500
Social Insurance contribution (29 %)	12,615	10,875
Health-care contribution	1,875	1,875
Total	57,990	50,250
3. Additional revenue from public work		
29 % of the difference between the wage and the benefit	5,510	6,960
The difference between the 12.5 % SI contribution paid by employees on their wage and the 8.5 % SI contribution on job-search benefit.	4,115	4,625
1 % employee contribution on wage	625	625
Total	10,250	12,210
4. Total saving and additional revenue	68,240	62,460
5. Amount compared to total cost of public work (%)	72.3	66.0

There are further quantifiable and non-quantifiable gains in addition to the above. The first includes the value created by public work and the increased purchasing power of the higher income and its impact on job creation. Among the non-quantifiable gains psychological factors can be mentioned, such as reducing the feeling of uselessness, exclusion, uncertainty, and the avoiding of possible deviant behaviours.

If conditions are similar to the above example, it can be argued that the saving on the cost of unemployment is more than enough to cover the cost of public work. However, the problem is that it is less than a quarter of the

participants in public work programmes who give up their job-search benefit for public work. For all the others, who received social assistance or nothing before entering in public work, the saving mentioned has not been realised, or was a lot more limited.

1.4.3. Wage subsidy

Based on the number of beneficiaries wage subsidy was the third most important active labour market measure. It helped 48,000 people in 2001 and 33,000 people in 2006 to find work. The share of beneficiaries within the total number of participants in ALMPs was between 15–17 per cent. Nevertheless as regards the average number of participants, wage subsidy has had the largest share of beneficiaries with over 25 per cent since 2004.

Table 11: Participants in wage subsidy schemes

Indicator	2001	2002	2003	2004	2005
Number of people completing the programme, persons	16,470	17,711	19,196	17,612	15,539
Response ratio	75.0	76.6	75.4	75.4	75.5
In employment at follow-up, %	59.7	62.9	62.0	64.6	62.6

Source: Monitoring data of the Employment and Social Office.

According to follow-up studies *60–65 per cent of people from wage subsidy schemes are employed by the same employer 3 months following the end of the required employment period.*⁴ The rate of people who are awarded a permanent contract markedly decreased from the 70 per cent observed in the mid-1990s. This is explained by changes in the composition of beneficiaries; a move towards more difficult-to-place unemployed people who were increasingly the explicit target group of these programmes.

The follow-up studies explored the views of employers on whether the subsidy administered by the county job centres had helped them to pursue their objectives (*Table 12*).

Table 12: Employers' view on the role of wage subsidy (%)

Without the subsidy:	2001	2002	2002	2004	2005
- would have also hired the unemployed person	24.2	19.4	20.3	20.2	19.5
- would have hired fewer unemployed persons	13.1	12.6	9.4	9.1	9.4
- would have postponed hiring	39.7	41.7	42.5	43.8	41.9
- would have not hired anybody	23.0	26.2	27.7	26.9	29.2

Source: Monitoring data of the Employment and Social Office.

⁴ Employers can only report on people who still work for them at follow-up. However, it is quite likely that some people who leave wage subsidy programmes find jobs with other employers.

20–25 per cent of employers responded that they would have hired new workers even in the absence of a wage subsidy. This is the so-called deadweight loss that reduces the total net benefit of the scheme. Fortunately however, the share of the employers who did not really need the subsidy within the total

take-up has been declining over time. A more careful selection of beneficiaries might help to avoid this practice that takes away much needed resources from others.

Besides its clear benefits and outcomes, the main problem with wage subsidy was that most employers picked the best and most willing people from among the long-term unemployed, often with the silent approval of the job centres. They also used subsidy to employ these people while the more disadvantaged unemployed remained on the register – and their relative disadvantages increased even further.

1.4.4. Young entrants' schemes

Young entrants' schemes had a fairly stable average number of participants that increased from 7 to 8 thousand. This made up 6.8 per cent of the total average participation in 2001, and increased to 12.6 per cent in 2006. This increase was largely the result of a decline in the total number of participants in ALMPs.

From the two schemes, *the work experience scheme clearly seems more successful (Table 13). The employment subsidy scheme had a very low uptake* because its amount was not proportionate to the requirements and administrative burden. Further, the number of businesses that can afford to employ their apprentices is very low and also not many businesses are willing to give apprentice contracts to their apprentices. (Although it would be important!)

Table 13: Results of follow-up evaluations of young entrants' schemes

Year	Work experience scheme		Employment subsidy	
	Number of people completing the programme	In employment at follow-up (%)	Number of people completing the programme	In employment at follow-up (%)
2001	5,752	64.5	369	71.6
2002	6,516	67.0	128	78.4
2003	5,779	66.1	231	78.2
2004	6,860	66.5	179	71.5
2005	6,317	66.8	173	70.9

Source: Employment and Social Office.

In the work experience scheme two *thirds of young entrants were still in the job* three months after the end of the required employment period. The same rate in the other scheme *among young apprentices was over 70 per cent.*

1.4.5. Business start-up subsidy

Only 1.3–1.6 per cent of the average number of participants in ALMPs applied for and received support for setting up a business. This meant approximately 1,600 persons in 2001 but that halved by 2006. The total number of benefi-

Young
entrants'
schemes

Business
start-up
subsidy

ciaries was similarly low. The business survival rate at 3 months after the end of the subsidy was distinctly high, around 90 per cent (*Table 14*).⁵

Table 14: Indicators of business start-up schemes

Category	2001	2002	2003	2004	2005
Number of people completing the programme, thousand	3.4	3.1	2.9	2.4	2.3
Response rate	68.2	68.6	68.2	67.4	67.8
Business survival rate at follow-up	89.2	90.7	89.6	90.7	89.5
Number of employees per operating business at follow up	0.3	0.2	0.3	0.3	0.3

Source: Employment and Social Office.

Nearly half of the entrepreneurs said they would have postponed setting-up a business in the absence of the subsidy, and this share has consistently increased. This suggests that the main impact of the subsidy was that it brought forward the decision to start a business. Moreover, *more than a quarter of the entrepreneurs saw no other possibility other than this subsidy to get out of unemployment*. The combined share of these two groups of over 75 per cent in the total number of participants is not at all a bad result. Nevertheless, a quarter of the beneficiaries would have started a business even in the absence of support from the employment service. Considering the amount of subsidy and the possible alternatives this was not a considerable deadweight loss.

Another finding of the evaluation shows that the support for business start-up is only enough for the self-employment of unemployed persons. The majority of businesses have no employees, indeed the average number of employees was 0.2–0.3 in the period observed.

The average and total number of people in self-employment schemes also fell significantly in the period studied; the first from 5,100 to 2,400, the second from 6 to under 3 thousand. There is no further information on the composition of beneficiaries, characteristics of businesses and the impact of the policy.

1.5. Other labour market measures

Some measures completely lack information other than the number of participants and total spending. Their labour market impact has not been studied before.

The reimbursement of employment-related contributions was introduced in 1997 to encourage employers to hire people on income-replacement allowance. When the income-replacement allowance was phased out in 2000, the scope of the measure was extended to all unemployed persons. Originally the subsidy included full or partial reimbursement of health-care, pension, and unemployment contributions, and later the fixed-sum health care contribution. The take-up of this measure was not high, however it had an important role because the requirements were not as strict as in the case of wage subsidy

⁵ However, the short time period is probably not adequate to give a valid feedback on business survival rates.

(for example no continued employment was required). Therefore it could be used for shorter, seasonal employment. This encouraged businesses – especially in agriculture – to regularise short term employment.

The number of people who benefited from the reimbursement of contributions was over 10,000 until 2005. This represented around 5 per cent of the total number of participants in ALMPs. In 2006 the total and average number of participants nearly halved because the measure was replaced by a new, universal contribution reduction scheme administered by the Tax and Financial Control Administration Office. The shortcoming of this is that it does not give priority to disadvantaged people and thus might also increase regional labour market disparities because businesses in better-off regions might take up this universal subsidy for contributions disproportionately and there are no mechanisms to prevent this.

The subsidy for part-time employment was introduced on January 1, 2003 for businesses that hired a new worker who:

- had been unemployed for at least three months;
- received carer's allowance;
- or had at least one child aged under 14 years in their household.

This subsidy partly overlapped with the wage subsidy in terms of its scope and requirements. Its take-up was marginal due to a lack of interest from employers. Neither them, nor the workers seemed to recognise the potential benefits of part-time work.

The aim of mobility subsidies is to compensate the cost of commuting to work and thus reduce territorial disparities on the labour market and strengthen the opportunities of people living in small settlements in the competition for jobs. The travel allowance compensates for the justified and reasonable travel expenses on public transport of job seekers and young entrants arising in relation to job search. The allowance covers – fully or partly – the statutory share of commuting expenses of employers and employees for up to 1 year in the case of hiring new workers who have been unemployed for at least six months (three months in the case of young entrants). Subsidy can be given for shared transportation as well, if the total time spent on commuting by the individuals would exceed 2 hours per day.

Employers typically use the commuting allowance together with wage subsidies, especially where they cannot recruit locals. The share of the average and total number of beneficiaries of this scheme within the total is minimal: it was 3 per cent in 2001 shrinking to 2 per cent in 2006.

The decentralised budget of the Labour Market Fund did not give *aid for job creation*. Job creation aid was financed by the central budget and awarded by the Governing Board of the Labour Market Fund.

Aid could also be granted to employers by job centres in order to avoid redundancy and *retain workers*. It was non-repayable and covered up to 25–75

per cent of the wage and contributions of employees threatened by redundancy for up to 1 year. The employer was obligated to keep the worker after the subsidised period for at least the length of that period.

Experience suggests that it was very difficult to judge whether management and liquidity problems were real. Any applicant with adequate experience could create the impression of temporary financial difficulties that would lead to the redundancy of workers without the aid. Further, decisions were also influenced by lobbyists, and subjective and superficial factors. Certainly it looks good in the statistics that with fairly limited sums (and often reduced compared to the original claim) dozens or hundreds of redundancies could be prevented and jobs “saved”. In reality, in most cases this would also have happened without the subsidy. Or also quite frequently despite the subsidy businesses went bankrupt and all jobs were lost.

2. CHANGES IN LABOUR MARKET POLICIES AND INSTITUTIONS AFTER 2007

The most far reaching change in 2007 was the reform of the system of employment promotion. The organisational structure of Public Employment Service also changed: the tasks of the Budapest and county job centres were transferred to the new regional job centres. Also a new rehabilitation system was introduced. The National Institute for Rehabilitation and Social Assessment was established to carry out the comprehensive rehabilitation procedure. The section below gives an overview of these changes.

2.1. Reform of the system of employment promotion⁶

Employment subsidies and the rules of other active labour market schemes had to be reviewed and amended in order to:

- ensure further harmonisation with Community legislation,
- improve transparency of the system,
- eliminate overlapping subsidies, and
- enhance the efficiency of employment promotion.

The following subsidies were changed or amended:

- reimbursement/discount on wage and SI-contributions (wage subsidy),
- business start-up schemes,
- labour-market training,
- labour market programmes, and
- subsidy for job creation.

2.1.1. *Wage subsidy*

Prior to January 1, 2007 employers could receive different discount rates on wage and SI-contributions for a variety of target groups. This is the measure

⁶ The Parliament adopted Act CXIII of 2006 on the amendment of Act IV of 1991 on the Promotion of Employment and Provision for Unemployment on December 11, 2006. The new act entered into force on January 1, 2007. The amendment mainly concerned the conditions of employment subsidies. Also Ministry of Labour regulation 6/1996 (VII. 16.) on employment subsidies and crises measures from the Labour Market Fund had to be brought into line with the act. Its amendment took place on February 17, 2007.

that underwent most fundamental changes. Previous subsidies were either merged into the new scheme, or abolished.

The aim of wage subsidy is to support the employment of disadvantaged persons. Commission regulation (EC) No 2204/2002/EC defines the concept of disadvantaged worker and the categories of disadvantaged workers. Employers⁷ hiring disadvantaged workers from any of the categories defined in the community regulation are eligible for employment support.

According to the regulation, a disadvantaged jobseeker⁸ is any person who

- has not attained an upper secondary educational qualification or its equivalent, or
- is older than 50 years when taking up employment, or
- is a young entrant under the age of 25 years, or
- has a disability,⁹ or
- has been registered as unemployed with the PES for 12 of the previous 16 months, or six of the previous eight months in the case of persons under 25, or
- is a lone parent looking after a child or children under the age of 18, or
- has been receiving maternity, child-care related or carer's benefits within the previous 12 months, or
- has spent time in a penal institution within the previous 12 months.

Employers can also be awarded aid *if they commit themselves to keeping a disadvantaged person (worker) who is threatened by redundancy*, namely a person who:

- becomes redundant for reasons within the normal scope of business activities of the employer, or whose fixed-term work contract expires within 90 days, and
- is older than 50 years when the new employment term starts, or
- has not attained upper secondary education, and
- the parties do not sign a work contract within 60 days from the end of the previous contract.

Employers can be awarded a wage subsidy to support the employment of disadvantaged workers if the following conditions are fulfilled:

- the employment of the disadvantaged worker receiving subsidy shall be maintained for at least 12 months (employment obligation), and
- similar posts have not fallen vacant as a result of redundancy within the previous six months, and
- the post shall not become vacant as a result of the mutual agreement of the employer and the employee (i.e. voluntary departure etc).

*Employers can be awarded a wage subsidy of up to 50 per cent of total wage costs for disadvantaged workers or 60 per cent for disabled workers for a period of 12 months following recruitment.*¹⁰

New regulation of wage subsidy

⁷ Employer: as defined in Paragraph 58, section (5), point c) of the Employment Act.

⁸ According to Paragraph 58, section (5), point d) of the Employment Act.

⁹ Point e) of Government regulation 177/2005. (IX. 2.)

¹⁰ According to point b) of Article 5 (3) of Commission regulation (EC) No. 2204/2002 workers must be entitled to continuous employment for a minimum of 12 months, which is most likely if subsidy is received for the whole of this period. The regulation can be interpreted that workers are entitled to 12 month subsidised employment.

11 Support for the employment of disadvantaged workers can be awarded according to the provisions of Commission Regulation (EC) No 2204/2002 of 12 December 2002. Thus support should be awarded taking into account the rules on the cumulation of aid in articles 8(4) and 9(2).

12 The abolition of the work experience scheme was justified by the availability of other schemes such as wage subsidies and the universal eligibility for a discount on contributions within the Start Programme introduced in 2005 efficiently promotes the recruitment of young entrants.

13 Employment support for temporary agency work was made available by 31/2004. (XII. 21.) MoEL regulation. Due to the lack of interest (there were no applications in 2005) it was not justified to keep the scheme. The labour market reintegration of disadvantaged groups can be adequately promoted by other employment aid schemes as well.

14 According to Commission Regulation No 69/2001 of 12 January 2001 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid, the total *de minimis* aid granted to any one enterprise shall not exceed 100,000 Euros over any period of three years. *De minimis* aid shall not be granted to the transport sector and to the activities linked to the production, processing or marketing of agriculture and fisheries products, to activities directly linked to export and activities contingent upon the use of domestic over imported goods.

According to the rules on the cumulation of subsidy,¹¹ *the ceiling of the wage subsidy* – combined with subsidies from any other community or national sources – cannot exceed:

- 100 per cent of the total wage cost of workers in any given period (i.e. month, year etc.), and
- the equivalent of 5 million Euros in any 3-year-period.

After the introduction of the new wage subsidy scheme as of January 1, 2007, the following schemes were:

- a) merged into the new scheme
 - employment promotion including:
 - the higher rate of wage subsidy for workers older than 45 years,
 - reimbursement of contributions, including the higher rates for:
 - jobseekers aged over 50 years, and
 - people leaving prison or on probation,
 - support for part-time employment,
 - assumption of wage costs for vocational rehabilitation, and
 - work experience schemes for young entrants.
- b) abolished
 - employment promotion scheme for young entrants,¹²
 - employment promotion scheme for temporary agency work,¹³
- c) support to avoid redundancy can be granted in accordance with *de minimis* rules.¹⁴

The merger, simplification and flexibilisation of different wage subsidy schemes have been an important step towards modernisation; the creation of a simpler and more transparent system of employment promotion. The previous system had already become excessively complicated as a result of a series of amendments.

- On the positive side it can be highlighted that *the concept of disadvantaged person was given a precise definition, in line with previous practice.*
- The harmonisation of aid intensity is good for transparency. However its shortcoming is that it cannot *take into account the conditions of local labour markets.* The undifferentiated system in a country where there are large territorial disparities in employment and job markets is definitely not for the best.
- Setting the period of support at 12 months has taken away the administrative discretion of the local branches of the PES. This limits their freedom in deciding about the allocation of the decentralised budget on ALMPs, and as a result reduces the efficiency of labour market interventions.
- *The same criticism can be put forward regarding the harmonisation of aid intensity.*

Due to the altered conditions, *the relative cost/person of wage subsidy has increased considerably, and the measure has become very expensive.* The

same amount of funding supports considerably less disadvantaged persons (around 33–50 per cent) in finding employment. Moreover, the abolition of the employment obligation following the subsidised period erodes the guarantees of the scheme. Job centres have an increased responsibility in putting ALMPs in place that support the aims of the wage subsidy scheme and support long term employment.

2.1.2. *Employment subsidies in complex labour market programmes*

Labour market programmes provide targeted assistance to different groups of disadvantaged persons to enter the labour market and find a job. Programmes combine employment services and employment promotion (programme components) within a given period. Programme components can only include services and subsidy schemes that are regulated by the Employment Act or its implementing regulations.

From January 1, 2007 a new active measure was introduced: the wage cost subsidy. This can be used exclusively in complex labour market programmes, and it provides a sum of up to 100 per cent of the total wage costs for up to three years.

Considering that the successful implementation of complex programmes requires adequate management capacities, in the new measure *management and staff costs are also eligible* in addition to costs related to the target group. If the recipient of the subsidy is an enterprise, *de minimis rules apply*.

The other new element of the scheme is the support for job creation in complex labour market programmes. This scheme can be awarded:

- not only for businesses but *to any employer*;
- for purchase of equipment and building costs.

The wage cost subsidy is awarded by *the authority responsible for the given complex labour market programme* (i.e. minister, director of job centre.)

2.1.3. *Subsidies for business start-up*

Prior to January 1, 2007 business start-up was supported by two schemes: the business start-up scheme for unemployed persons and the self-employment scheme for unemployed persons. The first scheme supported persons who were eligible for job search benefit, except for disabled persons who were eligible regardless of their status. The scheme, in addition to a monthly sum equal to the amount of job search benefit, provided a contribution to the cost of entrepreneurship training, consultancy, mortgage and credit repayment insurance. The second scheme provided an interest-free loan of up to 3 million Forints to support self-employment.

The aim of the scheme is to promote entrepreneurship and skills, and to encourage unemployed people to set up their own business. To this end, as of

Wage cost
subsidy

Complex support for job-seekers to become entrepreneurs

2007 the two previous measures were merged into a new scheme with slightly altered conditions. The new scheme provides:

- up to 3 million Forints interest-free *loan or non-repayable grant*, and
- a monthly allowance of up to the minimum wage for a period of no longer than six months, regardless of eligibility for job search benefit.

The beneficiary of the scheme is the individual job seeker and therefore it is not considered state aid.¹⁵ Persons are eligible for the business start-up subsidy if they have been registered with the Public Employment Service as unemployed for at least 3 months. The recipients shall either become self-employed, set up a business or be a self-employed farmer.

The two components can be awarded separately or together. To be eligible for the interest-free loan the beneficiary job seeker must provide at least 20 per cent of their own contribution to the total cost of capital investment and adequate collateral (e.g. assets, real estate, bank guarantee) for the repayment of the loan.

2.1.4. Labour market training

To encourage participation in training *the amount of the income-replacement benefit has been raised from 60 to 100 per cent of the minimum wage*. To be eligible for the income-replacement benefit a person has to participate in an (intensive) training programme of at least 20 hours/week, offered or approved by the job centre.

Training is important not only for job seekers but also for *those who are in employment in order to update their knowledge and skills in order to remain competitive on the labour market*. To this end training organised by employers remains eligible for subsidy, however *de minimis* rules should be applied.

The following schemes were merged into the new training scheme:

- universal training scheme of young job seekers,
- training allowance of disabled job seekers, and
- entrepreneurship training.

Raising the amount of income-replacement benefit to the level of the statutory minimum wage from January 1, 2007 meant that its share increased from one-third to 50 per cent within the total training cost. Increased cost means that less people can receive training from the decentralised employment funds (EF). Nonetheless, at the same time other (mainly EU-) sources have become available to finance training. The problem with these is:

- different eligibility conditions and rules apply in the different schemes (different rates),
- they are “over-regulated”,
- they have complicated reporting procedures,

¹⁵ The following schemes were discontinued

– subsidy for self-employment, and

– the business start-up subsidy for disabled jobseekers with more favourable conditions was merged into the general business start-up scheme, and

– entrepreneurship training was merged into the general employment-related training scheme.

The contribution the cost of credit repayment insurance was also abolished.

- they make the total funding available for training difficult to estimate in advance,
- there is a poor IT background (important data lacking or non accessible in the system),
- the professional requirements change frequently, including the National Training Register, however new requirements are not disseminated widely,
- the lack of central guidance on new, challenging issues (such as institutional and training accreditation, public procurement).

Another problem is that according to the new rules to be eligible for income support a person must *participate in theoretical, or theoretical and practical training of at least 20 hours per week (intensive training)*. It is very difficult to comply with this requirement, and the 20 hours should be defined on the basis of the average weekly hours instead of the actual weekly hours. It is also difficult to implement the proviso only people in intensive training are eligible for training allowance.

2.1.5. Support for job creation

Previously aid schemes for job creation included loans or non-repayable grants for

- a) businesses creating new jobs as part of
 - regional investment and
 - employment subsidy, and
- b) supporting the employment of people with disabilities by
 - reasonable accommodation in the workplace and
 - employment rehabilitation.

In accordance with community legislation aid for job creation can be granted in two main forms after January 1, 2007:

a) *as regional support* (according to Commission Regulation [EC] No. 1628/2006) separately or together for any of the following: cost of investment in material and non-material assets, and wage costs of the jobs directly created by the investment project, or

b) *as employment support* (according to Commission Regulation [EC] No. 2204/2002) for wage costs of the jobs directly created by the investment project.

Workers recruited to fill the jobs directly created by the investment:

- a) can be any category if the support is regional support;
- b) must be disadvantaged workers (i.e. young entrant, job seeker, redundant workers etc.) if the support is employment support.

In regional investment projects:

- a) if support is provided for material and immaterial assets
 - they must remain in the assets of the firm for at least 5 years or in the case of small- and medium-sized enterprises (SMEs) for 3 years, and

Two forms of the support for job-creation

– if wage costs are not claimed, the Community rules do not require the maintenance of newly created jobs, however, according to the Hungarian rules, jobs must be maintained for at least 3 years or in the case of SMEs for 2 years.

b) if support is provided for wage costs, newly created jobs must be maintained for at least 5 years or in the case of SMEs for 3 years.

New jobs directly created by investment projects with *employment support* must be maintained for at least 3 years, or in the case of SMEs for 2 years.

The two schemes cannot be accumulated; one investment project can receive funding from only one of the schemes. Funding is allocated on the basis of an open call for projects or in the case of so-called large investment projects, *funding is awarded by the Government on a case-by-case basis and after the submission of an application.*

2.2. Regionalisation of the public employment service

From January 1, 2007 the Public Employment Service has had a new organisational structure.¹⁶ On the one hand, the competences of the middle-management organisation, the Employment Office, were expanded to include certain social tasks. At the same time its name was changed to Employment and Social Office. On the other hand the responsibilities of the Budapest and county job centres were transferred to seven regional job centres.

2.2.1. *Employment and Social Office*

The Employment and Social Office is a public body under the direction of the Ministry of Social Affairs and Labour, with its own financial management rights. It is headed by a chief director who is appointed by the Minister responsible for social affairs and labour. The Employment and Social Office is responsible for the professional management of the regional job centres, provides guidance on the implementation of employment policies, supports the training of staff and also has executive functions. In addition to employment and labour related affairs, the tasks of the Office also include certain social, child welfare and child protection issues, responsibilities related to rehabilitation and the employment of people with disabilities, and also some tasks related to the management of the institutions of social dialogue.

2.2.2. *Regional job centres*

The *regional job centre* is also a public body with its own financial management rights. It is also headed by a chief director who is appointed by the Minister responsible for social affairs and labour.

The regional job centre is made up of:

- a central office, and
- local branches.

16 – 291/2006. (XII. 23.) Government regulation on the Public Employment Service, in force from January 1, 2007.

The central office performs the tasks previously carried out by the central units of former county (Budapest) job centres. The central office manages and supervises its branches, carries out the tasks delegated to it in the field of employment rehabilitation of disabled jobseekers, decides on the use of the decentralised budget of the Employment Sub-Fund of the LMF allocated to the region, pays the benefits and allowances to jobseekers and oversees the operation of the benefit and service system.

The *branches* basically perform their old tasks. They register jobseekers in their catchment area, award job search benefit, job search allowance and entrepreneurs' benefit and decide on employment support schemes.

Labour market services are performed by certain branches of the job centre listed in a separate regulation.¹⁷ These branches:

- manage the network of services,
- have a rehabilitation task force,
- participate in the provision of employment rehabilitation services for people with disabilities.

2.2.3. Regional job centres and their seats

Central Hungary Regional Job Centre, Budapest
 South Great Plain Regional Job Centre, Békéscsaba,
 North Great Plain Regional Job Centre, Nyíregyháza,
 North-Hungary Regional Job Centre, Miskolc,
 South Transdanubia Regional Job Centre, Pécs,
 Central Transdanubia Regional Job Centre, Székesfehérvár,
 West Transdanubia Regional Job Centre, Szombathely.

Following the regional structure of the PES, the Employment Act also amended the rules on previous county (Budapest) labour councils with effect from January 1, 2007. It ordered the setting up of seven labour councils linked to the jurisdiction of the seven regional job centres. The election of new members is set out in Act XIX of 2007 which also amends the relevant section (Paragraph 12) of the Employment Act. The new rules entered into force on April 1, 2007, and the election of new members took place in May 2007. The secretarial tasks of the regional labour councils are carried out by regional job centres.

2.3. Reduction of compulsory contributions to promote the employment of disadvantaged people

The Start Programme launched on October 1, 2005 covers all young entrants under the age of 25 years – under 30 years for graduates of higher education – who finished (or interrupted) their studies and who take up employment for the first time.¹⁸ Employers who hire these young entrants are eligible for a sub-

*Branch offices
 providing labour
 market services*

*Regional job centres
 and regional
 labour councils*

17 – 13/2007. (III. 28.) Ministry of Social Affairs and Labour regulation on the Jurisdiction of Regional Job Centres.

18 Act LXXIII of 2005 on Incentives to Promote the Employment of Young Entrants, Unemployed People Aged 50 Years and over and People Returning to Work after Child Care or Nursing, and on the Amendment of Act CXXXIII on the Paid Internship Employment. The act was adopted on June 27, 2005 and entered into force on October 1, 2005.

sidy for 2 years. The subsidy is a universal discount on the compulsory contributions paid by employers. As a result, the employer pays 15 per cent as their contribution on the wage in the first year, and 25 per cent in the second year. The discount can be used for wages of up to 150 per cent of the minimum wage for new entrants under 25 years, or in the case of under-30-graduates from higher education for up to 200 per cent of the minimum wage.

From July 1, 2007 new schemes were added to the Start family with the aim of:

- helping disadvantaged persons to enter or re-enter the labour market,
- increasing employment in the target group,
- encouraging employers to recruit disadvantaged workers,
- creating incentives for employers to follow employment regulations and employ workers lawfully.

In the Start Plus Programme¹⁹ the following target groups are entitled to a reduction on the contributions payable by employers:

- persons who wish to return to work within one year of obtaining child care benefits or carer's allowance,
- persons receiving child care allowance taking up work after the 1st birthday of the child (provided they are not employed),
- long-term jobseekers who have been registered with the PES for 12 of the previous 16 months (or six of the previous eight months in the case of persons under 25).

Employers hiring workers from any of these categories are entitled to the same discounts as employers of young entrants with the Start Card. Thus, they are exempt from the fixed-sum health care contribution (1,950 Forints/month), and the rate of their contribution on the gross wage they have to pay is 15 per cent in the first year and 25 per cent in the second year instead of the statutory 32 per cent payable by employers.

Long-term job seekers can apply for a Start Extra Card if:

- they are aged 50 years or over, or
- regardless of their age, they have low educational attainment (lower secondary).

Employers hiring workers from any of these categories are exempt from all public contributions in the first year and in the second year they have to pay only 15 per cent of the gross wage of the worker.

Table 15 summarises the discounts available for employers in the framework of Start programmes. *Table 16* presents two examples which illustrate the amount of savings available in these schemes.

*Start Plus
Programme*

*Start Extra
Programme*

¹⁹ Act XIV of 2007 on Incentives to Promote the Employment of Young Entrants, Unemployed People Aged 50 Years and over and People Returning to Work after Child Care or Nursing, and on the Amendment of Act CXXIII on the Paid Internship Employment. The act was adopted on March 12, 2007 and entered into force on July 1, 2007.

Table 15: Discounts for employers in the Start programmes

	Start Programme (young entrants)	Start Plus (parents returning to work, long-term unemployed)	Start Extra (older persons, per- sons with low educational level)
Fixed-sum health care contribution (1,950 Forints)	Exempt for two years	Exempt for two years	Exempt for two years
Contributions on the gross wage of the employee (3 % em- ployers contribution, 29 % SI contribution)	1 st year: 15 % 2 nd : 25 %	1 st year: 15 % 2 nd : 25%	1 st year: exempt 2 nd : 15 %

Table 16.a: Employer savings on the wages of workers with secondary education or lower with a monthly wage equal to 150 % of the minimum wage, 2007 (Forint/person/year)

	Start Programme (young entrants)	Start Plus (parents returning to work, long-term unemployed)	Start Extra (older persons, per- sons with low educa- tional attainment)
Contributions without discount	400,680	400,680	400,680
Contributions with discount	1 st year: 176,850 2 nd year: 294,750	1 st year: 176,850 2 nd year: 294,750	1 st year: zero 2 nd year: 176,850
Saving	1 st year: 223,830 2 nd year: 105,930	1 st year: 223,830 2 nd year: 105,930	1 st year: 400,680 2 nd year: 223,830
Total saving	329,760	329,760	624,510

Table 16.b: Employer savings on the wages of graduate workers with a monthly salary equal to 200 % of the minimum wage, 2007 (Forint/person/year)

	Start Programme (young entrants)	Start Plus (parents returning to work, long-term unemployed)	Start Extra (older persons, per- sons with low educa- tional attainment)
Contributions without discount	526,440	526,400	526,400
Contributions with discount	1 st year: 235,800 2 nd year: 393,000	1 st year: 235,800 2 nd year: 393,000	1 st year: zero 2 nd year: 235,800
Saving	1 st year: 290,40 2 nd year: 133,400	1 st year: 290,640 2 nd year: 133,400	1 st year: 526,400 2 nd year: 290,640
Total saving	424,040	424,040	817,040

Source: Information packages on Start Plus and Start Extra schemes produced by the Ministry of Social Affairs and Labour, presentation by the Minister. It can be downloaded from www.szmm.gov.hu.

2.4. Introduction of a new rehabilitation system

The number of people receiving disability pension has reached 800,000 in Hungary and has not been declining despite the fact that the number of new disability pensioners recently reduced to around 30–40 thousand persons per year. While in the old Member States of the EU 30–50 per cent of people with disabilities work, in Hungary this rate is less than 10 per cent. Although 450,000 disability pensioners are of working age, and not only do they receive disability pension, they do not pay tax or contributions either because even if they work, they typically are in undeclared jobs.

To tackle this issue Parliament adopted the Act on Rehabilitation Allowance on June 18, 2007.²⁰ The new legislation aims to create a new system of rehabilitation with new types of benefits and services, which helps people to return to the world of work. In the new system only those people of working age will be eligible for disability pension whose working ability cannot be restored with rehabilitation.

When the Government presented the proposal to Parliament and requested its adoption, it was argued that the new system would increase the employment of people with disabilities, reduce the share of passive benefits within the state budget and increase the share of money spent on rehabilitation. This might reduce dependency on state provision, promote equal opportunities, prevent social exclusion and create the possibility for people to return to work, become independent and achieve a better quality of life.²¹

The new system is being introduced gradually as the necessary human and physical capacities are put in place and also taking into account the limitations of the labour market. Therefore the act only makes participation in the new rehabilitation scheme (allowance and services) compulsory for people who have a good chance of returning to work and are fit for rehabilitation. Accordingly, the rules of the new rehabilitation allowance are linked to the rules on disability pension that were also reviewed and updated.

The new system is based on four pillars. The first and most important pillar is the *creation of a modern assessment system* that in addition to assessing the impairment and the changes in one's working ability (in relation to the current or potential jobs available to the individual), also maps remaining skills and potentials for rehabilitation, rather than focussing on the lost abilities. This on the one hand promotes return to the labour market, and also assists the decision on eligibility by giving a more comprehensive and accurate picture of the claimants' condition. For this a new network should be set up that can, with the necessary expertise on social insurance, employment, social welfare and services carry out the assessment of needs, eligibility and evaluate the effectiveness of rehabilitation.

The new system is based on four pillars

²⁰ Act LXXXIV of 2007 on the Rehabilitation Allowance, in force from January 1, 2008

²¹ Legislative proposal No. T/2913 on the Rehabilitation Allowance, May 2007, Budapest; <http://www.parlament.hu/irom/02913/02913.pdf>.

The second pillar is a new allowance, the so-called rehabilitation allowance. The *rehabilitation allowance* can be awarded (instead of disability pension or accident-related disability pension) to persons whose vocational working ability has altered by at least 50 per cent due to an impairment, but they can regain the fitness to return to work. The allowance is for a fixed-term of up to 3 years. It is a contribution-based payment that is related to the previous wage and it is available to persons who have paid contributions for a certain period, are in need of rehabilitation due to a significant impairment, and are fit for rehabilitation. The allowance provides a temporary replacement income (for the duration of the rehabilitation process) to assist in the successful return to the world of work.

The third pillar is the coordinated development of medical, social and employment rehabilitation services. Each person who is considered to be fit for rehabilitation shall receive an individual rehabilitation plan and sign a cooperation agreement. This way the individual not only gains entitlement to rehabilitation services but also agrees to be bound by the terms and take part in the planned rehabilitation process.

The fourth pillar is the promotion of the employment of people with disabilities. The system of employment rehabilitation has been undergoing significant change since 2005. Important changes were introduced in the employment support of disabled workers. The previous passive aid scheme was replaced by new, active arrangements (wage subsidy, compensation of costs, support for reasonable accommodation in the workplace etc.). *The accreditation of rehabilitation enterprises has also been realised.*

2.4.1. Rehabilitation allowance

The new rules apply for rehabilitation allowance, disability allowance, disability pension and accident-related allowance claims submitted after December 31, 2007. Claimants before December 31, 2007 who reach retirement age within ten years of the submission of their claim should be awarded disability pension instead of rehabilitation allowance, however they have the possibility to opt into the new rehabilitation scheme.

Persons are eligible for rehabilitation allowance if:

- they have an impairment between 50–79 per cent, and as a result are unable to take up employment without rehabilitation, and
- they do not have a job, or their monthly wage is at least 30 per cent lower than the average earnings in the four months before the impairment, and
- are fit for rehabilitation, and
- they have a long enough contribution period, and
- they are not receiving any other social security or unemployment-related provision.

The extent of impairment and fitness for rehabilitation is assessed by a body of rehabilitation experts (a committee). The decision regarding the allowance is made by the locally competent regional pension insurance directorate. The allowance is paid by the National Pension Directorate.

The sum of the rehabilitation allowance is equal to 120 per cent of the 3rd category disability pension calculated on the basis of identical eligibility conditions. The annual increase of the rehabilitation allowance is identical to the increase of the old age pension. The allowance is subject to pension contribution and thus counts toward eligibility for pension.

The rehabilitation allowance is awarded for the duration of rehabilitation or a maximum of 3 years. If rehabilitation is not successful then the person can claim disability pension or other social provision.

The beneficiary must cooperate with the relevant organisation of the Public Employment Service. They must agree to the terms and conditions of a written rehabilitation agreement.

The rehabilitation agreement has the following elements:

- a written declaration by the beneficiary that they:
 - agree to cooperate with the PES, and
 - will accept any suitable jobs or training offered free of charge, and
- individual arrangements for job search, as well as
- the rehabilitation services provided by the Public Employment Service, and
- the frequency of meetings with the advisers of the PES and the ways of keeping in touch.

According to Government estimates 30–40 per cent of the new disability pension claimants can participate in the new scheme, which is approximately 10,000 people each year. It is expected that 40–60 per cent of them will find long-term employment.

2.4.2. Accreditation system

Businesses employing disabled workers must, since July 1, 2007,²² be *accredited* in order to be eligible for employment support. This is basically an assessment procedure that is initiated by the firm in order to demonstrate its competence to carry out employment rehabilitation and thus be eligible for employment support. At the end of the assessment procedure businesses can be awarded basic, rehabilitation or advanced-level certificates based on the number of disabled workers and quality of rehabilitation activities. The basic certificate is valid for 5 years, the rehabilitation certificate for 3 years and the advanced-level certificate for 2 years. The latter allows the organisation to use the term “sheltered firm”.

22 Legislation: 176/2005 (IX. 2.) Government Regulation, 14/2005 (IX. 2.) MoEL Regulation, 26/2005 (XII. 27.) MoEL regulation.

Accreditation is open to all employers as defined by the Labour Code regardless of the number of employees, however with the following two conditions regarding the type of certificate and the number of employees:

1. The basic certificate cannot be issued for firms where the number of disabled workers is at least 20 or more and where this represents at least 40 per cent of the total workforce.

2. The advanced-level (and provisional) certificate can only be issued to businesses with not less than 50 workers, at least 50 per cent of which are disabled.

Certain employers have been motivated to get the advanced-level certificate since 2006 (to qualify for certain subsidy schemes). However accreditation became a requirement for all employers applying for a subsidy as of July 1, 2007.

Table 17: New elements of rehabilitation of people with a disability

Accreditation of employers and subsidy schemes		Rehabilitation allowance	
Optional from January 1, 2006; compulsory after July 1, 2007		From January 1, 2008 for new claimants, as of January 1, 2009 for repeat claims	
New element	Expected impact	New element	Expected impact
- Only employers with basic, rehabilitation or advanced-level certificates accredited by the ESO are eligible to receive employment support. - Before only firms with at least 20 workers were eligible for subsidy, now even micro enterprises or small non-profit organisations can receive support. - The previous system of standard subsidies has been replaced by a differentiated system which includes wage subsidy, compensation and contribution to different costs associated with the employment and rehabilitation of disabled workers.	- As a result of more stringent conditions businesses with demonstrated competence in the employment of disabled workers are more likely to qualify for support than "mainstream" employers who might face relative disadvantage. - The number of employers might increase, however the support/worker might be lower in the case of smaller businesses than for large organisations. - Aid intensity more directly depends on the expenses of the employer, however full compensation of employment-related costs can only be awarded to employers with advanced-level certificates.	- Persons with an impairment between 50-79 per cent are eligible for rehabilitation allowance equalling 120 per cent of the disability pension for a maximum of 3 years provided they cooperate with the PES. - The new National Institute for Rehabilitation and Social Assessment assesses remaining abilities instead of loss of work ability. - The PES offers and individual rehabilitation plan (a written agreement) for persons in the rehabilitation scheme which can include training and support for business start-up, and involve independent non-profit organisations.	- As a result of rehabilitation and employment support schemes, 5-6 thousand people with disabilities might take up employment, however they lose other benefits during the rehabilitation process. - Thanks to the inclusion of work, care, social and other experts in the assessment committee, it can give a more comprehensive assessment, however it is more expensive. - It increases the chances of disabled people of returning to long-term employment, but it is not clear when failure to find a job will be considered a breach of the agreement by the disabled person. - 250 new staff will be hired by the PES.
Impact on budget			
The nominal value of total wage subsidy stays at 50 billion Forint/year, however the amount awarded to individual employers is differentiated on the basis of their certificate. Fraud is expected to decline.		60 million Forints - mainly from EU funding - will be spent on setting up the rehabilitation system. This is expected to return in 6 years from savings on disability pensions. After that the new system is expected to save 15,000 million Forints/year on present value for the state budget.	

Source: Yvette Szabó: Leszávalékolt számítás, HVG, May 26, 2007. p. 88.

2.4.3. National Institute for Rehabilitation and Social Assessment

On the basis of the National Institute for Medical Assessment, the National Institute for Rehabilitation and Social Assessment was set up as of July 2007. Its tasks include the assessment of the extent of impairment, vocational working ability, fitness for rehabilitation, and possible directions and length of rehabilitation. It carries out the assessment of disability pension claims. It provides comprehensive rehabilitation services.

3. CONCLUSION

The system of active labour market programmes has recently undergone significant changes in Hungary. This paper has given an overview of the main trends, experiences and impact of active labour market programmes between 2001–2006 and it has presented the most important changes introduced in 2007.

It has been shown that the labour market budget increased by nearly 50 per cent between 2000–2006, however its share in the GDP remained around one per cent – that is approximately half of the EU Member States' average. The share of active measures, services and programmes within the labour market budget fluctuated between 28.4 and 40.8 per cent. The number of participants of active labour market programmes shrank from 2.6 per cent in 2001 to 1.5 per cent of the economically active population in 2006.

As regards recent issues, the most important change has been the reform of the system of employment promotion in 2007, including the introduction of new rules for wage subsidies, business start-up support and other measures. These changes were partly motivated by the need for a regulatory alignment with existing EU rules, but simplification and improving the transparency of the system were also important factors. Another major change has been the launch of a new rehabilitation system and the establishment of the National Institute for Rehabilitation and Social Assessment. Finally, the Public Employment Service has been organised into regional unit instead of the previous county-based structure.