

# The impact of policies to promote the employment of older workers: a preliminary assessment

A background study for the Cambridge Review of Hungarian employment policies commissioned by the Ministry of Social Affairs and Labour in preparation for a national strategy for flexicurity in the labour market.

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## Abstract

The report provides an expert assessment of employment policies related to the activation of older workers, based on available secondary sources. The first chapter lists the relevant policy measures reviewed in the report, and the second chapter outlines the relevant criteria for the assessment. Chapter 3 reviews policies in seven areas, with more detail for the first four areas which are considered to be of most importance given EU guidelines and empirical evidence on the labour market situation of older workers in Hungary. Chapter 4 summarises the preceding analysis highlighting strengths and weaknesses with reference to the Principles of Flexicurity issued by the European Commission.

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## CHAPTER 1. LIST OF RELEVANT MEASURES

This chapter gives a summary of the measures covered in this study, including those recently taken or already in the pipeline. In compiling the relevant measures we relied on the following background sources:

- National Reform Program of Hungary (2008-2010): draft version
- Report on the Implementation of the Revised National Lisbon Action Programme Hungary (2007)
- National Strategic Report (2007)
- Special PES Report on ALMPs for 50+ (2008)

Measures are presented in the framework of the employment strategy (2008-2010) of the Hungarian government, which specifies six main goals.

### **Goal 1. Activation, incentives for job search and employment**

- reducing incentives for early retirement by tightening the entitlement criteria for old age pension (As of 2009, a minimum of 40 qualifying years are needed for full rate early pension and 37 years for reduced rate early pension. As of 2013, no full rate pension will be paid under statutory retirement age - regardless of qualifying years)
- statutory retirement age for women increases to 62 in 2009 (earlier initiative)
- "New Course" scheme for civil servants made redundant by offering vocational training and career advice as opposed to previous early retirement options (also related to Goal 2 and 4)
- changes in the disability pension scheme: shifting the focus to remaining working capacity in evaluating pension claims
- new rehabilitation benefit for a maximum of three years with mandatory registration and incentives for vocational rehabilitation before granting disability pension (related also to Goal 4)
- extend and improve vocational rehabilitation services of the PES and other service providers (related also to Goal 2 and 4)
- introduce mandatory registration with the PES for recipients of the means-tested social assistance
- increase the role of job offers in testing willingness to work for recipients of the means-tested social assistance
- improve communication and transfer of information between agencies responsible for administering the social assistance
- introduced new wage subsidy for older/low-educated workers (in the form of reduced social security contributions) (also related to goal 3)
- increased funding for ALMPs from ESF sources (related also to all other goals)
- extend and formalise cooperation with private (non-profit) service providers from 2009 to increase tailor-made services
- improve communication and transfer of information between agencies responsible for administering the social assistance
- reorganised county level PES centres on a regional level (note that it may be reversed by the decision of the Constitutional Court)
- increased funding for the training of PES staff
- further develop the existing monitoring of ALMPs (related also to all other goals)
- introduce regular evaluation, impact analyses and feedback in order to improve the effectiveness and efficiency of ALMPs (applies to all other goals as well)
- establish a system of monitoring, evaluation and feed-back in the new system of rehabilitation measures in 2009 (related also to goal 6)
- carried out internal an investigation of the Central PES administration on the PES services for recipients of the

social assistance (in 2007)

## **Goal 2. Improving employability**

- kept older workers as a target group for ALMPs (related also to Goal 3 and 6)
- improve evaluation and monitoring of ALMPs and feedback for policy makers in order to improve efficiency
- increase the participation of workers with low-education in training /"One Step Forward" programme (related also to goal 6)
- modified the adult training system, introduction of comprehensive training programmes focusing on development of key labour market competences (experimental phase: aid schemes adjusted to individual needs and demands) (related also to goal 6)
- continue the development of the regionally integrated vocational training centres (TISZK) by improving their adaptability to labour market demands and by extending the TISZK network itself (establishing new centres)
  - improve the career guidance system (pályorientáció) and the career tracking system (pályakövetés) for participants in vocational and adult training programmes
- motivate small and medium-sized enterprises to train their own employees (regulatory incentives and ESF co-financed grant schemes for enterprises)
- develop the content of vocational and adult training (introduction of the new modular National List of Qualifications, modification in exam requirements and shifts to competence-based trainings) (related also to goal 6)
- develop the Hungarian National Qualifications Framework (HNQF) with taking effect in the academic year 2012/2013

## **Goal 3. Increasing labour demand especially in the most disadvantaged small regions**

- increased ear-marked funding for disadvantaged small regions at regional PES
- improve coordination across various ALMPs and benefits and in the planning of regional funding

## **Goal 4. Facilitating labour market transitions and atypical forms of employment**

- no specific measures applicable to old-age workers, however other measures horizontally aligned are indicated above and below

## **Goal 5. Reducing unreported employment**

- modify the regulation on social contributions (increasing the basis income level subject to social contribution payments)
- extended allowance on social contributions to of older/low-educated workers (Start+ and Start Extra programmes)
- reduce the administrative burden by integrating registration procedures, setup of a new 'one-stop' registration system at the State Tax Authority
- created health insurance-related incentives to promote shifts to legal employment (in case of underpayment automatic exclusion from full-fledged health insurance services, developing individual health insurance accounts and contributions records as a database of the State Tax Authority to raise employees' awareness on health insurance contributions)
- improve the bilateral information-exchange channels between the State Tax Authority and other respective agencies (Public Employment Service, Hungarian Labour Inspectorate, National Health Insurance Fund)
- extended negative discrimination of firms and employers with not clean track record in labour conditions in public procurement and in allocation of state subsidies ('black list' of employers who have committed violations in existing regulations)
- publicised infringements on labour or health-and-safety laws (publication of the 'black list' on the website of the Hungarian Labour Inspectorate, see the measure above)

- launched an initiative to elaborate a mid-term strategy and action plan to combat undeclared work (in 2009) based on an analytical report prepared in collaboration with the World Bank
- developed the capacity of supervisory authorities and labour inspection (State Tax Authority, Hungarian Customs and Finance Guard, Hungarian Treasury and the Government Control Office, Hungarian Labour Inspectorate)

#### **Goal 6. Preventing the accumulation of labour market disadvantages**

- plan to triple the rehabilitation contribution
- increased range of rehabilitation services (along with new monitoring system for disability benefit) and cooperation with other agencies involved
- establish a system of monitoring, evaluation and feed-back in the new system of rehabilitation measures
- introduced new programme for the low-educated to complete primary education or secondary vocational education (not run by PES)
- increased range of rehabilitation services (along with new monitoring system for disability benefit) and cooperation with other agencies involved
- moderated rise in basic minimum wage (but a considerable rise in the minimum wage for skilled workers)
- introduced a system of management by agreed objectives in the PES, which includes quota for the inclusion of disadvantaged groups in ALMPs
- form an integrated health and safety supervisory system (professional and organisational standardisation, rationalisation of agencies' staff and the administrative burden levied on business enterprises)
- launched a comprehensive prevention strategy in health care.

## CHAPTER 2. POLICY AREAS

Policies to promote the employment of older workers may be evaluated on several sets of criteria. This section briefly reviews the market conditions older workers face and the national/Community strategic framework. On the basis of this exercise, finally it proposes seven policy areas which pose – according to the evaluators – the most important challenges for policy-makers as regards increasing employment of older workers.

The proposed policy challenges reflect country specific recommendations (CSRs) and points-to-watch (PTW) addressed to Hungary by the European Council, and they are also derived from existing empirical evidence on factors contributing to the low activity rate of older workers.

### 2.1. Factors contributing to the low employment rate of older workers in Hungary

The employment rate of older workers is very low as compared either to other countries or to the average employment rate of the Hungarian adult population. In 2007, the employment rate of the 55-64 age group was 33.1 % in Hungary, compared to 44.7% in the EU27, 46% in the Czech Republic and above 50% in the Baltic states (but similar low levels are found in Slovenia, the Slovak Republic and Poland). Although the activity of the elderly population increased steadily and more rapidly than in working age population between 1998 and 2006, it was still some 25 percentage points lower than the average in 2007. The employment rate of older women is especially low (at 26 % in 2007) (Eurostat-online).

Such low levels of employment can to a large extent be attributed to social provisions and particularly to early pension schemes and the disability pension. While in most EU member states (MS) the statutory retirement age is 65 years (or this is envisaged), in Hungary the 1997 reform introduced the gradual increase of the statutory retirement age to 62 years for both genders. In 2006, when the statutory retirement age was 62 and 60 for women, the average age of retiring on old-age pension was 59.9 years (57.5 for women), as current rules allow retirement at the age of 60 (57 years for women) without any reduction in the amount of the pensions (provided that the claimant has the required number of qualifying years). Considering disability pension as well, the effective retirement age was 56.1 for men and 55.2 for women in 2006. The ratio of pensioners shows a sharp increase over 40 years of age for both genders and by 55 years it amounts to one third (Fazekas et al 2008).

Some of the recently observed rise in the activity among older workers may be attributed to the increase in levels of *education* - significant for women especially -, which comes from the expansion of secondary education in the 1960s. This is however a one-time shift and (without policy intervention), no improvement of a similar extent can be expected within 20-25 years in the case of women and within 10-12 years in the case of men (Scharle 2008).

Hungary has the lowest life expectancy in Western and Central Europe in most age groups and especially among men aged 40-60 years. Expert analyses suggest that the main reasons behind include unhealthy lifestyles, such as high consumption of alcohol, increasing rates of smoking and a high fat and high sugar diet. The factors contributing to the health status of a population are complex, however, and include education, labour market status, as well as access to good health services and willingness to visit health care institutions (Remák et al 2006).

### 2.2. Employment guidelines, country specific recommendations, and points to watch

The assessment of the European Commission of Hungary's performance towards achieving Lisbon targets highlighted four areas that require more effort or adjustment in existing policies. These include the following:

- continue to implement the necessary measures to ensure a durable reduction of the government deficit and of the public debt ratio, with increased reliance on the expenditure side, including through the establishment of more thorough and comprehensive expenditure rules;
- continue to reform the public administration, health care, pension and education systems with a view to ensuring long-term fiscal sustainability and improving economic efficiency. This should include steps to further limit early retirement, reduce the number of new recipients of disability pensions and further restructure health care;

- reinforce active labour market policies to improve the labour market situation of disadvantaged groups; and reduce persistent regional disparities in employment;
- ensure access to high quality education and training for all, upgrade skill levels, and increase responsiveness of education and training systems to labour market needs.

In addition, the European Council pinpointed the following policy issues which will be important for Hungary over the period of the NRP to focus on:

- further reforming the public research system, increasing the effectiveness of public R & D expenditure and improving linkages between public and private R & D;
- reducing and redirecting State aids;
- improving the regulatory environment through further reducing administrative burden and legislative simplification;
- introducing further incentives to work and to remain in the labour market;
- ensuring better reconciliation of work and private life;
- completing the establishment of the integrated employment and social services system;
- transforming undeclared work into formal employment; and
- implementing the lifelong learning strategy.

### 2.3. Principles of flexicurity

In December 2007, the Council adopted eight common principles of flexicurity as follows:

1. Flexicurity is designed to implement the main principles of the Lisbon Strategy.
2. Flexicurity, in addition to being committed to life-long learning, active labour market policies and a modern social welfare system, sees the need for flexible contractual arrangements.
3. Flexicurity needs to adapt to the different circumstances in each Member State.
4. Flexicurity needs to support open and inclusive labour markets which help to reintroduce inactive employees back into employment.
5. Flexicurity needs to involve the smooth transition between jobs by constantly up-grading employees' skills and providing the necessary social protection in transition periods.
6. Flexicurity should promote both gender equality as well as considering means to reconcile work–life balance issues.
7. Flexicurity needs the support of the social partners.
8. Flexicurity needs to involve a cost-effective distribution of resources which public budgets can sustain

### 2.4. National strategy for increasing employment

1. Activation, incentives for job search and employment
2. Improving employability
3. Increasing labour demand especially in the most disadvantaged small regions
4. Facilitating labour market transitions and atypical forms of employment
5. Reducing unreported employment
6. Preventing the accumulation of labour market disadvantages

#### Strategic objectives for 2008 and 2010 (%)

	Hungary		European Union	
	2008	2010	2005	2010
Employment rate	57	58,7	67	70
Older workers	33,3	34,8	-	50
Adults in training/education (25-64)		8 (by 2013)		12,5

The strategic priorities for the period 2008-2010 are:

- increasing the role of ALMPs
- special targeting of groups with disabilities
- promoting life-long learning
- improving the quality and efficiency of education and training.

## **2.5. The focus of this evaluation: seven important policy areas**

Based on the highlighted facts and on the national and community strategic framework above we propose to focus on the following policy areas. The first four of these are given most priority and analysed in more detail.

### **1. Reduce disincentive effects of social provisions**

Clear empirical evidence suggests that low levels of employment in Hungary can to a large extent be attributed to social provisions and particularly to early pension schemes and the disability pension. The consistent reform of pension system (early pension, new entrants to disability pension) is one of the key steps to improve the figures, and to ensure a safe and sound public budget management in the long run. Tackling this challenge will completely correspond to the recommendations of the European Union and it will significantly contribute to the achievement of the national strategic goals.

### **2. Targeted and tailor made ALMPs**

Introduction and extension of ALMPs is crucial with regard to improve labour market situation of disadvantaged groups, reduce regional disparities, upgrade skill levels, and increase responsiveness of education and training institutions to labour market needs.

### **3. Improve monitoring and cost-efficiency of measures**

Recently existing monitoring systems do not provide comparable data across programmes, government institutions and agencies. The strengthening of both monitoring and evaluation practices is critical. Increased funding for the policy initiatives (especially, for ALMPs) may not bring the expected results and that may jeopardise further political support for the activation strategy.

### **4. Promote life-long learning**

In most of the European Member States, life-long learning is a comprehensive approach crossing over several sub-sectoral policy areas (primary/secondary/high education, vocational and adult training, formal and informal education, etc.) The low Hungarian figures in international comparison in this area are striking and the implementation of the LLL-strategy has to be speed up in line with the special recommendation made by the European Union.

### **5. Ensure equal opportunities (women, men, roma, older workers, people with disabilities)**

In order to pave the way for social cohesion, public policies must focus on the market situation of disadvantaged groups and geographic areas in disadvantaged situation.

### **6. Reduce informal employment**

Transforming undeclared work into formal employment is a key challenge for all the Member States, especially for Hungary.

### **7. Promote a life cycle approach**

Empirical facts such as the lowest life expectancy in Western and Central Europe in most age groups, the unhealthy lifestyles provide reasons to push attention of policy-makers on promoting prevention and rehabilitation practices, and on facilitating active ageing.

## CHAPTER 3. EVALUATION OF POLICY MEASURES

### 3.1. Reduce disincentive effects of social provisions

CSRs: further reform of pension system (early pensions, new entrants to disability pension), ensure a durable reduction of the government deficit and of the public debt ratio, with increased reliance on the expenditure side

PTW: introducing further incentives to work and to remain in the labour market, completing the establishment of the integrated employment and social services system

#### National objectives in the priority area

The first element in the National Reform Programme to increase employment relates to this policy area, setting out the aims of activation and strengthening incentives for job search and employment. The specific goals set in the NRP include the activation of unemployment assistance recipients and the increase in the average effective retirement age. The reduction in the use of early retirement contributes to the aim of restoring the balance of the pension fund and reducing government expenditure. A related, more specific objective in the NRP is to facilitate atypical forms of employment, which would reduce the expected net worth of entering or staying on welfare by creating job opportunities for those with who prefer/need shorter hours or flexible arrangements (such as mothers returning from maternity leave, older workers, workers with disabilities, etc).

#### *Strengths:*

Objectives in line with CSRs and PTW

Objectives are in line with best practice from other EU member states and flexicurity guidelines

#### *Weaknesses:*

There are no measurable objectives set in this policy area.

The objectives set for the reform of old age pension seem insufficient for long run stability

Details of the plan to establish an integrated employment and social services system are not specified

#### Policy measures in the priority area

- Reducing incentives for early retirement: as of 2009, a minimum of 40 qualifying years are needed for full rate early pension and 37 years for reduced rate early pension, as of 2013, no full pension will be paid for people under the statutory retirement age - regardless the number of qualifying years. In addition, as of 2008, every month worked after the statutory retirement age increases the amount of pension by 2% (up from 1.5%).

- Statutory age for women increases to 62 in 2009 (1997 pension reform)

- A scheme for civil servants made redundant is introduced ("new course"/"új pálya"), offering vocational training and career advice as opposed to previous early retirement)

- Pension now constitutes a part of the tax base and pensioners have to pay pension contributions besides social security contributions (as of 2007).

- As of January 2008, early pension cannot be claimed while in full time employment under the age 62. For those receiving an early pension, annual earnings may not exceed 12 times the minimum wage, otherwise their pension receipt must be suspended (until they reach 62 or cease working). This also applies to those who retired before 2008, except that the earnings cap is applied only after January 2010.

- Changes in the disability pension scheme: shifting the focus from lost to remaining working capacity in evaluating pension claims

- New rehabilitation benefit for a maximum of three years with mandatory registration and incentives for vocational rehabilitation before granting disability pension



- Extending and improving vocational rehabilitation services of the PES and other service providers
- Plan to establish a system of monitoring, evaluation and feed-back in the new system of rehabilitation measures.
- Plan to triple the rehabilitation contribution payable by employers that employ no disabled workers (or fall below quota)
- Mandatory registration with the Public Employment Service (PES) for recipients of the means-tested social assistance ("rendszeres szociális segély", rszs)
- Increase the role of job offers in testing willingness to work for recipients of the means-tested social assistance
- Improve communication and transfer of information between agencies responsible for administering the social assistance

#### *Strengths:*

Three important target groups and provisions are tackled by the measures

Policy initiatives related to pensions and disability are in the right direction and instruments are by and large adequate (though weak in some case - see weaknesses below)

Policy initiatives related to social assistance are in the right direction in general terms

The new initiative to improve communication between actors in policy implementation is important as it will feed through to several objectives (activation, reducing unreported employment) and has the potential to establish the basis for evaluating ALMPs, which again may help improve the efficiency of all ALMPs and the targeting of social provisions as well.

#### *Weaknesses:*

Changes to the old age pension fail to exploit all potential for reducing expenditure (cf. further increase in statutory age and reduction in 13th' month pension, larger reductions in pension amount for early pensions)

The scope of measures aiming to reduce reliance on passive assistance is relatively narrow. The proportion of registered unemployed among the non-employed (inactive or unemployed) population aged 50-64 was 7% in 2007, which implies that activation policies reach a very small part of the target group, and that obviously limits the effectiveness of the ALMPs for older workers (note that on average, about half of those registered participated in some ALMPs, including public works schemes.) The focus of new measures of activation is relatively narrow (retirees, disabled, social assistance recipients) so that some relevant target groups are left out (e.g. recipients of the disability allowance for people with less severe disability) This also implies that the tightening of pension eligibility may simply shift inactive groups into other types of provision rather than into jobs.

The new disability benefit seems overly generous in amount and provisions for enforcing job search and cooperation seem weak.

The reliance on public works schemes for the activation of social assistance recipients seems inadequate in light of Hungarian and international empirical evidence.

There is no mention of measures to prevent disability and long term illness, such as introducing an early signal system based on the monitoring of employees taking sick leave. There is also no incentive provided for employers to take part in the prevention of work-related illnesses.

There is no impact analysis carried out to underpin the plan to increase the rehabilitation contribution payable by firms that do not employ disabled workers or fall below the quota. The contribution is a lump sum fee per employee (required to reach the quota) and thus it will imply a proportionally larger cost for hiring – and thus a reduction of demand for - low wage workers.

There is no mention of measures to provide positive incentives for employers to hire people with disabilities and older workers. Such measures may include increasing the capacity (or allowing them to sub-contract job brokers) and strengthening the incentives of the PES for improving their contacts with local employers.

#### **Implementation and Stakeholder involvement**

- Measures relating to the old age pension system are not in place yet. The preparation of these measures

involved much public debate, in part through the National Roundtable for Pensions and the Elderly.

- The new disability benefit was introduced as of January 2008 but some elements of the system (new vocational rehabilitation services and monitoring) will be phased in gradually during 2008 and 2009.
- Measures related to the activation of social assistance recipients are still under discussion and will come into effect as of January 2009 the earliest.

*Strengths:*

The implementation of the new disability benefit and related services involves several government agencies within the national health service and in employment policy. The respective roles and responsibilities for these agencies are in line with the overall aims of the reform and are clearly defined.

*Weaknesses:*

The phasing in of related services seems to be set rather late and may endanger the success of the reform. The protocol for the cooperation between agencies concerned seems underdeveloped, which may reduce the ability of the PES to act on up to date and complete information when deciding about services for new entrants to the scheme.

**Opportunities (support)**

Reallocation of funding from public works to capacity building (staff and training) and motivation (outcome-based bonuses) of the PES has the potential to increase employment without extra cost. Yardstick competition among local and regional units of PES could also be strengthened. Trade unions representing civil servants and therefore PES employees should welcome and support such a scheme. Although a loss of at least partially discretionary resources could turn local governments (and members of Parliament who are also mayors) against such a plan, if the measure could be coupled with some administrative simplification (such as their exemption from putting forward local employment plans) or subsidy for labour mobility for towns and villages, mayors could be persuaded to accept the change.

A tightening of job search and reporting criteria for all PES clients and an extension of such obligations to further benefit groups (e.g. disability allowance recipients) has the potential to increase the intensity of job search which will help increase employment. International empirical evidence suggests that intensive job search also helps to moderate wage levels (i.e. discourage increases in the average wage not supported by a rise in productivity levels). Such a set of measures would have to be worked out in consultation with the organisations representing the jobless and disadvantaged groups to make sure that heavy-handed mechanisms do not impose impossible requirements or cause hardship for families and children.. On the other hand, local businesses that find it hard to hire qualified labour could provide support.

Consider using the OECD "Sickness, disability and work" project to get advice on creating a suitable range of rehabilitation services and expert assistance in the accompanying training for PES staff (the project is closing in 2009). The public health establishment could and should join the drive.

Raising the statutory retirement age appears to have played a significant part in raising the employment rate of older workers. At the same time, unemployment of the same group has increased only moderately (even when GDP growth has slowed down). Provided that a coherent strategy is built encompassing all relevant strands of flexicurity for older workers, this fact can be built upon when communicating the necessary steps to all stakeholders.

Considerations regarding 13th month's pension and raising the retirement age have been built into the emergence budget expenditure plan proposed in October 2008. If all else fails, this can be a way to introduce measures that are essentially unavoidable, but might be found difficult to communicate by the government.

**Threats (opposition)**

The narrow focus of the activation initiatives may generate increasing demand for other social provisions so that no immediate savings can be achieved.

Increasing the funding for public works schemes is likely to reduce the overall efficiency of the ALMP system as these are unlikely to improve chances of employment. Public work transfers tend to have an asymmetrical political-economy effect: local governments may not clamour for them, but they might resist strongly to their

withdrawal.

Somewhat similarly, a truly integrated employment and social services system might be obstructed by the local governments. Although such a system would significantly simplify procedures and would certainly benefit people on the long run, it would also question the necessity of the unusually and irrationally large number of local governments.

### **3.2. Targeted and tailor made ALMPs**

CSRs: further strengthen ALMPs to improve labour market situation of disadvantaged groups, reduce regional disparities, upgrade skill levels, increase responsiveness of education and training systems to labour market needs

PTW: introduce further incentives to work and to remain in the labour market, complete the establishment of the integrated employment and social services system.

#### **National objectives in the priority area**

Strengthening active labour market programmes is central to the NRP to increase employment as it will serve as an important basis for all of the six elements of the national strategy. The specific goals set in the NRP include the activation of unemployment assistance recipients, an increase of the scope and spending on ALMPs, the creation of a coherent system of services provided by the PES and other public or private agencies, improve cooperation between agencies, expand the scope of tailor made complex services and improve the predictability of funding available at regional PES centres. Efficient and effective ALMPs are also central to a successful flexicurity framework.

#### *Strengths:*

Objectives in line with CSRs and PTW

The goal to put more structure into the cooperation between the PES and other service providers or public agencies is an excellent choice as it is a cost effective way to increase the range of available services and the scope of tailor made services, and thereby improve the efficiency of the whole system.

Given the persistently low employment rate and high rate of long term unemployment among the low-educated, the objectives of increasing funding for ALMPs and the availability of tailor made services are very appropriate. This is especially true for the older unemployed who have very poor chances of re-entering employment.

#### *Weaknesses:*

There are no measurable objectives set in this policy area. Given the cost and expectations attached to ALMPs, and the availability of best practices, this is a serious problem.

The improvement of the overall targeting of ALMPs run by the PES and other agencies is not among the objectives.

No specific goals set for expanding the coverage of ALMP services (i.e. to involve more inactive and unemployed groups)

Disadvantaged groups are diverse so it may be necessary to prioritise within the group at least in the short run so that the PES offices are not overwhelmed

Capacity building (both in staff numbers and training) in the PES seems to receive insufficient weight given their increased roles

#### **Policy measures in the priority area**

- Mandatory registration with the PES for recipients of the means-tested social assistance (rszs)
- Older workers remain a target group for ALMPs
- Increase the role of job offers in testing willingness to work for recipients of the means-tested social assistance
- New wage subsidy introduced for older/low-educated workers (in the form of reduced social security contributions)
- Increased range of rehabilitation services (along with new monitoring system for disability benefit) and

cooperation with other agencies involved

- New programme for the low-educated to complete primary education or secondary vocational education (not run by PES)
- Increased ear-marked funding for disadvantaged small regions at regional PES
- Increased funding for ALMPs from ESF sources
- More structured cooperation with private (non-profit) service providers from 2009 to increase tailor made services
- Improve communication and transfer of information between agencies responsible for administering the social assistance
- Improve coordination across various ALMPs and benefits and in the planning of regional funding
- County level PES centres reorganised on regional level
- Increased funding for the training of PES staff
- Improve evaluation and monitoring of ALMPs and feedback for policy makers in order to improve efficiency

### **Relevance and completeness of instruments**

#### *Strengths:*

- Policy initiatives in the area generally in the right direction
- The new programme for the low educated is a vital tool for improving employability and reducing long term unemployment.
- International experience suggests that the involvement of private service providers is an adequate tool for increasing the scope of tailor made services. The Ministry has commissioned several surveys to map the existing services and capacities in the non-profit sector, and implementation will be able to build on this information-base.
- The new initiatives to improve communication between actors in policy implementation address an important bottleneck in the existing system and some progress has already been made in the transfer of information between municipalities, municipal institutions and the PES.

(See also previous section on social provisions.)

- Keeping older workers as a target group for ALMPs ensures consistency with the aim of reducing the use of early pensions
- Strengthening and extending monitoring, evaluation and feedback channels is important in its own right and may potentially support the increased involvement of external service providers.

#### *Weaknesses:*

- Specific measures to improve the cooperation between service providers and agencies are not clearly defined.
- The plan to involve private service providers in a more structured way is an adequate tool, but the specific measures of implementation are unclear. Also, the partial privatisation of the ALMPs makes it imperative to introduce reliable monitoring and clear financial incentives for all service providers - which are either not mentioned in the NRP or not clearly linked to the planned involvement of the private/non-profit sector.
- Measures to increase incentives for the PES and municipalities to give preference to ALMPs over benefit schemes and improve efficiency of ALMPs seem largely missing or not monitored.
- Extending the range of ALMPs can only improve efficiency if services are well-targeted to those in need. This requires tools for the initial screening of clients and the assessment of skills and competencies. These tools should be developed and introduced nation-wide with training for PES staff and incentives for using them appropriately. The NRP does not appear to give priority to these crucial measures.
- There is no mention of measures to ensure the efficient timing of ALMPs. Commission guidelines propose that all new PES clients should be offered some ALMPs in a reasonable period of time: within 4 months in the case of young people and 12 months for adults. Also, policies aiming at offering active labour market measures to the long-term unemployed should be pursued, taking into consideration the participation rate benchmark of

25 % in 2010.

- Increased funding for the PES seems necessary given their increased roles.

### **Implementation and Stakeholder involvement**

The first results of the new education programme for the low educated are positive. However, the results are measured by raw indicators and the programme has not included a thorough impact analysis. Plans for its extension seem unclear and there is no clear indication if the decision will be based on the impact of the programme.

Take-up of the new wage subsidy for older workers has been low, and no data has been provided by the Tax authority which would allow the assessment of the programme. The reasons behind low take-up would be worth-while to investigate and provide feedback for adjustments to the programme.

New rehabilitation services are currently being introduced and there is no data yet on their take up and impact. The timing of phases of the new programme and the structure of the piloting appear to have some weaknesses.

### **Opportunities (support)**

Consider the reallocation of some funding from public works to capacity building (staff and training) and motivation (outcome based bonuses) of the PES: this has the potential to increase employment without extra cost.

Introducing a detailed protocol for recruiting clients on ALMP schemes has the potential to improve the targeting of ALMPs. This may be supplemented by an evaluation and revision of the management by agreed objectives system (see below). Groups that represent the targeted social groups (chosen based on evidence-based considerations) should be involved in drumming up support and could participate in the dissemination of the relevant information in a more credible way than PES - an agency distrusted by many of the groups in question - could.

The system of management by agreed objectives (MEV) used by the PES specifies quota for disadvantaged groups, but recent empirical evidence has shown below-average take-up in mainstream programmes. An external evaluation of the system would help identify the ways to improve the efficiency of the MEV system.

Supplementing the current initiative to assess and extend services for disabled people with a similar effort re the Roma, the low educated and the long-term unemployed would be useful: there is considerable overlap in services (and service providers) for these groups so that extra costs will be small while there are obvious gaps in the current range of services for these groups. Roma organisations and activists should be asked for input, could be charged to channel qualitative feedback. They, however, should not have veto rights or a definite institutional role in the process.

Creating measurable objectives is not difficult, given the mandatory administration requirements of several programmes. New ALMPs can be launched in a way that ensures appropriate data collection for detailed evaluation.

### **Threats (opposition)**

Efforts to increase activation may lead to increased open unemployment unless they are matched by efforts to reduce the wage cost of low-educated workers (by reducing social security contributions and the real value of the minimum wage). The imminent recession should exacerbate this problem in the short run.

Increasing the funding for public works schemes is likely to reduce the overall efficiency of ALMP system as these are unlikely to improve chances of employment.

Without considerable strengthening of monitoring and evaluation, increased funding for ALMPs may not bring the expected results and that may undermine further political support for the activation strategy.

### 3.3. Improve monitoring and cost-efficiency of measures

CSRs: ensure a durable reduction of the government deficit and of the public debt ratio, with increased reliance on the expenditure side, complete the establishment of the integrated employment and social services system

CPF: Based on the common principles, each Member State should develop its own flexicurity arrangements. Progress should be effectively monitored.

#### National objectives in the priority area

The improvement of cost efficiency and monitoring does not feature explicitly among the six main elements of the national strategy but it is implicit in the aim that the entire welfare system should be reviewed in order to remove labour supply disincentives. The NRP sets the objective to improve the monitoring of active labour market programmes and introduce regular evaluation and impact analyses and feedback channels in order to improve the effectiveness and efficiency of ALMPs.

#### *Strengths:*

Objectives in line with CSRs

#### *Weakness:*

The objective for improving evaluation and monitoring is specified only for the ALMPs and not in general for all areas of employment policy, though the lack of sufficient information on the impact of several measures is evident in the national reports. The objective of improving the cost-efficiency does not feature explicitly as a priority in the national strategy.

#### Policy measures in the priority area

- Improve communication and transfer of information between agencies responsible for administering the social assistance.
- Improve coordination across various ALMPs and benefits.
- Further develop the existing monitoring of ALMPs.
- Introduce regular evaluation, impact analyses and feedback in order to improve the effectiveness and efficiency of ALMPs.
- Establish a system of monitoring, evaluation and feed-back in the new system of rehabilitation measures (in 2009).
- Internal evaluation of the Central PES administration on the PES services for recipients of the social assistance (in 2007).

#### Relevance and completeness of instruments

#### *Strengths:*

- Measures are generally in line with the objective of improving monitoring and efficiency.
- The improvement of the flow of information across implementing agencies is a prerequisite for establishing a reliable database on ALMPs and benefits.
- The improvement of coordination across various policy measures can help to increase cost efficiency (but the actual measures taken are not specified).
- Measures to improve or establish monitoring the ALMPs and the new rehabilitation scheme is vital for improving cost efficiency and quality, especially in combination with the proposed plans to involve non-profit service providers.
- The internal investigation of the functioning of services to social assistance recipients in 2007 was an important first step towards introducing the regular evaluation of employment policies and for using evaluation as a basis for formulating policies (not mentioned in NRP).
- External evaluation of municipal and PES services for social assistance recipients (Bódis et al 2008) (not mentioned in NRP).

### *Weaknesses:*

- Measures to improve monitoring are restricted to ALMPs and rehabilitation and do not seem to be strongly linked in these two areas either.
- There is no mention of measures to improve the identification and dissemination of best practices, which may be a cheap way to reduce costs.
- There is no mention of measures to regularly involve external experts in the evaluation of policies, which may improve quality and credibility of evaluations.
- There is no mention of measures to improve the availability of data and analysis coming from the monitoring system and evaluations, which would be a prerequisite for ensuring public support and also for the involvement of the policy community in improving policies.
- There is no mention of plans to harmonise monitoring systems for programmes financed by the Employment fund and EU funding. This would be a prerequisite for the assessment of the overall efficiency of employment policies and the flexicurity strategy.

### **Implementation and Stakeholder involvement**

- Most measures in this area are being currently implemented so that results cannot be assessed as yet.
- The evaluations on services to the social assistance recipients in 2007 were both ambitious and fairly comprehensive. The sampling procedures and analytical tools in the internal evaluation of the PES were not sufficiently refined to remove potential bias from the analysis but still proved to be rich source of information for the redesign of services. The dissemination of the results of both evaluations was very low profile and detailed results were not made available to the wider policy community.

### **Opportunities (support)**

- Make it a priority to participate in international surveys and projects (of the EU, OECD, World Bank, ILO, etc) on employment related policies that involve outside expertise and evaluation methods for the assessment of employment policies and of the labour market situation in general. This is a cost-efficient way to access high quality expertise and usually also has the advantage of producing internationally comparable data. A within-country peer comparative exercise with the Ministry of Education (regularly carrying out OECD PISA studies and implementing regular universal competence testing in public education) could be useful.
- Make it a priority to provide much wider access to existing data on ALMPs and unemployment benefits to researchers in order to improve the quality of evaluation of policies. If fear by PES units is a reason against this, explicit guarantees that for a pre-specified period data will only be used for targeting extra resources could be given.
- Use the OECD "Sickness, disability and work" project to get advice on developing the monitoring system of rehabilitation services and expert assistance in the accompanying training for PES staff (the project is closing in 2009).
- Create a searchable public database of all evaluation results concerning employment policies commissioned or financed by the Ministry or the National Development Agency to avoid wasteful duplication and to identify under-researched areas.
- Join forces with the National Development Agency in developing standard guidelines for the monitoring and evaluation of employment policies and projects. Make the presence of such systems a condition sine qua non for bidding for subsidies and transfers from the Agency (and potentially from all government bodies).

### **Threats (opposition)**

- Without considerable strengthening of monitoring and evaluation, increased funding for ALMPs may not bring the expected results and that may undermine further political support for the activation strategy.
- Keeping evaluations solely internal may jeopardise quality and credibility of results so that there is not enough reliable information for the correction of policy measures or not enough political/public support for policies. The timing within the election cycle might make politicians wary of public monitoring data that could be used against them in general elections. External evaluations in the mould of the ex ante, interim and ex post evaluations required of the National Development Agency by the EU should be the norm. Requests for audits

by the State Audit Office could also be considered.

### **3.4. Promote life-long learning**

CSRs: further reform of education system, upgrade skill levels, provide equal access to quality training for all

PTW: implementing the life-long learning strategy

#### **National objectives in the priority area**

Two elements of the national strategy relate closely to this policy area: improving employability and preventing the accumulation of labour market disadvantages. The specific priorities set in the NRP are in accordance with the national life-long learning strategy from 2005 and they primarily focus on supporting the training of employees, especially of adults with low-education and of older age groups, as well as on developing the content and the institutional structure of vocational and adult training.

#### *Strengths:*

- The national objectives correspond to the CSRs and PTW.
- The specific objectives of the national LLL strategy adequately focus on strengthening the links between education/ training / labour market and on improving the efficiency and quality of education and training.

#### *Weaknesses:*

- At the same time, the specific objectives are not quantified, there are no specific indicators and targets attached, which makes those objectives rather vague.
- There is a substantial risk that the lack of performance indicators for the various government initiatives and programmes will undermine the explicit need for increasing social expenditure in this policy area.

#### **Policy measures in the priority area**

- Increasing the participation of workers with low-education in training (“One Step Forward” programme)
- Modifications in the adult training system, introduction of comprehensive training programmes focusing on development of key labour market competences (experimental phase: aid schemes adjusted to individual needs and demands)
- Continuing the development of the regionally integrated vocational training centres (TISZK) by improving their adaptability to labour market demands and by extending the TISZK network itself (establishing new centres)
- Improving the career guidance system (pályorientáció) and the career tracking system (pályakövetés) for participants in vocational and adult training programmes
- Motivating small and medium-sized enterprises to train their own employees (regulatory incentives and ESF co-financed grant schemes for enterprises)
- Developing the content of vocational and adult training (introduction of the new modular National List of Qualifications, modification in exam requirements and shifts to competence-based trainings)

#### **Relevance and completeness of instruments**

The LLL strategy is based on a sound analysis of sub-sectoral challenges, and consists of a complex set of relevant instruments. In spite of the fact that there were no separate financial resources allocated to implementing the national strategy, it provides a coherent guidance to design policy measures as part of the different sub-sectoral government programmes.

The primary intention to improve market feedbacks and to interlink the training institutions with market actors is highly welcome, although no incentive mechanisms are attached (cf. performance-based financing of the training institutions).

Putting small and medium-sized enterprises in focus by promoting adult training (incl. on-the-job-training) can be beneficial, however the one-size-fits-all grant schemes provided under the ESF co-financed programmes may not match the specific human resources development needs of the small and medium-sized enterprises.



## **Implementation and Stakeholder involvement**

The target groups are not specified in most measures, which questions the efficiency of those measures.

Generally, there is a lack of specific policy indicators (see “One Step Forward” programme, regulatory incentives to promote SMEs to train their own employees) and of an integrated (or even interoperable) monitoring system.

The market rationale to train employees should be underpinned by specific, problem-oriented survey-based studies. In absence of survey-based data and analysis, the enterprise-level micro effects and the underlying market rationale of training (co)financed by enterprises is highly questionable, therefore there is a substantial risk that the design and targeting of these support schemes is inappropriate.

The quality-assurance system of the various training schemes for life-long learning is not effective – it is in fact dysfunctional (Accreditation Board for Adult Training). Due to demographic trends (ageing population) and the fact that the participation of workers with low-education in adult training is still low in international comparison, there is a wide market potential. Current market conditions are characterized by oversupply, which is to some extent caused by incentives in state subsidies that promote quantity at the expense of quality. One of the key prerequisites to increase the flexibility of demand would be the reliable (external) measurement and publication of performance indicators at the level of training institutions which is a missing element in the reform strategy.

### **Opportunities (support)**

Effectively strengthen labour market feedback by building in implicit incentives on the part of the training institutions (not project-, but performance-based financing). Students themselves should support switching to such a system.

Focus on life-long-learning should start not long after leaving the education system (strengthening the preventive feature of ongoing training and early on prevention of downgrading of skills). Budget revenues freed up by a declining student population could be channeled into incentives for schools to participate in such schemes.

More individually tailored training schemes, providing a menu of training courses rather than one-size-fits-all training packages, supported by individual training consultants (for example, 'case worker' at the local/regional PES offices). Local employers, who have a strong interest in a competent labour supply should be consulted and should support such an effort.

Establish user-friendly public database of the ranking of training institutions, based on labour market success of graduates as well as the 'educational value added' approach.

Open access to performance-indicators of the training institutions and centres, thereby giving them an incentive to change for the better: once schools swallow the shock of such rankings becoming public, they can base their own quality improvement efforts on these quantitative measures. Both this measure and the previous one should be supported by students who are empowered by them as well as by parents (who bear some of the costs).

Improve the quality, reliability, and credibility of national data and the exchange of information on best LLL practices by participating in international initiatives (e.g. OECD Programme for International Assessment of Adult Competencies)

Launch specific surveys to improve datasets and policy targeting (e.g. business rationale of providing on-the-job-training)

Elaborate and monitor standard policy indicators and publish these at institutional and programme level (e.g. employment rates after the training, drop-out rates) as one of the key elements to turn the increasingly supply-driven market of adult training into a demand-driven one.

Make it a priority to participate in international surveys and projects (of the EU, OECD, World Bank, ILO, etc) on employment related policies that involve outside expertise and evaluation methods for the assessment of employment policies and the of the labour market situation in general. This is a cheap way to access high quality expertise and usually also has the advantage of producing internationally comparable data.

### **Threats (opposition)**

Institutions rejecting change, operating at inefficient scale or scope, ones with specific real and human capital

sunk in training for jobs no more demanded in the labour market might organise and block change. A combination of sticks and carrots might be called for to tackle their resistance.

Training charlatans abusing easy access to development funds independent of the value of the training they provide will not want to give up their positions. Transparency might make it more difficult for them to oppose change.

### **3.5. Equal opportunities for disadvantaged people and regions**

CSRs: further strengthen ALMPs to improve labour market situation of disadvantaged groups, reduce regional disparities, ensure equal access to quality education and training for all, upgrade skill levels

PTW: ensuring better reconciliation of work and private life

#### **National objectives in the priority area**

The national strategy for increasing employment stresses the importance of education programmes for adults without secondary schooling and to keep older workers as a target group for ALMPs. One of the key elements of the national strategy is to improve job opportunities in disadvantaged areas.

##### *Strengths:*

- Priorities adequately reflect the fact that the two largest groups with the lowest employment rate are older workers and the low-educated.
- A measurable target is set for the employment rate of older workers (at 33.3 in 2008 and 34.8% by 2010) which implies a faster than average rise.

##### *Weaknesses:*

- Despite the new rehabilitation scheme, no specific objective is set for the increase in the employment rate of disabled people.

#### **Policy measures in the priority area**

- Older workers remain a target group for ALMPs.
- New wage subsidy introduced for older/low-educated workers (in the form of reduced social security contributions).
- Increased range of rehabilitation services (along with new monitoring system for disability benefit) and cooperation with other agencies involved.
- New programme for the low-educated to complete primary education or secondary vocational education (not run by PES).
- Increased ear-marked funding for disadvantaged small regions at regional PES.
- Modest rise in basic minimum wage (but a considerable rise in the minimum wage for skilled workers).
- The system of management by agreed objectives used by the PES includes quota for the inclusion of disadvantaged groups in ALMPs.

#### **Relevance and completeness of instruments**

##### *Strengths:*

- New measures focus on the largest problem groups and address the most relevant needs by focusing on basic competencies, education and labour demand
- Some new programmes (for the low educated and the disabled) include elements of tailor made services and provisions for personal advice and assistance which is crucial for the re-integration of disadvantaged groups
- The new disability scheme includes a detailed assessment of competencies and rehabilitation needs
- The moderate increase in the basic minimum wage helped keep labour costs low for the low-educated

##### *Weaknesses:*

- ALMPs are still dominated by mainstream programmes with no individual support available

- Raising the minimum wage for skilled workers was ill-advised as it is likely to have reduced demand for skilled (older) workers.
- No mention of measures to improve the targeting of ALMPs to those most in need by refining screening procedures by the PES.
- No mention of policies to reduce discrimination against older workers.
- No mention of measures to introduce the regular evaluation of equal access to services and equal treatment at the PES.

(Also see 3.1 on rehabilitation services.)

### **Implementation and Stakeholder involvement**

#### *Strengths:*

- The new education scheme for the low-educated (One Step Forward) was supplemented with a marketing strategy and a mentor system, which is likely to have improved performance.

#### *Weaknesses:*

- No evaluation is available for ALMPs that would assess their impact for specific subgroups controlling for age, education, and other characteristics.
- There is no regular overall assessment of the impact of the various programmes on the employment chances of disadvantaged groups, i.e. progress is not monitored systematically.
- Take up of wage subsidies has been low.
- No thorough evaluation (based on the multivariate analysis of micro-level data) is available for the new schemes.

(Also see 3.2. on the targeting of ALMPs.)

## **3.6. Reduce informal employment**

PTW: transforming undeclared work into formal employment, improving the regulatory environment through further reducing administrative burden and legislative simplification;

### **National objectives in the priority area**

One of the priority goals of the national strategy is explicitly the reduction of unreported employment. Nevertheless, the lack of quantified policy indicators (baseline indicators and targets) and that of clear strategic focuses poses challenges to cost-efficient and effective implementation and clear public communication of this objective.

### **Policy measures in the priority area**

- Modification of the regulation on social contributions (increasing the basis income level subject to social contribution payments)
- Preferential payment of social contributions in case of older/low-educated workers (see also Start+ and Start Extra programmes in subchapter 3.2)
- Reducing administrative burden by integrating registration procedures, setup of a new 'one-stop' registration system at the State Tax Authority
- Create health insurance-related incentives to promote shifts to legal working (in case of underpayment automatic exclusion from full-fledged health insurance services, developing individual health insurance accounts and contributions records as a database of the State Tax Authority to raise employees' awareness on health insurance contributions)
- Improving the bilateral information-exchange channels between the State Tax Authority and other respective agencies (Public Employment Service, Hungarian Labour Inspectorate, National Health Insurance Fund)
- Negative discrimination in public procurement and in the allocation of state subsidies of firms and employers that fail to have a clean track record in labour conditions ('black list' of employers who have violated existing

regulations)

- Public exposure of infringements of labour or health-and-safety laws (publication of the black list on the website of the Hungarian Labour Inspectorate, see the measure above)
- Initiative to elaborate a mid-term strategy and action plan to combat undeclared work (in 2009) based on an analytical report prepared in collaboration with the World Bank
- Developing the capacity of supervisory authorities (State Tax Authority, Hungarian Customs and Finance Guard, Hungarian Treasury and the Government Control Office, Hungarian Labour Inspectorate)

#### **Relevance and completeness of instruments**

*Strengths:*

- The policy initiatives in the area generally point into the right direction.
- The width of the policy instruments seems to be mostly appropriate (involving measures improving incentives on both parts of workers and employers and capacity-building of supervision and inspection).

*Weakness:*

- High degree of *ad hoc* design and an unfortunate inconsistency of the different measures (especially in setting requirements of paying a double contribution while providing subsidies for disadvantaged groups at the same time).
- Undifferentiated targeting of the regulatory measures (pooling together people working legally for minimum wage and employees hiding incomes above the minimum wage level with intention of tax evasion).
- No prioritisation of measures, therefore lack of potential synergy in implementation.
- Up to now regulatory measures dominate the tool set.

#### **Implementation and Stakeholder involvement**

- The intention and the commitment to rationalise and strengthen the different inspectorates is highly welcome.
- At the same time, the organisational integration is only the first step toward a more cost-efficient and effective supervision
- Better targeting of the inspections is recommended in the future (more frequent inspections in areas with higher probability of undeclared work based on underlying studies differentiating sectors and types of firms), especially for the tax authority.

### **3.7. Promote a life cycle approach to work**

GL18 promote a life cycle approach to work

CSRs: continue to reform the healthcare and pension systems with a view to ensuring long-term fiscal sustainability and improving economic efficiency. This should include steps to further limit early retirement, reduce the number of new recipients of disability pensions and further restructure healthcare.

PTW: introducing further incentives to work and to remain in the labour market, ensuring better reconciliation of work and private life

#### **National objectives in the priority area**

The national strategy includes the goals of increasing the effective retirement age in order to prolong working lives. It also includes facilitating labour market transitions and atypical forms of employment and takes note of the problem that the distinction between work and non-work is unnecessarily sharp in the Hungarian labour market.

*Strengths:*

- The objective to facilitate transitions is recognised (but is described in relation to the inactive entering the labour market.).

*Weaknesses:*

- The objective is not applied to the retirement decision and the facilitation of gradual forms of retirement.

- Potential links and synergies with the National Public Health Programme of 2003 (Parliament Resolution 46/2003) to the promotion of healthy lifestyles and active ageing are not indicated.

(See also 3.1. on pensions)

### **Policy measures in the priority area**

- Formation of an integrated health and safety supervisory system (professional and organisational standardisation, rationalisation of agencies' staff and the administrative burden levied on business enterprises).
- Launch of a comprehensive prevention strategy.
- Special measures aiming at rehabilitation.
- Tightening the criteria for retirement.
- "New Course" scheme for civil servants made redundant (offering vocational training and career advice as opposed to previous retirement.)
- Increased capacities for labour inspection

(Also see section 3.1)

### **Relevance and completeness of instruments**

#### *Strengths:*

- Measures are generally in line with the recommendation.
- Rationalisation of the institutional costs is welcome
- New scheme for civil servants promotes adjustment and training rather than retirement for redundant employees

#### *Weaknesses:*

- Measures to promote healthy working conditions and improved health status appear to focus on supervision with little use of positive incentives for employers (e.g. to endorse corporate social responsibility guidelines or use market labelling signalling 'safe and sound' / high-quality and employee-friendly workplace)
- No measures to increase the responsibility of employers in prevention of occupational disease or injury or in the rehabilitation of disabled workers
- No explicit measures to promote flexible working conditions (including working hours) to facilitate active ageing

### **Implementation and Stakeholder involvement**

- The efficiency of labour inspections have noticeably improved through better targeting of inspections and better flow of information between related agencies.
- The National Council on Ageing (with representation of civil associations) is actively involved in the discussion of related policies and cooperates with the Roundtable on Pensions as well.
- Communication and coordination of reform initiatives between ministries in charge of employment and healthcare policies (e.g. collaboration in the CSR programme) appears to be limited

## CHAPTER 4 TOWARDS A STRATEGY FOR PROMOTING FLEXICURITY

This section summarises the main results of the detailed evaluation of policy objectives and measures from the perspective of developing a coherent strategy for flexicurity in the Hungarian labour market. For each of the eight flexicurity principles adopted by the Council of the European Union in December 2007, we list the elements of the existing Hungarian policies that are already in line with the flexicurity approach and also the areas where there is need for some adjustment in goal-setting, policy instruments or implementation. We also included the regular monitoring of progress as an additional criterion, on the grounds that it is indispensable for providing feedback for the continuous development of flexicurity related policies and ensuring coherence across policy areas.

Principles of flexicurity	Strengths to highlight	Weaknesses to address
1. Flexicurity is designed to implement the main principles of the Lisbon Strategy.	<p>Welfare to work is central to government strategy (given high priority in NDP, etc)</p> <p>Existence of strategic documents in some of the relevant policy areas (employment, LLL, health-care)</p> <p>Policy objectives and measures, shifts in policy focus generally in line with employment guidelines and CSRs</p>	<p>Lack of a comprehensive flexicurity strategy accepted by all relevant government bodies and social partners</p> <p>Multiplicity of priorities</p> <p>Measures not systematically checked to ensure coherence across policy areas and in the timing of measures</p>
2. a. Flexicurity, in addition to being committed to life-long learning, active labour market policies and a modern social welfare system ...	<p>Dominance of active over passive measures for the unemployed</p> <p>LLL goals integrated into all related policy areas (education, training, employment)</p>	<p>Dominance of passive measures for older workers</p> <p>PES clients cover a small proportion of the non-employed population (especially for age 55-64) and job search criteria for those covered are weak/not consistently enforced</p> <p>LLL resources not sufficiently targeted at most disadvantaged</p>
2.b. .... sees the need for flexible contractual arrangements.	<p>Contractual arrangements are flexible compared to most EU member states</p>	<p>Administrative cost of hiring (including the use of subsidies) and firing is high</p> <p>Minimum wage policies disrupt wage adjustment</p> <p>Reliable information to facilitate hiring is costly or difficult to acquire (e.g. available subsidies, publicly available and reliable ranking of training institutions etc.)</p> <p>Information channels are underdeveloped/fragmented</p>
3. Flexicurity needs to adapt to the different circumstances in each Member State.	<p>Policy making is supported by a detailed description of the Hungarian labour market</p> <p>Regular funding is available for research (e.g MTA-KTI series, OFA)</p>	<p>Policies tend to be adopted without extensive piloting and evaluation to ensure adequacy for the local context.</p> <p>Opportunities to share experiences with MS that face similar problems (e.g. Slovakia) are largely left unused</p>

<b>Principles of flexicurity</b>	<b>Strengths to highlight</b>	<b>Weaknesses to address</b>
4. Flexicurity needs to support open and inclusive labour markets which help to reintroduce inactive employees back into employment.	New programmes (rehabilitation, one step forward, start-extra) promote activation (versus passive assistance) and tackle main obstacles to reemployment of disadvantaged groups (disabled people, older people, low-educated) Plans to involve private service providers will help increase service capacities to aid inclusion (esp for disadvantaged groups)	ALMPs dominated by mainstream programmes with no or limited use of personal assistance, the share of needs-driven flexible guidance and services (managed by case workers) is small Tailor made services for the long term unemployed and people with disabilities are under-developed Positive incentives and counselling for hiring disabled people are underdeveloped.
5. Flexicurity needs to involve the smooth transition between jobs by constantly up-grading employees' skills and providing the necessary social protection in transition periods.	Unemployment benefits /allowances are available to all unemployed New initiatives recognise the need to develop core competencies for adults, too	The ceiling on the insured unemployment benefit (1.2 x the minimum wage) is low Participation in on-the-job-training is extremely low and causes are unresearched New initiatives are too small given that a large proportion of adults lack the basic competencies needed for life-long-learning
6. Flexicurity should promote both gender equality as well as considering means to reconcile work–life balance issues.	The objective to facilitate transitions is recognised	Measures to promote active ageing and gradual retirement are weak or missing
7. Flexicurity requires a climate of trust and broadly-based dialogue among all stakeholders, where all are prepared to take the responsibility for change with a view to socially balanced policies.	Roundtables on pension system and education involve policy community and stake-holders Council of ageing, non-profits regularly consulted in policy formulation	Transparent publication of policies and evaluations, external evaluations, timing, feedback on discussion with social partners missing Public consultations should be ongoing across the policy cycle
8. Flexicurity needs to involve a cost-effective distribution of resources which public budgets can sustain	New disability programme aims to shift resources to activation and reduce long term spending on pensions	No mechanism to ensure effective allocation of resources across measures, evaluations to facilitate this are largely missing, feedback channels are weak
+ Progress should be effectively monitored and measures should be regularly evaluated.	Basic monitoring available for most measures Need for data collection and cooperation across agencies is widely recognised	Lack of regular assessment of the achievement of strategic goals Monitoring systems do not provide comparable data across ALMPs and similar schemes, detailed, regular and potentially external evaluation is rare, goal setting is vague

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## ABBREVIATIONS

ALMP Active labour market programme

CPF Common principles of flexicurity. 2007 December. „Based on the common principles, each Member State should develop its own arrangements. Progress should be effectively monitored.”

CSRs Country specific recommendations from the European Commission

CSR Corporate social responsibility

ESF European Social Fund

LLL Life Long Learning

MS Member States

PES Public Employment Service

PTW Points to watch noted by the European Commission

RSZS rendszeres szociális segély (means tested social assistance for the unemployed)