

## **The efficiency of employment rehabilitation subsidies in Hungary**

The Budapest Institute completed a survey of two types of rehabilitation subsidies in Hungary and assessed their impact on the integrated employment of disabled people. Based on the results we also made recommendations on redesigning the current system of state subsidies. The project was supported by the National Employment Foundation. The full report is available at our website (in Hungarian).

Almost 14% of the active age population (aged 15-64) in Hungary suffer from some sickness or disability which reduces their capacity to work. Their group numbers almost a million people, around 75% of whom receive some welfare provision and only 23 % work. About 150 thousand would like to work but cannot find a job, while the current system of wage subsidies only provide subsidised employment to 30-40 thousand disabled workers.

In the past five years, the system of rehabilitation subsidies was gradually revised partly to increase the social integration of disabled people and partly to curb growing public expenditures, most of which went on subsidising sheltered employment. Since 2005, only accredited employers equipped to provide employment rehabilitation qualify for wage subsidies. However, though formally meeting the accreditation criteria, most firms do not provide services that would support transfer to unsubsidised jobs in the regular labour market. A large share of subsidies go to sheltered employment where disabled workers in segregated workshops. By contrast, the few NGOs that offer rehabilitation services are quite successful at getting disabled people back to work: the reemployment chance of their clients is 30 to 50 times higher compared to disabled workers in a sheltered workshop, controlling for age, education and work capacity. The best service providers can place 33-49 % of their clients in unsubsidised jobs in the regular labour market.

The full social integration of disabled people clearly requires further reform: a gradual reduction of employment subsidies, an expansion of rehabilitation services and better-designed incentives for all actors. Reallocating a fifth of current wage subsidies for disabled workers to NGO-provided rehabilitation services would increase the disabled employment rate by over 2 %points and would become self-financing within four years through the social security contributions and income tax paid by disabled workers placed in regular jobs.

### **Main recommendations**

The system of subsidies should make all actors interested in placing disabled workers in integrated jobs in the regular labour market. This would require:

- a gradual shift in quality assurance towards performance measurement and performance based finance and away from administrative requirements and accreditation certificates;
- an increase in the stability of financing rehabilitation schemes;
- an increase in state expenditures on effective rehabilitation services at the expense of wage subsidies for accredited employers;
- requiring all accredited employers and service providers receiving a rehabilitation subsidy to place a certain proportion (adjusted to work capacity) of their disabled workers or clients in the regular labour market;
- expanding the capacity of rehabilitation service providers and ensuring access to services across the country.
- establishing a monitoring system that provides information on the labour market performance of disabled workers employed in subsidised jobs or receiving NGO services.