



People, Portraits, Perspectives: Improving Employability for Inclusive Growth in Hungary

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PHOTO CREDITS

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This document has been produced using the 2016 EU-SILC data files of the Hungarian Central Statistical Office. The calculations and the conclusions within the document are the intellectual product of the World Bank.

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ACRONYMS AND ABBREVIATIONS

ALMP	active labor market program
AROPE	at risk of poverty or social exclusion
CEE Continental	Central and Southeast Europe Continental Europe (includes Croatia, Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia)
EU	European Union
EU-28	The current membership of the European Union (28 Member States)
EU-SILC	European Union Statistics on Income and Living Conditions
GINOP	Gazdaságfejlesztési és Innovációs Operatív Program (Economic Development and Innovation Operative Program)
HCSO	Hungarian Central Statistical Office
HUF	Hungarian forint
IAP	individual action plan
IR	Integrated Registry
ISCED	International Standard Classification of Education
LCA	latent class analysis
LFS	Labor Force Survey
MfNE	Ministry for National Economy
MoF	Ministry of Finance
NEF	National Employment Foundation (OFA Nonprofit Kft.)
NES	National Employment Service
OECD	Organisation for Economic Co-operation and Development
RAS	Reimbursable Advisory Services
TÁMOP	Társadalmi Megújulás Operatív Program (Social Renewal Operational Program)

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INTRODUCTION

The objective of this report is to summarize the main findings and recommendations of previous deliverables under a technical assistance activity conducted by the World Bank.

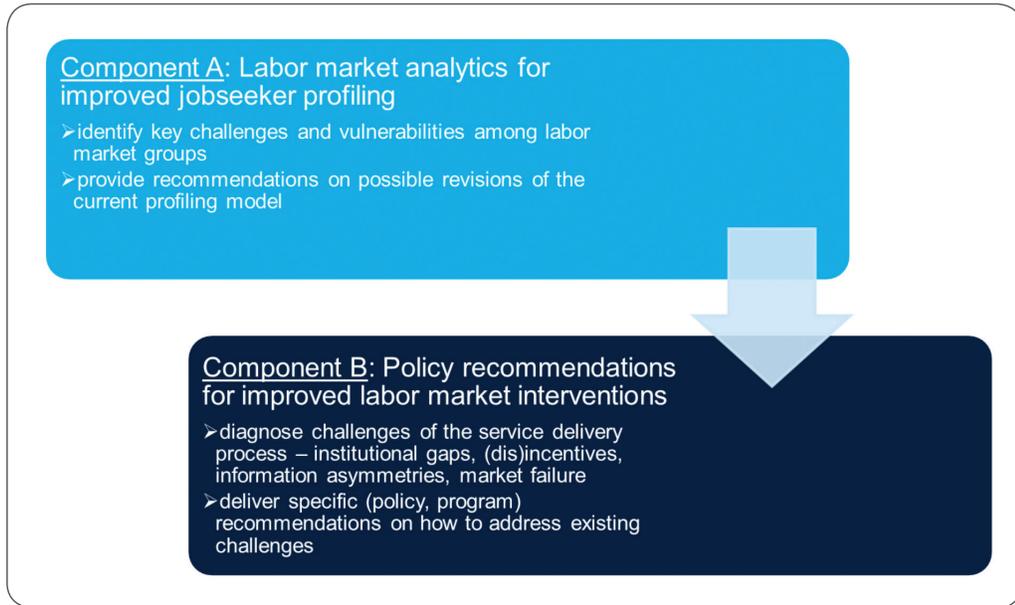
In October 2017, the Government of Hungary requested that the World Bank support the Ministry of Finance (MoF) in improving jobseeker client segmentation, targeting, resource planning, and service delivery of active labor market programs (ALMPs) that target vulnerable jobseekers. This technical assistance activity is conducted under the Reimbursable Advisory Services (RAS) Agreement titled “Improving Employability for Inclusive Growth in Hungary.” Since the project’s inception, the World Bank has carried out two main activities structured under two components, A and B. The linkages between the two activities are reflected in Figure 0.1. The first activity (Component A) consists of an analysis of survey data in order to segment Hungary’s out-of-work and marginally employed population into distinct groups according to employment barriers. The segmentation exercise provides an overview of the types of overlapping barriers found among the vulnerable (potential) jobseekers, serving to assess the supply of activation and employment support programs provided by the NES. The second activity (Component B) presents preliminary inputs for upcoming policies and programs aimed at improving access to labor market programs and related services (including social, health, and technical vocational education training services) tailored to the needs of vulnerable jobseekers.

The findings and conclusions of these two activities are captured in four reports:

- An inception report—Output 1, delivered in November 2017—presented an overview of the activity, detailed tentative outlines and timelines, and discussed working arrangements to be followed during the RAS implementation.
- Output 2, titled, “Technical report on labor market analytics for improved jobseeker profiling,”¹ was initially delivered in January 2019 and was revised in March 2019. It was based on quantitative data analysis carried out with the goal of improving how vulnerable jobseekers are served by the National Employment Services (NES).
- Output 3, titled, “Technical report including policy recommendations for improved labor market interventions,” was initially delivered in October 2018, and the revised, final version was delivered in December 2018. It presented preliminary findings from quantitative and qualitative research and field visits in Hungary, key results of an online survey conducted among NES case worker staff; and preliminary policy recommendations.
- This report, Output 4, focuses on the key conclusions and final recommendations, and combines the findings of Output 2 and Output 3.

¹ As a result of delays by the HCSO in responding to the Ministry for National Economy’s request for data, data for quantitative analysis was delivered to the World Bank team on April 11, 2018. In line with the RAS agreement, the Bank team has nine months to deliver Output 2 after the receipt of data; therefore, Output 2—this report—is being delivered after Output 3. Given the linkages between the two outputs, the vulnerable groups identified among the population that is out of work or marginally employed were already introduced in Output 3, in addition to a brief background concerning recent developments in the Hungarian labor market. Output 2 includes more detail on both of these aspects. To make the report more self-contained, excerpts from Output 3 have been included.

Figure 0.1: Components A and B of the World Bank’s technical assistance



The activity’s analytical approach follows the client’s service delivery pathway. The analytical framework of the technical assistance—and the resulting reports—is reflected in Figure 0.2. The analysis explores critical points across the client’s service delivery pathway, starting from *client intake* and continuing through the *classification*, *service identification*, and *service delivery* stages—that ideally lead to successful entry to the labor market (as further reflected in Figure 0.3). *Client intake* issues identify the characteristics of vulnerable groups in the registry to focus on mapping which groups do and which populations do not access, or have limited access, to services in the current labor market support system.

Figure 0.2: Analytical approach underlying the technical assistance

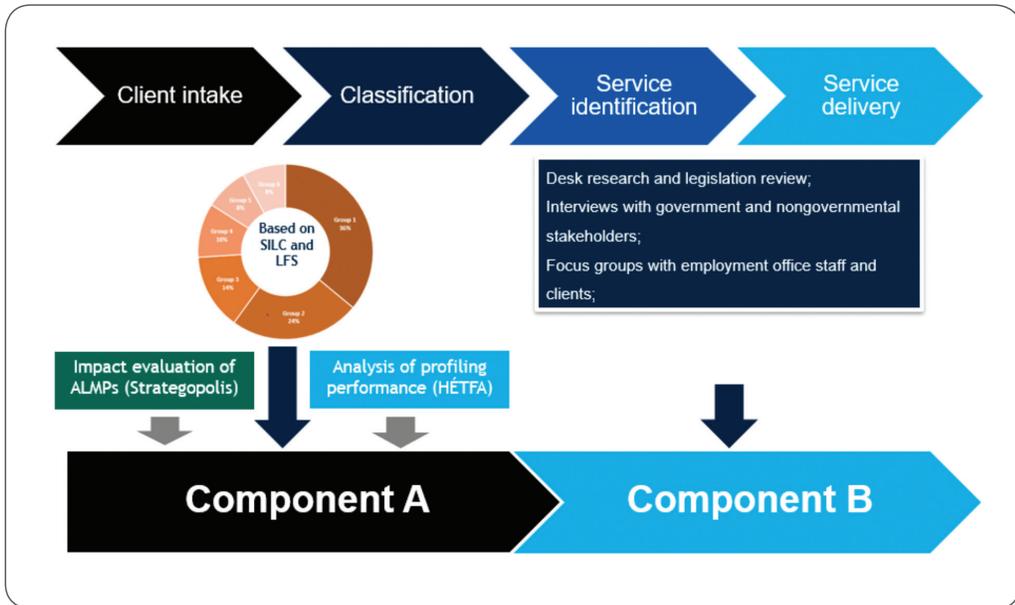
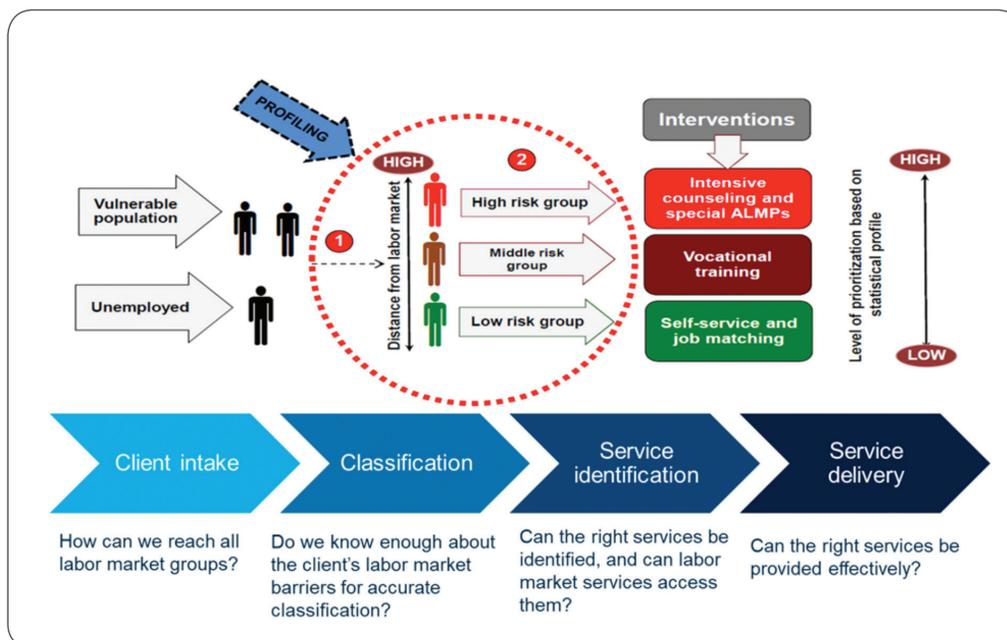


Figure 0.3: Analytical approach of the RAS in relation to the service delivery process



To ensure the key findings and proposals reflect the views of as many stakeholders as possible, the team launched a two-part online consultation process.² Respondents were from the NES, line ministries, the chamber of commerce, municipal governments, researchers, and nongovernmental organizations (NGOs). The team invited a total of 416 respondents (of which 124 were from the NES and 147 were from municipal governments in small settlements) to participate in an online survey.

- In the first round, responses were recorded from 57 respondents. Of these, 28—essentially half—were NES experts, and only the representatives of two municipal governments responded. Another sizeable group of respondents were employees of the National Employment Foundation (NEF), who provided nine responses. Approximately 20–28 respondents answered each question and further explained their opinions in an editable textbox.
- In the second round, the team received feedback from 76 respondents; out of these, 51 (about two-thirds) were NES experts. Only three municipal government representatives responded in this round. Seven responses came from NEF employees, and five came from different ministries. Only one question in this round asked respondents to give their opinion, and 11 respondents sent some kind of supplemental information or commentary.

² The consultation was conducted in two rounds, with the assistance of invited experts. The first round questionnaire contained statements and suggestions to be reviewed, and for each statement we requested comments and opinions in an editable textbox. We used a seven-point grading scale to evaluate the statements, where 1 = fully disagrees and 7 = fully agrees. The grading scale was used as a single opinion tool for the second round, where we also asked for responses to an open-ended question. We solicited the comments of colleagues with whom we had consulted during the work process. The detailed results are presented in the annex to Output 2.

This synthesis report is organized into six sections. Section 1 provides a snapshot of the structural labor market situation in Hungary, and Section 2 focuses on the recurring growth constraints that Hungary will face, including those due to changing demographics and those that reflect the need to invest in human capital. Section 3 summarizes multiple employment barriers faced by vulnerable groups in accordance with the 2016 European Union Income and Living Conditions (EU-SILC) data. Section 4 focuses on the issues posed by ineffective services. Section 5 outlines the potential of the social economy regarding employment, poverty reduction, and community development; it highlights the current limitations and makes recommendations for how to address these. Section 6 provides an overview of the conclusions and recommendations along the service delivery chain as captured by both reports delivered under Components A and B.

1. IN A TIGHT CORNER: RECENT TRENDS AND HUNGARY'S CURRENT LABOR MARKET

The labor market in Hungary has fully recovered since the 2008 financial crisis, with unemployment at historically low levels. Recovery has held a steady pace since 2008, driven by private sector labor demand and given the contribution of the Hungarian public works scheme. Employment rates have improved quickly, reaching 69.5 percent in 2018, slightly above the EU-28 average (67.7 percent). At the same time, unemployment fell to 3.7 percent by December, 2018, also below the EU-28 average. While the activity rate increased significantly, reaching 71.9 percent in 2018, it remains below the EU-28 average of 73.8 percent in Q2 of 2018.

Despite the increase in activity rates, almost one-third of the working-age population (15–64) remains inactive—especially youth and older women. Gender and age disaggregated activity rates show that despite rising activity levels, gaps remain for younger and older individuals, especially women. While prime-age men (25–54) had activity rates of 93.3 percent in 2017, only 28.2 percent of young Hungarian women were active, as compared to 39.2 percent in the EU-28. Older women (55–64) are also not engaged in the labor market; 55.7 percent are inactive (46.2 percent in the EU-28). Thus, a significant share of the population, especially (female) youth and (female) older individuals, remain disengaged from the labor market and largely outside of the scope of the NES.

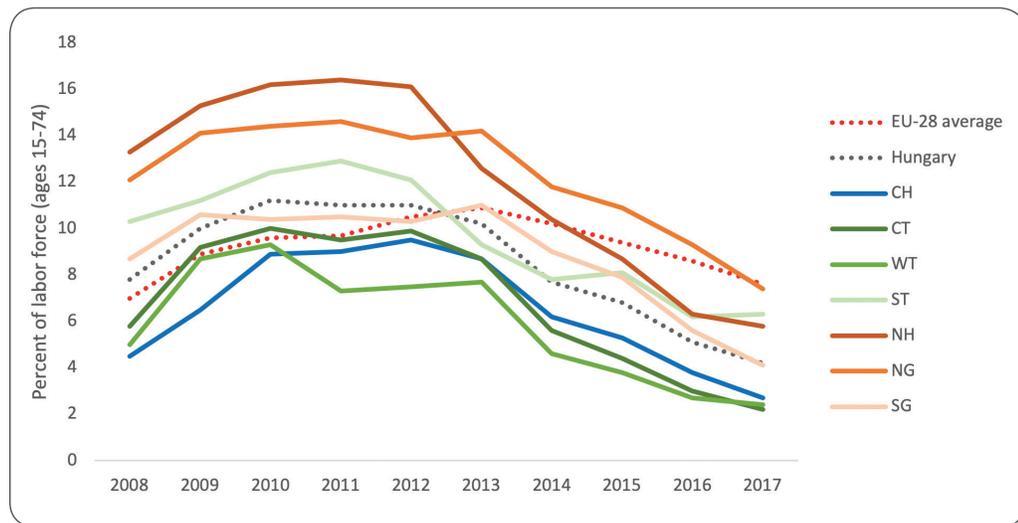
While unemployment remains low (at 3.7 percent), individuals with low levels of education and predominantly youth are disproportionately affected by unemployment. Despite a low overall unemployment rate of 3.7 percent, individuals with less than upper secondary education (International Standard Classification of Education [ISCED] 0–2) display unemployment rates more than double the national average (which was 11.1 percent in 2017). Youth unemployment rates have decreased drastically since reaching peak levels (as high as 30 percent) in 2012–13, but they are still above the national average, with 10 and 12 percent of males and females of that age group unemployed in 2017, respectively.

Unemployment differentials suggest skills mismatches in the labor market. Kiss and Vandeplass (2015) find that the dispersion of both employment and unemployment rates by skill levels in Hungary are among the highest in the EU. The authors also show that data from three surveys commonly used to measure skills shortages (the European Business Survey, the Manpower Talent Shortage Survey and the European Company Survey) place Hungary among the European countries with the highest skills shortages reported by employers. The data suggest that the skills sought after by employers are different from those offered by workers or jobseekers (Kiss and Vandeplass 2015).

Unemployment disparities are also apparent at the regional level. A look at unemployment rates by NUTS ³ regional classification reveals that all regions experienced an increase in unemployment during the crisis years, with a subsequent sharp reduction. Unemployment across all regions is now lower than the EU-28 average, with especially remarkable recoveries in Northern Hungary and the Northern Great Plain. However, considerable variation remains across regions: in 2017 unemployment ranged from as low as 2.2 percent in Central Transdanubia to as high as 7.4 percent in the Northern Great Plain. At the NUTS 1 level, unemployment is highest in the Great Plain and the North (represented in Figure 1.1). Such regional disparities are even greater considering the fact that most public workers reside in Northern Hungary and the Northern Great Plain.

3 Nomenclature des Unités territoriales statistiques (Nomenclature of Territorial Units for Statistics).

Figure 1.1: Unemployment rate by NUTS 2 region, 2008–17



Source: Eurostat, 2017 (latest regional data available).

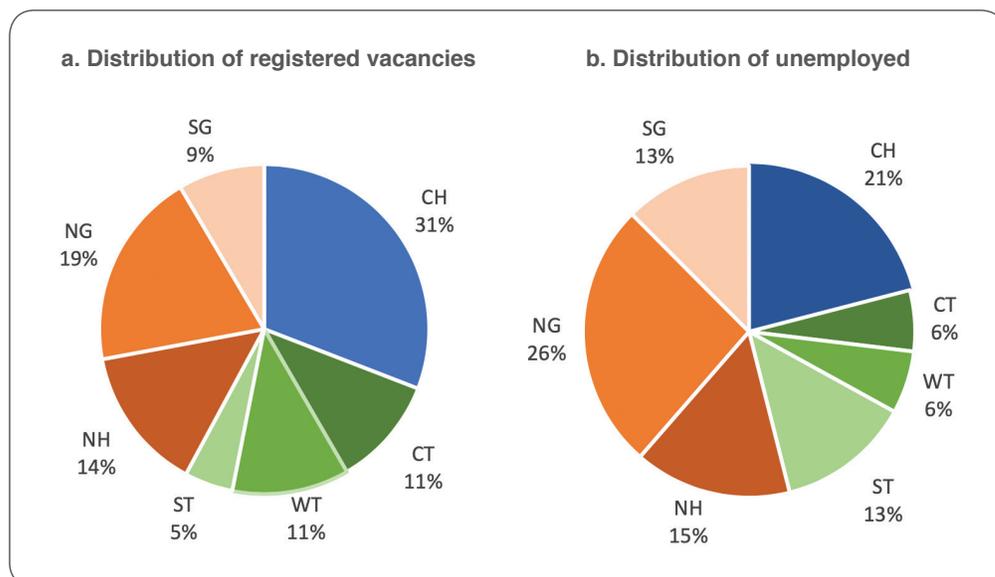
Note: NUTS 2 regions are labeled as follows: Central Hungary (CH), Central Transdanubia (CT), Western Transdanubia (WT), Southern Transdanubia (ST), Northern Hungary (NH), Northern Great Plain (NG), Southern Great Plain (SG). Color shadings group regions according to NUTS 1 levels: blue = Central Hungary; green = Transdanubia; orange = Great Plain and the North.

The distribution of registered vacancies by NUTS 2 region differs from that of the unemployed, suggesting regional mismatches in supply of and demand for labor. Overall, 84,115 vacancies were registered with the NES as of October 2018, of which 41 percent are subsidized vacancies.⁴ Figure 1.2, panel a, shows the distribution of registered vacancies at the NUTS 2 level. Though close to a third of registered vacancies are in Central Hungary, this is true of only a fifth of the unemployed. On the other hand, the proportion of vacancies in Southern Transdanubia, the Southern Great Plain, and especially the Northern Great Plain are lower than the proportion of unemployed. This is also reflected in the higher unemployment rates in these regions.

Lack of mobility is driving regional labor market disparities. People living in areas with a low labor demand are likely to have fewer resources, so they will need additional or longer-term support to stabilize their position in the labor market. Their low income itself, in addition to concentration in rural areas, may also limit their employment opportunities, as they may face transportation and mobility barriers, as well as limited networks needed to find good jobs. Support measures such as the current mobility subsidy scheme has a low take-up due to informal rental market and a regressive design i.e. with the amount decreasing over time. Additionally, the NES is not geared up to meet the needs of workforce coming from other regions and to provide ongoing support and follow-up during the resettlement process. At the sub-regional and local level, people have difficulties of reaching the workplace even in close by locations because of an underdeveloped transport infrastructure, inappropriate schedules, high transportation costs. Commuting is also severely hampered in the least developed regions.

⁴ Both public authorities and private firms are legally obligated to report vacancies that are to be filled by an employment contract. The reporting obligation is only effectively enforced in the case of public bodies and in the case of groupwise redundancies. In this regard, the sample is not necessarily representative of all vacancies in the country.

Figure 1.2: Registered vacancies and unemployed by region



Source: For registered vacancies: NES data, as of October 2018; for unemployed: Eurostat, 2017 (latest regional data available).

Note: NUTS 2 regions are labeled as follows: Central Hungary (CH), Central Transdanubia (CT), Western Transdanubia (WT), Southern Transdanubia (ST), Northern Hungary (NH), Northern Great Plain (NG), Southern Great Plain (SG). Color shadings group regions according to NUTS 1 levels: blue = Central Hungary; green = Transdanubia; orange = Great Plain and the North.

The share of working poor has remained stable over the past decade but remains well above the EU-28 average, suggesting that many employed individuals are marginally employed.

In 2017, 19 percent of Hungarians who were mainly working were at risk of poverty or social exclusion (AROPE). This number was quite stable over the past decade but remains well above the EU-28 average of 12.3 percent. Unemployed individuals are the most at risk of poverty or social exclusion, with rates above 70 percent. Early retirees are those whose situation improved the most, with AROPE levels decreasing steadily since 2013, and below the EU-28 average in 2017 (38 percent versus 44 percent).

Labor supply is constrained by overlapping employment barriers. A previous World Bank study conducted in 2017 applied the latent class analysis (LCA) statistical technique to segment the Hungarian out-of-work and marginally employed.⁵ The analysis of the 2013 EU-SILC⁶ data resulted in six distinct groups. Among these, the most vulnerable faced multiple overlapping employment barriers such as having low skills, health limitations, care responsibilities, no recent work experience, or having never worked.⁷ Such mutually reinforcing barriers to employment must be addressed in an integrated, comprehensive manner through tailored activation and employment support policies.

5 The analysis is included in the country-specific paper for Hungary (Karácsony et al. 2017) and was prepared as part of the *Portraits of Labor Market Exclusion 2.0 exercise*, in collaboration with the OECD and funded by the European Commission.

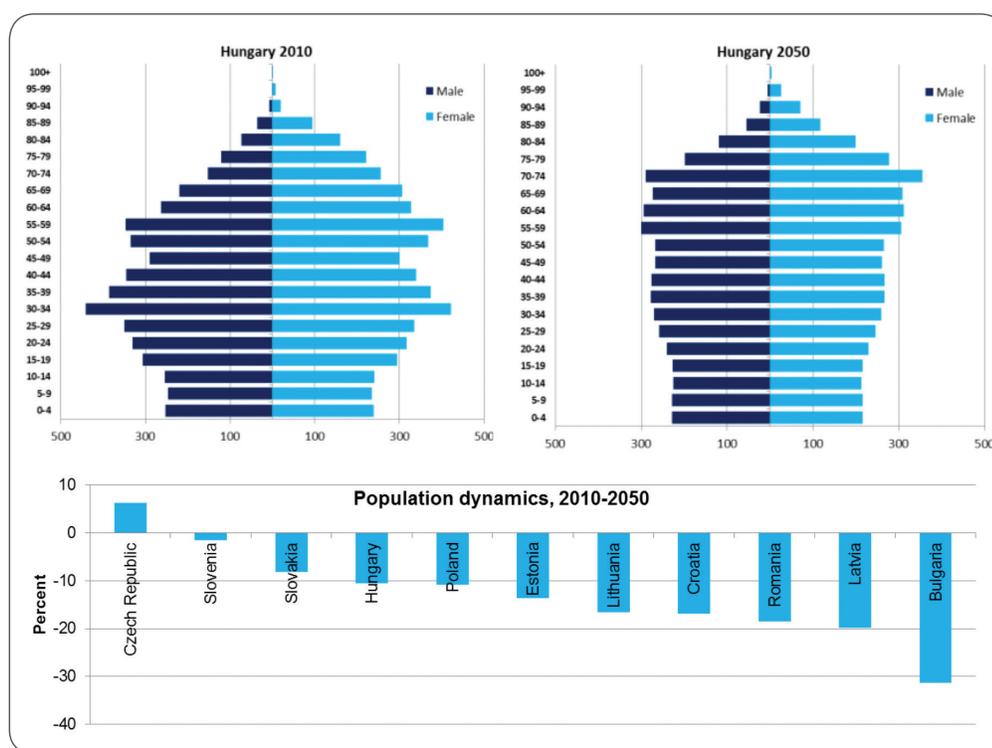
6 The EU-SILC instrument is the European Union's reference source for comparable statistics on income, social inclusion, and living conditions at the European level. It collects comparable multidimensional microdata on income, poverty, social exclusion, housing, labor, education, and health.

7 See Appendix A of Output 2, Component A, for the definition of employment barriers according to EU-SILC data.

2. RESOURCES AMONG THE NEXT GENERATION OF HUNGARIANS: CHANGING DEMOGRAPHICS AND POSSIBLE RECURRING GROWTH CONSTRAINTS

Hungary’s long-term economic growth prospects are put at risk by the effects of changing demographics. Statistics from the Hungarian Central Statistical Office (HCSO) show that Hungary’s working-age population is decreasing, falling by 7 percent between 2001 and 2017. At the same time, the population over 65 has increased by 20 percent. This trend is expected to continue, with an expected 10 percent decrease in the working-age population through 2050 (Schwarz at al. 2014) (Figure 2.1). Fewer people of working age and a larger proportion of elderly increase the pressure on the sustainability of Hungary’s pension and health care systems. To mitigate these effects and ensure sustainable economic growth, as much as of the working-age population as possible needs to be engaged in employment, and labor productivity must increase.

Figure 2.1: Age distribution and population dynamics in Hungary (2010–50)



Source: Karácsony et al. 2017 based on Schwarz et. al 2014.

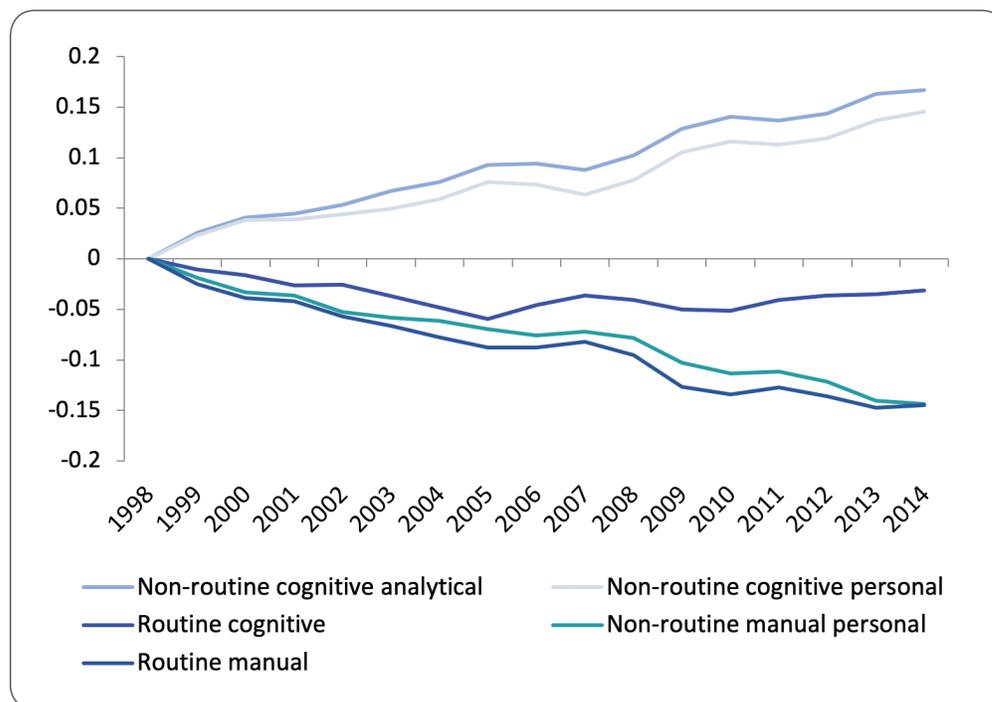
Note: The bottom panel shows the overall percent change in population projected in each country for the 2010–50 period.

Hungary’s economic growth may slow as a result of a tight labor market. Hungary’s economic growth accelerated to 4.6 percent in the first half of 2018, driven by strong investment performance and household consumption. At the same time, the number of vacancies registered with the NES has reached a historically high level—84,000 as of October 2018—out of which about 62,000 represent private sector jobs. While shortages are felt across the entire spectrum of the economy,

they are particularly constraining growth in the manufacturing sector. Migration of Hungarian citizens to more developed EU Member States reached 5.2 percent in 2017.⁸

As is the case in the EU as a whole, rapid technological change may further exacerbate skills mismatches in Hungary. With the adoption of new technologies, labor markets are expected to increasingly reward cognitive and interpersonal skills rather than those that pertain to manual and routine tasks. Some jobs may also move offshore or move from old to new EU Member States. Figure 2.2, which shows changes in occupation-specific task intensities for different states in CEE Continental Europe, which includes Hungary, confirms that such trends are already occurring, as occupations are becoming more focused on non-routine cognitive analytical and non-routine cognitive personal skills compared to routine and non-routine manual skills.

Figure 2.2: Occupation-specific task intensities, aggregated for each country and standardized over time, CEE Continental Europe averages, 1998–2014



Source: Ridao-Cano and Bodewig 2018.

Note: CEE Continental Europe includes Croatia, Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.

Given a tight labor market, Hungary must make better use of its human capital. Increasing the employability of its vulnerable jobseekers and engaging its inactive population can be achieved by designing activation and employment support policies; these must consider the barriers that keep individuals from either finding (better) jobs or from participating in the labor market altogether.

⁸ Fruszina 2018, based on Eurostat data.

Profiling systems are often limited by the way in which they group jobseekers into broad categories; thus, they do not provide meaningful information behind the barriers faced by jobseekers or explore how barriers overlap. Understanding these barriers will enable the NES to better use its resources and tailor activation and employment programs to the actual needs of potential jobseekers as well as determine ways to reach out to and encourage the currently inactive to register. In addition, identifying groups that share similar employment constraints can help make sense of an otherwise broad and heterogeneous population. Such identification can offer a critical look at the range of existing policies, services, and programs and assess their relevance and appropriateness, given both the target population's needs and circumstances and the country's priorities (Karácsony et al. 2017).

3. ON THE MARGINS OF THE LABOR MARKET: CHARACTERISTICS OF THE PERSISTENTLY OUT-OF-WORK OR marginally EMPLOYED HUNGARIANS

To ensure continued economic growth, activation and employment support measures must address the labor market barriers that keep individuals from finding (better) jobs or from participating in the labor market altogether. Given the tight labor market, combined with an aging population, evidence of skills mismatches, regional disparities, and persistent inactivity among certain population groups, Hungary must make better use of its human capital, both by increasing the employability of its most vulnerable current jobseekers and by engaging more of its inactive population in the labor market. To achieve this, activation and employment support policies must be designed to consider the barriers that keep individuals from either finding (better) jobs or from participating in the labor market altogether. A recent Organization for Economic Co-operation and Development (OECD) and World Bank paper (2016) identifies three main types of employment barriers:

1. **Insufficient work-related capabilities** include factors that may limit an individual's ability to perform certain job-related tasks. These include, for example, low education (as a proxy for skills), low levels of work experience, caregiving responsibilities, or limitations on daily activities due to health status.
2. **Weak economic incentives to look for or accept a "good" job.** Individuals may decide not to participate in the labor market (or may increase their reservation wage)⁹ if they could potentially lose out-of-work benefits that are higher than the wage they could expect to receive should they accept a full-time job, or if they already have a high standard of living due to other income sources. Working also includes financial costs such as those related to transportation, eating at the workplace, and clothing, also raising an individual's reservation wage.
3. **Scarce employment opportunities** occur when there is a shortage of vacancies in the relevant labor market segment (geographical area or sector), friction in the labor market due to information asymmetries, skills mismatches, discrimination (e.g., due to gender, age, or ethnic background), lack of social capital, or other tensions present in labor markets.

One out of every five working-age persons (not including full-time students) in Hungary is out of work or marginally employed.¹⁰ Table 3.1 provides an overview of the working-age and target populations according to the 2016 EU-SILC data. The reference population refers to working-age individuals (16–64), excluding full-time students younger than 25, and accounts for 5.75 million individuals. The target population, or the out-of-work and marginally employed, represents 21.7 percent of the working-age population, or 1.25 million individuals.¹¹ Among the target population, 61 percent were persistently out of work during the reference period, and the remaining 39 percent were marginally employed—in unstable jobs (20 percent), working restricted working hours (6 percent), or had very low income (12 percent).¹²

9 An individual's reservation wage refers to the lowest wage they are willing to accept in order to take up employment. When individuals face liquidity constraints, they may have a lower reservation wage. Conversely, an individual with other sources of income may value leisure more and only be willing to take up employment at higher wages.

10 Not including (early) retirees or a subset of individuals receiving disability benefits.

11 In the analysis based on 2013 survey data, the target population represented 38 percent of the working-age population. This is not only because the target population included the retired and disabled individuals, but also because the remaining share of the working-age population with no labor market difficulties was lower according to 2013 EU-SILC data.

12 The marginally employed are defined in the same way as in the 2013 exercise. However, the threshold for individuals with very low earnings is changed to 40 percent of minimum wage, or HUF 42,000 net per month.

Table 3.1: Composition of working-age and target populations, 2016

	Number of individuals (thousands)	% of the working-age population	% of the target population
<i>No labor market difficulties*</i>	3,886	67.5%	NA
<i>(Early) retired</i>	491	8.5%	NA
<i>Disabled</i>	127	2.2%	NA
Target population	1,250	21.7%	100.0%
<i>Out of which:</i>			
<i>Out of work</i>	765	13.3%	61.2%
<i>Unstable jobs</i>	259	4.5%	20.9%
<i>Restricted hours</i>	74	1.3%	5.9%
<i>Very low earnings</i>	152	2.7%	12.2%
Total working-age population	5,753	100.0%	NA

Source: Karácsony et al. 2017 based on Schwartz et al. 2014.

Note: The working-age population refers to individuals (16–64), not including students ages 16–24. Early retired refers to individuals reporting being in retirement at the time of the interview. Disabled refers to individuals receiving disability benefits during the reference period who also report having severe limitations in daily activities and being unfit to work at the time of the interview. The categories “unstable jobs,” “restricted hours,” and “very low earnings” are not mutually exclusive.

*Individuals with “no labor market difficulties” include about 200,000 individuals employed in public works. In theory, such individuals can be considered to have labor market difficulties since they are not employed on the primary labor market.

The target population is more likely to face employment barriers than the working-age population. As expected, employment barriers are more prevalent among the target population than among the population of working age. Incentives barriers, however, are an exception: high nonlabor income is more prevalent among the working-age population, while the high earnings replacement barriers are similar among both populations. This suggests that the target population is not excluded from good jobs due to financial incentives; in fact, the target population is predominantly low income. Their low income itself, in addition to the fact that they are concentrated in rural areas, may also limit their employment opportunities, as they may face transportation and mobility barriers.¹³ They are also likely to have limited networks, which are important for finding good jobs. Their low socioeconomic standing may also be associated with other factors that limit employability such as substance abuse, or discriminatory practices.¹⁴

Lack of recent work experience is the most common employment barrier for the target population. Fifty-three percent of the target population has no recent work experience,¹⁵ compared to just 21 percent of the working-age population. This proportion rises to 79 percent among the persistently out-of-work; almost all individuals who reported being unfit to work (94 percent) also faced this barrier. The share that has never worked is considerably lower among the target population, at just 12 percent; the share rises to as high as 28 percent among those who report being “other inactive.” In contrast, among the working-age population, just

13 Transportation poses a barrier not only due to economic costs, but also because public transportation is often not adjusted to the typical starting and ending hours of jobs, as noted by NES staff.

14 A disproportionate ratio of the target population is also of Roma ethnicity, who may face discrimination on the labor market. Eight percent of the target population self-reported being Roma, versus 3 percent of the working-age population.

15 An individual is considered to lack recent work experience if they have not worked for at least one month in the last semester of the reference year and are not working at the time of the interview.

3 percent have no work experience. Finally, low relative work experience¹⁶ is also a common barrier, affecting 45 percent of the target population versus 20 percent of the working-age population. This means that although these populations may have some work experience, they have spent most of their potential working lives not employed.

Low education, health limitations, and scarce employment opportunities each affect about one-third of the target population. These proportions are higher than those found among the population of working age, among which about one-fifth are affected by low education¹⁷ and health limitations,¹⁸ respectively, and a little over one-fourth are affected by scarce employment opportunities.¹⁹ Among the target population, those who are marginally employed or engaged in domestic activities are less likely to have low education; only about one-quarter of these groups face this barrier. As expected, the great majority of those who report being unfit to work face health limitations (85 percent). The prevalence of health limitations is relatively low among the other inactive and those engaged in domestic activities (around 15 percent); the proportion of those who are unemployed who report having health limitations is significantly higher (24 percent).

Close to one-fourth of the target population has caregiving responsibilities; in contrast, only 7 percent of the working-age population faces this barrier. Caregiving responsibilities are especially concentrated among those who report being engaged in domestic activities (66 percent). Among the “other inactive,” the share with care responsibilities is not too different, at 60 percent.²⁰ Among the unemployed, only 8 percent faces this barrier; the proportion is also low among the marginally employed (13 percent). Those who are unfit to work also tend to not face this barrier; this is in part by construction, since the barrier affects individuals considered to be potential caregivers, and this does not include individuals with health limitations.²¹

Social benefits do not create a high earnings replacement barrier for either the target or the working-age populations. Only 6 percent of the target population faces the high earnings replacement barrier²², close to that of the working-age population (4 percent). This indicates that the population that is out of work or marginally employed are unlikely to receive benefits that disincentivize them from working, even though 81 percent of the target population receives at least one social benefit (old-age, survivor, sickness, disability, housing, family, or other social exclusion) versus 61 percent of the working-age population. The unemployed are especially unlikely to face the high earnings replacement barrier: only 2 percent of this population faces this barrier, even though 36 percent receive unemployment benefits. The proportion facing the

16 An individual is considered to have low relative work experience if they have worked less than 60 percent of the time since they left full-time education.

17 An individual is considered to face the low education barrier if they have at most completed lower secondary education.

18 An individual is considered to face the health limitations barrier if they report some or severe self-perceived limitations in daily activities due to health conditions.

19 An individual is considered to face the scarce opportunities barrier if they are estimated to have a high probability of being unemployed or are involuntarily working part-time due to their age, gender, education, and region of residence.

20 It is important to consider that the care responsibilities barrier is not self-declared. See Appendix A in Output 2 for the definition.

21 Note, however, that the 2016 EU-SILC ad hoc module allows one to identify individuals who provide at least 20 hours of unpaid care to other persons (not including children without disabilities). Such individuals are considered to face the care responsibilities barrier even if they have health limitations.

22 An individual is considered to face the earnings replacement barrier if the value of social benefits received is more than 60 percent of the individual's estimated potential earnings in work.

earnings replacement barrier is higher among the unfit to work (16 percent). Eighty percent of this population receives disability benefits; however, benefit levels do not appear to be so high as to deter their participation in the labor force.

Compared to the target population, public workers face high labor market entry barriers due to their low income, relatively low skills, and concentration in rural areas. About half of the public workers do not have lower secondary schooling; in contrast, only about a third of the target population faces this barrier. Moreover, only 2 percent of public workers reported having tertiary education versus 15 percent of the target population. Public workers have relatively low income with 44 percent being at risk of poverty versus 37 percent of the target population. Also, the majority (59 percent) are in the bottom income quintile (versus 46 percent of the target population). About 83 percent of public workers live in rural areas, the Northern Great Plain, and Northern Hungary (65 percent). In contrast, the corresponding figures for the target population are 52 percent for rural areas and 46 percent for the Great Plain and the North of country. The Roma ethnicity is disproportionately represented among public workers: Fourteen percent of public workers self-identified as Roma - versus 8 percent of the target population—whose job prospects might be affected by labor market discrimination.

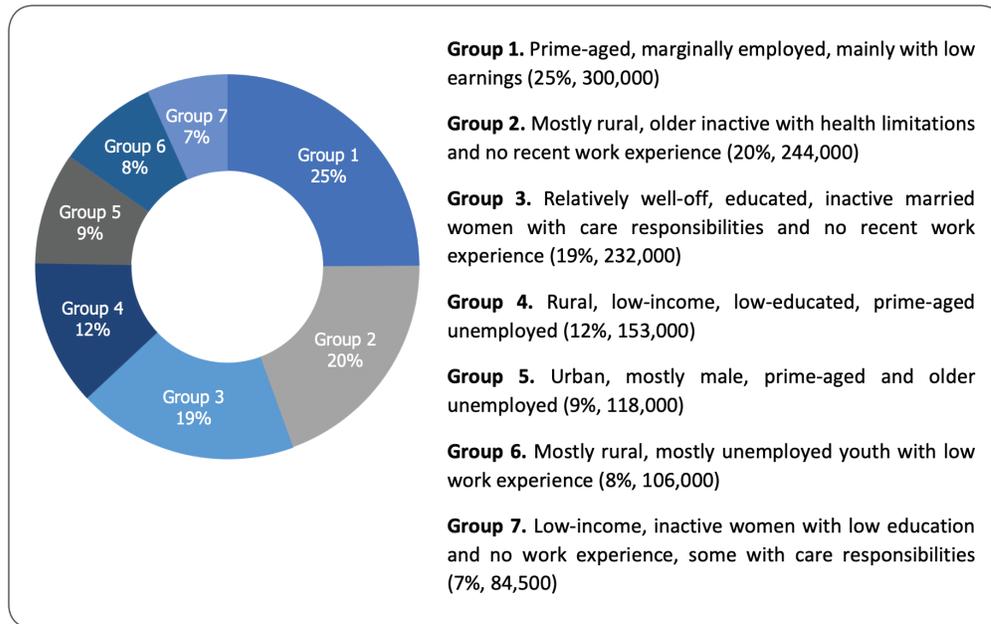
OUT-OF-WORK OR MARGINALLY EMPLOYED INDIVIDUALS FACE MULTIPLE EMPLOYMENT BARRIERS

Seven distinct groups were identified among the out-of-work and marginally employed in Hungary, varying in terms of size, labor market status, socioeconomic characteristics, and the multiple overlapping employment barriers they face. The segmentation exercise conducted by the World Bank in 2017 using 2013 EU-SILC data was updated to reflect the latest available data.²³ Figure 3.1 shows the breakdown of the target population using LCA, a statistical segmentation technique. Group 1 (*prime-aged, marginally employed, mainly with low earnings*) is the largest and comprises individuals who were mostly employed during the reference period, as well as at the time of the interview. Given their low income, they are considered marginally employed. There are also three groups of unemployed individuals (groups 4, 5, and 6). Finally, there are two distinct groups of inactive women (groups 3 and 7), and a group of individuals with health limitations (group 2).

Groups among the target population face multiple overlapping employment barriers. Figure 3.2 shows the number of employment barriers faced by each group. Group 7 is the most vulnerable group (as measured by the number of simultaneously overlapping barriers), with 35 percent facing 5 or more barriers. At the other end of the spectrum is group 1, with 28 percent facing no employment barriers at all. Group 5 is also relatively less vulnerable: on average, it faces 2.3 barriers, whereas the target population faces 2.6 barriers. Groups 2, 3, 4, and 6 are fairly similar as far as number of barriers is concerned. However, the number of barriers faced hides important differences, as not all barriers represent equal obstacles to surmount, and the types of services needed to address them differ.

²³ This updated exercise also differs from the previous one in that it excludes working-age individuals already in retirement or receiving disability benefits, reporting to be unfit for work, and having severe limitations in daily activities. These two populations are excluded mainly because they are not the primary focus of the NES.

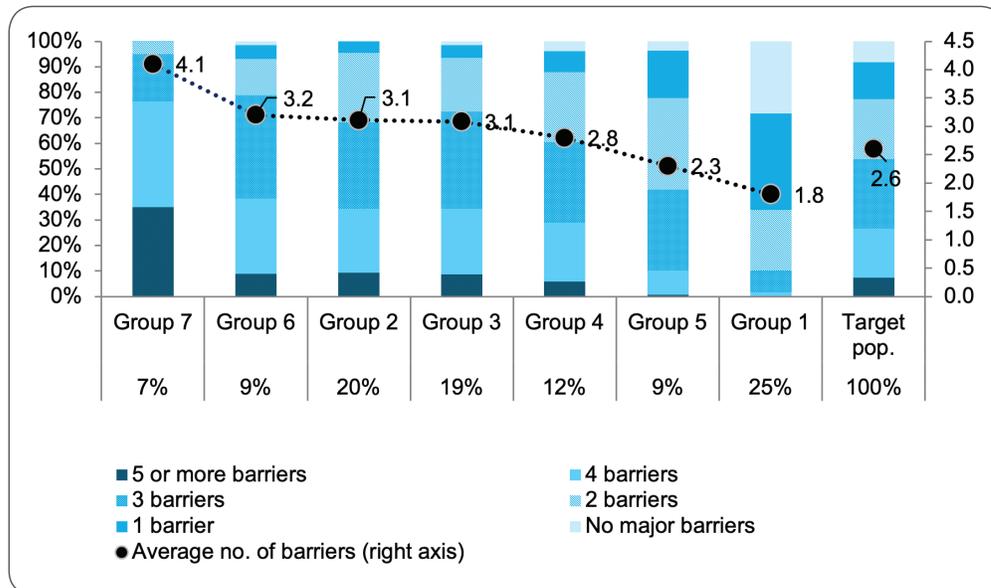
Figure 3.1: Latent groups within the Hungarian out-of-work and marginally employed, 2016



Source: World Bank staff calculations based on 2016 EU-SILC.

Note: The target population refers to population ages 16–64 not including full-time students ages 16–24, retired individuals, or individuals receiving disability benefits who also report being unfit to work and having severe limitations in daily activities.

Figure 3.2: Number of barriers faced by each latent group



Source: World Bank staff calculations based on 2016 EU-SILC.

Note: Groups are ordered according to average number of barriers. The maximum number of barriers a group may face is seven (this is one more than in the 2013 analysis, given the availability of relative work experience). Percentages that appear below group numbers refer to their share of the target population.

IDENTIFIED LATENT GROUPS NEED TAILORED ACTIVATION AND EMPLOYMENT SUPPORT POLICIES

A careful look at the barriers and socioeconomic circumstances of the seven groups can help assess the current scope of activation and employment support services. The seven identified groups face varying degrees of labor market vulnerability and various employment barriers. Indeed, given survey data limitations, not all factors that limit employment are considered. For example, in consultations undertaken with NES caseworkers under the scope of this technical assistance, barriers such as low motivation and difficulty in keeping a job due to, for example, not showing up on time, substance abuse, or mobility were highlighted as common among the hard to employ. With these limitations in mind, this analysis provides a broad overview of some of the most salient barriers faced by priority groups and can help assess the current supply of activation and employment support services offered by the NES. It can also serve to assess what it would take to encourage the inactive to participate in the labor market.

Current NES offerings under the individual action plans (IAPs) are varied.²⁴ Among the available instruments are referrals to job search tools such as a labor market portal, job fairs, and vacancies. NES also offers provision of information either individually or collectively; counseling (e.g., career counseling, job search techniques, and clubs; mentoring); and placement services (primary labor market, subsidized jobs, or public works). Moreover, there are various labor market programs available, including housing subsidies, training subsidies, mobility subsidies, subsidies for labor market programs and subsidies for increasing employment, supporting job retention, and supporting self-employment.

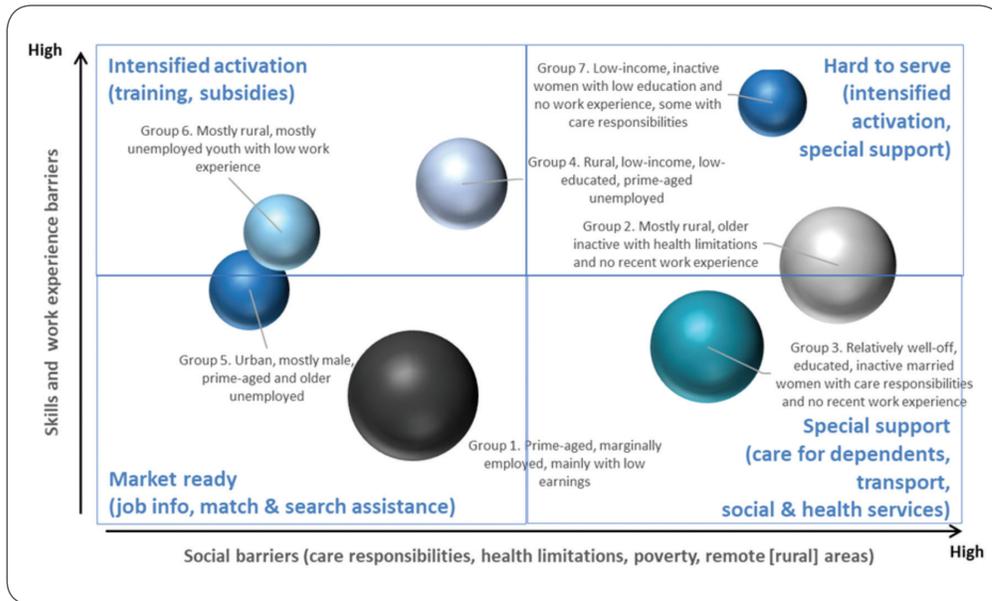
The seven identified latent groups can be classified according to the type of activation needed to address their most salient barriers. Figure 3.3 loosely plots the seven groups according to two dimensions. The first dimension, on the x-axis, is related to care responsibilities, health limitations, poverty,²⁵ and living in remote areas, which we refer to as “social barriers” given that interventions necessary to help clients surmount them are generally provided by social services and may be beyond the scope of the NES.²⁶ The second dimension, on the y-axis, refers to capabilities barriers related to skills and work experience. When these barriers are high, intensified activation measures may be necessary (such as training to enhance skills). On the other hand, when barriers are low, clients may be considered more market ready and may be serviced via information, job matching, and search assistance. The size of the bubbles reflects the relative size of each group.

24 A description of NES services can be found in Output 3, Component A of this technical assistance.

25 In particular, an individual's poverty status may make him or her more vulnerable in terms of finding employment, given, for example, the individual's lower access to networks, difficult accessing transportation or mobility, or experiencing discrimination.

26 In the LCA, the barriers are grouped differently to take into account the various interventions needed to address each barrier. However, the barriers examined are the same. In the employment framework, barriers related to geographic location, poverty, and ethnicity are associated with the “scarce opportunities” barrier, whereas barriers related to skills, work experience, care responsibilities, and health limitations are considered as “capabilities” barriers. The two financial incentives barriers are not taken into account in the figure since only the barrier related to high nonlabor income is salient in two of the groups (43 percent in group 3 and 38 percent in group 6).

Figure 3.3: Activation needs and social barriers of identified latent groups, 2016



Source: World Bank staff data, based on Sundaram et al. 2014.

Note: The size of each bubble represents the relative group sizes.

4. ADDRESSING (SOME) CHALLENGES: THE SITUATION OF ALMPs IN HUNGARY

Hungary has a rich landscape of supply and demand-side ALMPs; however, their impact remains limited. There are a broad range of labor market programs available in Hungary, including subsidies for housing, training, mobility, increasing employment, supporting job retention, and supporting self-employment. The programs are financed both from budgetary sources and the European Structural and Investment Funds. A recent evaluation of ALMPs finds that only wage subsidies have a positive effect on jobseekers' employability. The impact of trainings on employment is limited to short-term trainings, and the effect prevails only for a short period of time. Other ALMPs do not have an effect on employment outcomes (Strategopolis Kft 2018).

Labor market services in Hungary are largely inefficient due to mainly supply-driven interventions and horizontal coordination issues. Under the current setting, resources are dedicated to programs, services, and employment-related projects based on registered unemployed. As a result, the delivery of services and programs is driven by supply rather than demand. The existing ALMPs cover only a share of clients who face labor market barriers. The pool of clients currently registered in the Integrated Registry (IR) of the NES refers to approximately 300,000 clients (Bördős et al. 2018), whereas the EU-SILC data identifies 1.25 million people of working age who face key entry barriers in the labor market; 765,000 people are inactive or unemployed, and the rest are considered marginally employed. Moreover, the figures from EU-SILC do not include about 218,000 individuals²⁷ employed via public works who are within the realm of the NES. Consequently, the NES engages only with a fraction of those individuals who are currently not on the labor market or only on its margins.

Moreover, employment policies and institutions have no single owner within the governance system. In the current institutional setting, labor market programs (ALMPs) are designed and delivered independently by various ministries and stakeholders. As a result, the existing LMPs and related services are offered by a multitude of actors, and referral between services and employment support programs is difficult due to the institutional set-up. Furthermore, while the NES aims to provide effective job matching services, a large pool of jobseekers remain outside of its reach, including potential jobseekers who are currently inactive (as well as the marginally employed who may want to seek better job opportunities but cannot register due to their employment status).

Contrary to international evidence, ALMPs in Hungary do not demonstrate lasting impacts on employment outcomes, apart from one minor exception. In its 2018 impact evaluation of ALMPs in Hungary, Strategopolis reported that in terms of impact on participants' long-term employment, the outcomes of ALMPs in Hungary may demonstrate diverging patterns compared to international evidence (Strategopolis 2018). The report highlights that the mechanisms behind these patterns may have to do with the supply-based allocation of services and measures (which are especially relevant in the case of trainings), and with macroeconomic cycles of the labor market. For example, in the case of wage subsidies, evidence with respect to the post-2008 crisis period shows that these measures raise the probability of longer employment, but contrary to international evidence, they do not have any impact on wage levels. In the case of trainings, the report finds a slight impact on the probability of becoming employed especially for the crisis period, but the picture changes after that. Based on comparisons of various trainings, Strategopolis

27 For the purposes of the EU SILC data analysis, the team used the data for public works with the reference year 2016.

finds that longer professional training programs and language courses lead to higher salaries. Citing prior evidence from Hungary, Strategopolis points out that wage subsidies seem to be ineffective in the Hungarian context among older unemployed, while trainings seem to be rather effective among young (under 25) and less-educated unemployed people. The report also warns that “ALMPs in Hungary tend to be applied rather improperly, as [a] large proportion of their participants are better skilled who seem to be able to find similar jobs without training, assistance” (Strategopolis 2018). Other evidence suggests that exits from the largest pool of measures—that is, public works—remains limited to around 12 percent (Molnár, Bazsalya and Bódis 2018).

The scaling back of public works threatens access to basic services in Hungary’s most vulnerable small- and medium-sized municipalities. Despite recent reforms aiming to downsize, the public works program remains the largest single government intervention in the Hungarian labor market. Given the program’s funding interactions with shrinking municipal financing trend, according to the HCSO, public works has a significant retention effect on the rural labor force. Thus, downsizing the program will affect the vulnerable population in rural areas, especially in disadvantaged communities.

5. THE THIRD SECTOR: HOW SOCIAL ECONOMY SOLUTIONS CAN CREATE OPPORTUNITIES FOR VULNERABLE JOBSEEKERS

Social enterprises play a crucial role in generating new jobs and contributing to inclusive growth. Not only can they offer more employment, but they can act as advocates for employing socially excluded people and creating opportunities for special categories of workers (inactive, vulnerable jobseekers, disadvantaged persons) who otherwise would not be able to find a job or re/integrate on the labor market in disadvantaged areas. Employment and job creation in social enterprises require (i) an adequate legal and regulatory framework; (ii) access to finance, including EU financing instruments; (iii) access to markets, both public and private; (iv) business support structures; and (v) training and research.

Social cooperatives—the most prevalent and common legal form of social enterprises, part of the social economy in Hungary—are largely used as vehicles to employ persons who have difficulties entering the labor market. There is no specific legislative framework for defining “social economy” or “social enterprises” in Hungary,²⁸ but research shows that social economic activities are the most prevalent type of activities for not fully employed, older households in the middle-income groups (where experience, skills, time, and some money to invest are present) in rural, underdeveloped areas and smaller settlements (where land is available for household production and the economic situation makes it necessary; for example, connecting with the public works scheme) (Papp 2011).

The EU provides funding for setting up and sustaining social enterprises, and about 3,000 jobs for vulnerable people were created during the last programming period. EU funding has been provided to support social enterprises under the Social Renewal Operational Program 2007–13 (Társadalmi Megújulás Operatív Program; TÁMOP) creating around 3,000 jobs for vulnerable people. Support will continue during the current EU programming period (2014–20) under the framework of the Economic Development and Innovation Operational Program (Gazdaságfejlesztési és Innovációs Operatív Program;GINOP) with the overall goal of allocating €65 million and additional loans for 500 social enterprises to create a minimum of 4,000 new jobs. In addition, the Ministry for Interior Affairs has been running its social cooperatives program connected with the public works scheme.

Targeted demand-side interventions in the social economy sector provide a pathway to improve employment outcomes. In addition to the available EU funding, the government also intends to support social enterprises through a combination of credits and subsidies aimed at improving business development opportunities and reinforcing human resources: this program is offered to approximately 300 social enterprises and is expected to create 3,000 jobs. A subcategory of social economy interventions is a set of measures from the National Social Inclusion Strategy that targets low-skilled and Roma jobseekers’ employment in social enterprises.

²⁸ Foundations, associations, and other nonprofit organizations working under different legal statutes may form part of the broader social economy ecosystem, but they are also often referred to as social enterprises, although their business model might entirely depend on government grants/subsidies and not feature commercial activity.

Local cases show the long-term added value of local-level social economy development initiatives for activating and incentivizing out-of-work groups for a later entry into the labor market. For example, in Gyulaj, a settlement of 1,000 people in Tolna county in the district of Dombóvár, the modernization of agriculture beginning in the 1960s led to a decrease in workforce demand in the settlement. This in turn led social cohesion to disintegrate among the peasant population, and significant out-migration subsequently ensued. By the 2000s, the settlement had become a village characterized by a predominantly Roma population, high levels of unemployment, no major employers, and a deteriorating housing stock. The 2000s were marked by the Gyulaj population's low levels of participation in the active labor market. The settlement did not provide labor opportunities other than at local government institutions, a few agricultural enterprises, and a rather narrow service sector. However, these conditions were transformed beginning in the 2010s by both well-organized public employment and by the social cooperative established with the assistance of the Maltese Charity Service, which processed products made in the public employment framework. The social cooperative processed both vegetables and meat; furthermore, it sold its own brand in Dombóvár and Pécs. The potential labor force received a social-development intervention parallel with a workforce incubator in the framework of public employment and the social cooperative. These complex interventions contributed to the present situation; that is, when labor market conditions became favorable in the region, the local population improved its chances for employment in the primary labor market.

Challenges for the growth of the social economy sector also stem from the lack of a national strategy for social enterprises to identify the measures and sectors that would help enterprises to grow and develop. Improvements to the social economy ecosystem would require exploring four main areas: legal framework, access to finance, access to markets, and “core support”—the development of education and skills for social entrepreneurs. Social enterprises' Lack of evidence-based funding for social enterprises, visibility of social enterprises and insufficient acknowledgement of social entrepreneurs—especially in ways that impact their long-term strategic planning—are additional challenges to the sector's development.

6. THE PATH AHEAD FOR HUNGARY: CONCLUSIONS AND RECOMMENDATIONS

A significant number of vulnerable Hungarians remain excluded from the labor market. Despite the labor market's impressive rebound from the financial crisis, there are still many people who are outside the scope of the public employment services. Many are inactive, unemployed, or on the margins of the labor market, and a disproportionate number of them live in areas with low labor demand—for example, in rural areas, in the Great Plains, or in the North.

Clients with multiple labor market entry barriers need targeted and integrated support that is family centered, long term, and able to combine several resources; it is therefore paramount to involve other partners and sectors, in addition to the NES. Inactive and unemployed clients present a set of complex individual and household challenges, such as care needs, health care problems, lack of marketable trades and skills, as well as transportation and mobility disadvantages. These problems must be resolved, on the one hand with active labor market policies, and on the other with social services. Potential employees who exist on the labor market's margins are more ready to enter the market, and therefore require fewer supporting resources.

There is no designated agency within the government system responsible for employment policies and institutions. As a result, existing labor market tools and related services are provided by several distinct actors, with poor coordination between the individual tools and the different services within them. A framework for coordinating the employment policy tools must be created within a single employment policy concept, where competencies are clear and the actions of which are regularly coordinated.

To shift the NES from an operation focused on authority tasks to a more service-centered one would require restructuring resources and institutional capacities. For the NES to be able to cooperate and coordinate with other ministries and service providers at the district or county level, the structure and distribution of its current resources need to be redesigned. In addition, the NES needs to be taken out of the government structure and an integrated employment organization should be created.

All activities along the client service pathway require targeted reforms. Against the issues and ideas discussed in previous chapters of the report, our conclusions center around the following four links in the client delivery chain: (i) client intake; (ii) client classification; (iii) service identification; and (iv) service delivery. The recommendations are further detailed below.

CLIENT INTAKE

Intensive outreach work is required to contact inactive individuals; this should be done in close coordination with the local municipal governments and NGOs so as to expand the circle of clients. Cooperating with local NGOs can facilitate contact with marginalized communities. In this process it is essential to consult with local municipal governments to ensure they address the counter-incentives and the retention effect of local public works.

Outreach activities should pay special attention to inactive women. For some, providing information about child care may be sufficient to encourage them to take up a job, whereas for others, their lack of required skills and work experience can pose further barriers. This population is of working age and consists of some 300,000 individuals who are not looking for a job and are either retired or have disabilities, and are almost entirely women. The LCA indicates that a significant number of these women (about 84,000) have only lower secondary education and have never worked.²⁹ The majority of women in this group live in the Great Plains or in the North, where there is weaker labor demand. About 50 percent of them need child care provision, and as a result it is very likely that—in line with the country’s strong gender norms—they have to stay at home. Furthermore, one-third of them describe themselves as Roma, implying they may be subject to discrimination on the labor market.³⁰ The social and community norms related to their residence, ethnicity, and gender probably affect their educational attainment. If schools—which are primarily in remote areas and have Roma pupils—can address the social expectations related to gender roles, it can encourage more girls and women to continue their education and obtain work experience so they can ultimately enter the labor market (this process would be reinforced by raising the compulsory schooling age to 18). The other group of women—amounting to two-thirds—have higher qualifications and previous work experience, but are mothers of young children.³¹ Some cannot be financially incentivized to find a job while their children are small because their husbands already work. The successful return of mothers to the labor market can be facilitated if, before they go on maternity leave, they receive information about the basic job search services and the opportunities for child care, and on the importance of being in touch with the labor market on an ongoing basis, since without the above their contacts shrink and their skills dissipate.

NES portfolio should be re-designed so as to address —in addition to registered jobseekers—the potential labor force reserve, and this requires increasing its capacities and clarification of its tasks. The national services and employment-related projects are primarily based on the registered unemployed. Therefore, despite the fact that the objective is to efficiently help jobseekers find suitable employment, a significant number of them continue to remain outside the scope of the NES, including potential jobseekers who are inactive at the time or who are active on the black market. For the NES to be able to perform this task, its administrative burden must be decreased, to guide clients to the most appropriate service delivery channel based on the segmentation of clients, and to improve job matching efficiency, e.g., by improving job offerings.

Those employed on the margins of the labor market (some 500,000 people) may register with the NES for job search services that could improve their situation, but in practice they would not be served effectively. The existing labor market tools only cover a certain portion of those clients who face barriers, and only some of these barriers can be addressed with the above-mentioned tools. Those who are currently employed - but still marginalized - should be encouraged, to try to find a better or more stable job, because based on their work experience and education, they can probably change jobs.

29 Classified into group 7 (*low-income, inactive women with low education, some with care responsibilities*), which is made up of about 84,500 women.

30 Because people of Roma origin often prefer not to self-declare as Roma in household surveys, it is possible this proportion is even higher.

31 These women are a part of group 3 (*relatively well-off, educated, inactive married women with care responsibilities and no recent work experience*), which consists of about 232,000 women.

CLIENT CLASSIFICATION

Relying on a revamped IR, the NES must identify and systematically take stock of those barriers—such as those related to nursing/caregiving tasks, mobility obstacles, or physical or mental health problems—in which solutions go beyond the scope of labor market services.

At the individual and family level, the barriers to employability and taking a job are difficult to interpret in the current IR system (as revealed based on data from the EU-SILC 2016 and case managers' practices). For this reason, the IR needs to be reviewed. However, the difficulties can be mitigated or overcome altogether with interventions that go beyond the employment services' current portfolio.

There is no need to further break down the current three categories used in the labor market profiling system. In accordance with the recommendations of the HÉTFA Research Institute, there is no need to further segment the currently existing three categories that reflect the probability of a successful job search (high/medium/low).³² At the same time, it is important to collect further data so as to accurately calibrate a client categorization system, which also supports case management and employment mediation work with several variables (e.g., child care obligations or need for health care provision). Based on the history of Hungary's profiling system, and in line with the different consultations conducted, the NES should aim to put into practice the following measures, either in the framework of the model proposed by the HÉTFA Research Institute or in the framework of the profiling methods to be introduced by the NES in the future.

- If a new profiling system is introduced: collect further data to be able to calibrate such a statistical profiling system, which will consist of more variables in the future (e.g., the need for child care or health care).
- Minimize the ability to reclassify a jobseeker into a different category after statistical profiling is conducted (e.g., automatically flag NES agents who reclassify more than a given percentage of jobseekers).
- Additional trainings and measures to reduce the administrative burden can help minimize the risk that case managers will refuse to use the profiling system. Further measures may include involving case managers in designing and updating the profiling system, and introducing incentives to use the profiling system.
- To decrease the administrative burden, restrict the IAP to jobseekers with high (compulsory IAP) and medium (voluntary IAP) barriers to employment, and introduce clear rules for retroactive profiling.
- Identify overlaps between social services and the NES (with special emphasis on Category 3, likely to remain in long-term unemployment, clients of the profiling system): many of the most vulnerable clients do not only need the help of NES, but need other services as well. Case managers should be responsible for coordinating with other agencies—social services, included—to ensure that the most disadvantaged clients have access to several such programs (social benefits, housing allowance, child benefits, etc.).

³² The current profiling algorithm used by the NES takes into account certain socio-demographic characteristics to categorize jobseekers as Category 1 (independent jobseeker), Category 2 (likely to find a job in the medium term, but also likely to benefit from public employment services and ALMPs), and Category 3 (likely to remain in long-term unemployment). The latter category is officially referred to as “to be assisted by the public works scheme.”

SERVICE IDENTIFICATION

Over the course of designing the activation and employment support programs, the NES should strive to adopt a demand-driven approach, bearing in mind the labor market barriers for its target groups, including registered and potential jobseekers. The data analysis has revealed that the composition of people with labor market difficulties—which consists of those unemployed, inactive, and on the fringes of the labor market—is mixed and includes at least seven distinct groups from the perspective of labor market barriers. Certain groups are mainly concentrated in regions with a low labor demand (rural areas, in the Great Plains, and in the North) and can be characterized by having low qualifications and limited work experience. Women make up almost all of the inactive individuals who are able to work, many of whom need child care and a part-time job or home-based work in order to connect to the labor market. The group of low-skilled unemployed living in rural areas also comprises a significant proportion of individuals declaring to be of Roma origin. The results of the LCA exercise can help evaluate the currently available ALMPs and supplementary services.

The design of services and programs should be primarily dictated by demand, considering that the jobseeker should indeed have a better chance of entering or reentering the primary labor market through targeted interventions. The majority of labor market services are not effective because in the current setting, the programs are tied to resources; that is, completing the services and programs is supply-driven rather than demand-driven, and in the given case the programs and services consider the characteristics of the open labor market only to a limited extent.

The NES must prepare to refer its clients to outside service channels. The NES has to explore and systematically identify those barriers—e.g., nursing/care responsibilities, mobility obstacles, or physical or mental health problems—whose solution goes beyond the scope of the labor market services. Then it will have to contact the appropriate service providers at the district or county level to assess the necessity of and opportunities for cross-sectorial cooperation and coordination. Clients facing multiple barriers in the labor market need complex, flexible, family-centered, and long-term support, which make it indispensable to involve other partners, in addition to the NES. It is of vital importance for Hungary to deal with the needs of clients who face multiple barriers and make use of its potential labor resources.

Increased efforts and allocated resources are required to obtain improved results from Category 3 clients. Many of the most vulnerable jobseekers—that is, clients channeled to public works—need further services to facilitate their entry to the primary labor market. Case managers who work with Category 3 clients need to contact and coordinate with actors in the other professional branches—social services providers, among others—to ensure access for the most disadvantaged clients to several programs (social services, housing allowance, disability benefits, etc.). Customized service packages are also needed to make clients more flexible and adaptable vis-à-vis structural changes in the future—which go beyond the tasks currently performed—so operating them requires more resources. Along with efforts to overcome employment barriers, job matching activity aimed at finding employment for people doing public works should also be strengthened.

The institutional model of the NES should be decentralized so it can effectively adjust the processes in the local and regional labor market. A decentralized organizational model, based on and in-depth organizational assessment, that provides more scope to local initiatives can contribute—under a comprehensive umbrella—to making the NES more efficient and balanced. In areas with high labor demand, employers should receive head hunting and advisory services. In developing areas, trainings and services should be provided to increase the flexibility of jobseekers, ensuring potential for mobility; and integration of labor market and social services (including, among others, the inclusion of the health care and educational sectors). Their integration should be supported with long-term mentoring.

In order to effectively manage labor market barriers, institutional mandates must be strengthened, and cooperation mechanisms introduced. To better manage the problem of limited labor force supply and the high registration retention rate in the IR, in cooperation with the ministries, NES services and measures should be better coordinated and supplemented with tailor-made, project-based, temporary outside services and measures that provide solutions at the local level. To achieve this, the strategic distribution of such mandates should be defined in accordance with the main objectives. Through its district and county level sections (which are currently under the Office of the Prime Minister) the NES should play a greater role in organizing the provision of services based on *actual demand*. For this to occur, however, the current system, which transfers clients to other services, should be further developed.

Better coordination within the organization is indispensable to improve the provision of services. The NES can be enabled to coordinate the multiple parallel employment programs and projects through stronger decision making and resource planning mandates delegated at the local level. The target groups of programs operated by the individual agents—municipal governments, the employment sections of district government offices, employers, NGOs—often overlap. On the other hand, the project-based, temporary character of certain services creates supply breaks that compromise the efficiency and effectiveness of services. Coordination processes play an important role in maximizing the impact of these programs.

Financing mechanisms should be coordinated more effectively to better manage the different parallel labor market challenges. One of the most basic obstacles to effective client management has been pointed out as the budget fragmentation at NES. In the case of activities financed by the EU, the project aims channel clients into actually ongoing services and programs within in predefined time periods. As a result, it may happen that if the same services are required at a different point in time, no project-based subsidy may be available, and the clients cannot be served.

To prevent the long-term harmful effects of unemployment on an individual level, services should focus on preventing gaps in labor market participation. Services that help with the transition from unemployment to employment are more effective if priority is given to preventing or mitigating personal issues that can reduce motivation or increase stress. Services can also be enhanced with synergies. The service facilitating a client's transition from unemployment to employment is more effective if they —based on the needs of the clients—supplement each other. For example, training for youth in the youth guarantee schemes may be more impactful if available wage subsidies are offered to employers that can employ newly trained youth with no job experience immediately after the trainings, so as to avoid a break in individual pathways which may lead to diminishing motivation and increased stress. Jobseekers' motivation can be increased by providing supplementary counseling and mentoring, while job retention can be assisted by following up with employers and jobseekers—for example, in the case of young people or groups affected by discrimination, e.g., Roma or those with disabilities.

To resolve regional and at times local unemployment, the mobility support system must be completely re-designed, including more effective support for housing and travel costs, and the development of the transport infrastructure. People living in areas with a low labor demand are likely to have fewer resources, so they will need additional or longer-term support to stabilize their position in the labor market. At the same time, in regions characterized by high labor demand, the NES must be prepared to meet the needs of the workforce coming from other regions and to provide ongoing support and follow-up during the resettlement process. At the subregional and local level, it is necessary to mitigate the difficulties of reaching the workplace by developing the transport infrastructure and supporting commuting.

To facilitate exit from public work to the primary labor market, resources must be provided on the employee side to compensate for the extra costs of employment. Incentives should be put in place for local public work providers backed by a changed municipal financing system for the operation of settlements. The efficiency of the labor market programs is hindered by barriers and counter-incentives coming from the setup and the government funding of municipal governments. Previous commitments undertaken for public works and the challenges of relocation further hamper efficient organization of ALMPs. The additional costs of employment (transport, meals, clothing) and the difficulty of providing child care during working hours limit an employee's position on the primary labor market.

It is necessary to strengthen basic competences and to improve the adult and vocational training system in order to prepare for the expected changes in the labor market that are driven by technological development. With the introduction of new technologies, labor markets are expected to increasingly reward cognitive and interpersonal skills rather than those that pertain to manual and routine tasks. As rapid technological developments change the skills employers require, a review of the adult and vocational training systems is needed. This requires review efforts at the level of the public education system too as young people often graduate without basic competencies. Within this framework, it is recommended to develop a results measurement system for trainings along with modalities of performance-based financing³³.

³³ Hungary is currently revamping its vocational training system. The attempt to get the responsible ministry to participate in the on-site activities of the RAS mission was unsuccessful.

It is necessary to coordinate with other service providers to complement existing ALMPs.

The (re)organization of services should focus on an integrated approach to include the provision of training, social and healthcare programs to address the needs of the vulnerable. In the opinion of the relevant actors, the coordination and use of these services—even in a best-case scenario—is random, despite the fact in the mid-2000s integrated service-providing mechanisms, supported by EU funds, had been worked out and tested. However, these have never been incorporated into the processes at a system level.³⁴ The cross-sectorial coordination is especially indispensable in those parts of the country where the employment ratio is lower, where—in addition to wage subsidies—the aim of developing a regional labor market is the facilitation of job creation and of a new entrepreneurial spirit and business environment.

³⁴ Further information on coordination of the ALMPs and social services can be found in Output 3 of the current technical assistance.

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