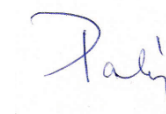


Assessment of labour market integration support schemes

**Framework contract for the performance of assessments of development programmes
co-financed by the Funds under the EU's Cohesion Policy, in 9 parts**

Part III: Assessment of impact on labour market and social outcomes

Prepared for the Ministry of Innovation and Technology



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Executive summary

The purpose of the evaluation is to assess the labour market effects of the development programmes that were implemented during the 2014-2020 programming period with ESF support, to determine how successful the labour market integration support schemes and available tools were in terms of facilitating labour market participants and integration. During the evaluation, we examine the large labour market programmes implemented within the framework of EDIOP (Economic Development and Innovation Operational Programme) and CCHOP (Competitive Central Hungary Operational Programme), the smaller schemes, connected to the Youth Guarantee, accessible through tender, that help young people become a trainee or entrepreneur, and the scheme targeting non-governmental labour market services, and the county-level and local employment pacts signed under the aegis of TSDOP (Territorial and Settlement Development Operational Programme). The assessment was prepared in 2020, hence it covers both completed and uncompleted interventions.

Labour market background

The 2014-2019 period, a few years after the great recession, was characterised by a steady improvement of the employment situation. The number of employed and economically active kept rising while the number of unemployed was decreasing. Between 2013 and 2019, the employment rate increased by about 12 percentage points within the 15-64 age group, to 70.1 per cent, the activity rate increased by 8 percentage points and reached 72.6 per cent, while the unemployment dropped by 7 percentage points, to 3.5 per cent, according to the CSO labour force survey. But the employment figures were influenced and distorted by the large-scale public works programme. In the first half of the reference period, the expansion of employment was accompanied by a radical scaling-up of the number of public workers – in 2014-2015, about one-fourth or one-third of the total growth in the number of employed was due to the growth in the number of public workers. Despite the improving labour market situation, the number of public workers began decreasing, due to government measures, only from 2017, and returned near 2012 levels as late as 2020.

With an activity rate of 72.6 per cent in 2019, Hungary still was below the EU average (73.4%), and markedly below the EU median (75.2%). The fact that the activity rate is lower in Hungary than in the majority of the EU countries, including the majority of the Eastern European member states, is one of the causes of the relatively low unemployment rate. The issue of inactivity is important especially in the light of the fact that the relative *employment* indicators are much more favourable. Even if in general the employment level of the working-age population does not lag behind the EU level, the share of the *economically active population* does.

Regarding the aggregated levels of *educational attainment*, the level of employment among people with secondary education (ISCED 3-4) is somewhat more favourable in Hungary than the EU average and median, but employment among people with *low educational attainment* (ISCED 1-2) is slightly less favourable. People who at best graduated from primary education constitute a clear majority (59% in 2019) of public workers. The composition of employed by

age is more unbalanced in Hungary than in the EU as a whole. In 2019, the employment situation of the prime-age (25-54) population was quite favourable (84.4%), but the employment rate of the older age group of 55-64 was mediocre (56.7%), and the *youth* employment rate (28.5%) was significantly below the EU average (and median), and this was *primarily due to differences* between the age groups within the *female population*.

According to Eurostat data, while the ratio of NEET youth within the 15-24 age group is lower than in many new EU member states (outside the Visegrad countries) or Southern European member states, it was still the eighth highest within the EU in 2019, and this is virtually entirely due to young non-working and non-studying *women*. Among women, the high share of NEET is mostly due to the youth with low educational attainment, that is, at most primary education.

Institutional and organisational impact

The organisational system of employment policy was profoundly reshaped during the 2010s, the participants at various levels of organisations had constantly adapted to subsequent organisational changes. During planning, in the phase of implementation start, the government employment organisation that has a key role in implementing the labour market programmes was overhauled – its final structure was established by the end of 2014. The former labour offices continue their operation as the employment departments of Government offices, and the district branches as employment departments of the district and capital level government offices. The earlier and real-time restructuring developments affected the start of implementation of the programmes. The changes are still ongoing. Thus, the *operation of the National Employment Service* (NFSZ) and the implementation of the labour market integration programmes have been affected by two important institutional and policy factor since the beginning of the programming period: *first*, the multi-actor management of the system of institutions whose task is to facilitate labour market activity and integration, *second*, the fact that the local organisational units operate within public administration institutions. The implementation of the programmes is affected by the parallel management of public policy processes since it requires continuous sector coordination and concerted implementation, which poses a challenge, due to the diverging priorities of the various actors.

The changing structure of the resources available for labour market support measures significantly affected the implementation of the support programmes in the programming period under consideration. Allocation is primarily determined by the predominance of the public works programme. Out of the resources available from the National Employment Fund, more than half of domestic funds (54%) was spent on public works employment, while the other active labour market policy tools got only 6 per cent from domestic funds and 15 per cent of the EU prefinancing and co-financing. Just 14 per cent was available for supporting the unemployed. The proportions are even more imbalanced when the active support tools are considered: almost three-quarter (72%) of expenditures was spent on public works employment, a sum that exceeded by far the prefinancing and co-financing by the EU (the latter constitutes one-fifth of total expenditures), while less than one-tenth (8%) was spent on other domestic-financed support instruments.

The allocation of funds determined the structure of support. During the reference period, the large-scale organizing and dominance of public works programs was the defining feature, which persisted even during the period of improving labour market and the steady decrease in the number of job seekers, while at the same time hardly any other support instrument remained available. The employers of public workers were interested in cherry-picking and retaining the most employable public workers. As labour market demand steadily increased during the reference period, the quality and employability of the remaining job seekers deployable for the public works programmes deteriorated. The scope of possibilities of deploying the EU subsidies in labour market programmes and for the implementation of the needed support tool narrowed down. The situation makes it more and more urgent the application of individualised complex development programmes, but the short duration of the unemployment benefit limits opportunities of the job-seekers to actually seek jobs and also limits the options of the NFSZ as well in supporting the job seekers finding suitable jobs. Out of the labour market support schemes, mostly the wage subsidies or other similar tools can enable the job seekers to keep financially afloat – otherwise, with no other opportunities in sight, becoming a public worker remains the only remaining option for them. The fact that the institutions of vocational and adult education have been further removed from the area of employment policy makes the implementation of any complex support even more difficult.

The schemes within the HRDOP (Human Resources Development Operational Programme) could help people with multiple disadvantages to appear on the labour market and become able to participate in labour market instruments. But in the absence of systemic preconditions, this task is difficult to achieve. The main problem regarding the interaction between the HRDOP and the EDIOP is that the projects within the HRDOP (usually accessible through tenders), with their typically small scale, with their unreliable accessibility, lacking a properly functioning monitoring system, should interconnect with the system of EDIOP that is managed through a national institutional system and operates within a legally prescribed framework, which is difficult to achieve systematically.

The implementation and coordination of labour market schemes

The employment schemes under consideration constitute a system of successive planning phases. The launching of the large-scale flagship employment programmes was followed with delay by the activities related to the TSDOP-sponsored employment pacts, with similar objectives, and the small tender-based schemes gradually joined the process of supporting the target population. The large EDIOP and TSDOP programmes were aimed at similar target groups: the Youth Guarantee targeted the age group under 25 years while the rest of the schemes targeted the population over 25. The Government planned to launch every programme at an early in the programming period, almost simultaneously, by the principle of “front-loading”, but luckily the modifications of scheduling that occurred during the implementation resulted in a more layered timetable.

After some initial vacillation, the division of tasks between the large labour market programmes and the TSDOP employment pacts has taken a particular form. The employment departments of the county-level governmental offices compensated for the initial absence of

participants in the individual programmes and worked out optimal client pathways in terms of implementation by adapting to the detailed rules, strengths and weaknesses of each support schemes. During the implementation of the parallel programmes, to achieve the project indicators, they worked out various procedures to implement the set of services and subsidies under the EDIOP and the TSDOP following the prescriptions and with the best possible effectiveness. As a result, the reports suggest that the education programmes – that are more difficult to organise under the TSDOP – were rather implemented under the aegis of EDIOP. On the other hand, in the case of the better-established area of individual coaching, clients were involved in these programmes under the aegis of TSDOP. Due to the established distribution of tasks, transition and return between the programmes are possible, and the governmental offices register such transitions even if they do not quantify them. The delayed launch of EDIOP-5.1.5 (support of labour market services by non-governmental organisations) also contributed to the distribution of tasks. By the time this particular programme was launched, the activities connected to the other programmes were already in a more advanced phase, with established task structures.

The financial implementation of the schemes under examination

The grant period is not yet closed, hence only an interim assessment can be made (based on the EUPR data on the financial implementation as of 8th of July 2020, supplied for the evaluation). The progress of the large-scale labour market programmes steadily achieved the planned objectives and the tasks given before the crisis, even amid the changing labour market background: the rising labour shortage along with the simultaneous persistence of the predominance of public works employment, and the resulting growing difficulties in recruiting participants. The COVID crisis from mid-March 2020 disrupted the labour market situation and – in the last phase of the projects pursued during the 2014-2020 programming period – the tasks of the large labour market programmes and their formerly continuous implementation. At the same time, the TSDOP pact projects continued to progress without interruption. A large part of the small-scale tender-based schemes was already completed by that time, even though the maintenance phase of the tenders promoting entrepreneurship under the aegis of Youth Guarantee coincided with the crisis period, which caused difficulties in many cases and made it unavoidable to soften the requirements of the maintenance phase.

Among the examined employment support programmes, implemented under three operational programmes, financial implementation of the schemes under EDIOP – the most decisive component – was the furthest advanced, at 65.2 per cent of the *contracted financial framework* in mid-2020, while the combined ratio in the case of CCHOP falls behind at 57.8 per cent. Within this, the central large-scale labour market programmes under the aegis of EDIOP and CCHOP used up a combined 65.7 per cent of the *contracted financial framework*, (by projects: EDIOP-5.1.1-15 "Path to the labour market" 64,3%, EDIOP-5.2.1-14 Youth Guarantee 68,1%, CCHOP-8.1.1-15 "Path to the labour market " 55,6% és a CCHOP-8.2.1-15 Youth Guarantee 79,7%). In light of the extended implementation period (up to or nearly up to the end of 2022), the financial implementations can be considered to be on schedule. The financial progress of the projects related to the TSDOP employment pacts fell behind at 44.1

per cent until July 2020 – since then, these projects are progressing too, and the financial implementation is roughly on schedule, with regional differences.

The financial progress of one of the small programmes, accessible through tenders, EDIOP-5.1.5 “Supporting labour market services of non-governmental organisations”, which was slow to start, is lagging seriously behind: until mid-2020, only 23.5 per cent of the contracted financial framework was used up through the tenders of which the majority was to be completed in November 2020. The implementation of the CCHOP 8.1.2 tenders in the Central Hungary region is near mid-term and only 8 per cent of the contracted framework has been spent.

The *traineeship programme*, one of the small projects connected to *Youth Guarantee*, was stopped before completion, in 30. August 2019, due to problems regarding its implementation. By that time, the 3191 accepted tenders used up 62 per cent of the framework contracted under EDIOP-5.2.4-16 (subsidy for traineeship), which was significantly ahead of schedule. On the other hand, no payment connected to the traineeship programme in the Central Hungary region under the CCHOP (which was launched later) has been actually made so far. The situation is better regarding the *project of promoting entrepreneurship* under the aegis of Youth Guarantee, although this project could use up the available financial sources only in part. The financial implementation of the umbrella programme EDIOP-5.2.2-14 stood at 75 per cent of the contracted framework in mid-2020, the 667 tenders supporting business costs under EDIOP -5.2.3-16 used up 83.5 per cent of the contracted framework, while in Central Hungary the 159 tenders implemented under the CCHOP-8.3.1-16 scheme used up 68 per cent. Due to the difficulties regarding attracting participants and due to those leaving the project without completion, the nonfinancial progress indicators show similar rates of implementation.

Compliance to performance indicators and helping access to employment

The programmes met the majority of required indicators, the ratio of those accessing employment through the programmes is high. The number of participants in the *large labour market programmes* (without YEI beneficiaries) was more than 260 thousand as of the end of 2019: nearly 162 thousand under the EDIOP “Path to the labour market”, 13 thousand under the CCHOP programme under the same name; in the case of Youth Guarantee, the number of participants was nearly 88.5 thousand under EDIOP (with ESF support) and more than 6 thousand under the CCHOP. (The YEI beneficiaries added further 40 thousand to this list.) Regarding the programmes supported by the ESF, the ratio of those gaining employment through the “Path to the labour market” EDIOP programme was 52 per cent until the end of 2019 (based on programme specific indicators), and 73 per cent of these had a job 180 days later as well, while in the case of the EDIOP Youth Guarantee programme, the ratio of those gaining employment (without YEI beneficiaries) was 46.6 per cent, 63 per cent of which still had a job six months after leaving the programme. As for the CCHOP “Path to the labour market”, 55 per cent of the participants gained employment and 81 per cent of these was still in employment six months later, while in the case of CCHOP Youth Guarantee, the respective numbers are 78 and 76 per cent.

Under the aegis of the three types of *TSDOP employment pacts*, 57 thousand persons were involved by September 2020, 29 thousand gained employment, while the number of those gaining employment through the pacts and still having a job six months later was 17 thousand. This means that the ratio of those gaining employment was 51 per cent, while the ratio of those within the latter who still had a job six months later was 58 per cent. Regarding the number of persons involved, the cities with county rights reached roughly the same number of people as the county pacts. In terms of providing jobs for the persons involved, the county-level and local pacts did better, while 56-58 per cent of those who gained employment was still in employment six months later in the case of all three types of pacts. More than half of the participants in labour market programmes under the aegis of employment pacts (32135 persons) completed the programme successfully; within this group, however, the number of those who successfully completed education programmes was much lower, a total of 3100 persons in the three programmes taken together.

The role of the *labour market services by non-governmental organisations* is, on the one hand, to provide targeted, high-quality service, and on the other hand to involve hard-to-reach groups and help them gain employment. The programme met the requirement by involving more than 60 thousand persons, one-fourth of whom accessed some form of employment as well.

The traineeship programme within Youth Guarantee reached approximately 4 thousand young persons, 60 per cent of whom gained employment during the project. Due to the high level of early leaving, however, the scheme proved unsuccessful and was halted before completion. The objective of the programme supporting the entrepreneurship of young people within the EDIOP is to gain entrepreneurial knowledge; besides providing practical knowledge, the programme helped a small number of participants to gain employment. Approximately 1500 persons were involved in the learning module, 60 per cent of them produced a business plan – which was in accordance with the planned ratio – 350 of them applied for setting up an enterprise, which was four-fifths of the target number, and among the latter, the majority successfully launched their enterprise.

In the majority of the projects, the indicators were met or overachieved. But to involve persons in the projects required a greater effort from the local organisations, due to the changed labour market situation, and this was reflected in the interviews. The initially high unemployment quickly turned into labour shortage, and the number of disadvantaged but well employable persons – the core target group – decreased while the number of those involved in public works employment remained high, and the public works employers (mostly local governments) cherry-picked the well employable public workers and were at pains to keep them in public works employment. The share of less readily employable, non-skilled job seekers in the register increased. To help those stuck in the pool of unemployed to gain employment further preparation, retraining, labour market services would be needed, but the Governmental offices had scant wiggle room to provide such services, as demonstrated above. Previous research studies have pointed out that an extension of relatively short programmes, specifically targeted at job seekers with low education, could significantly improve employment among the registered job seekers within a reasonable time, in one or two years.

But while the share of low-skilled among the participants of training and education programmes increased, the total number of participants of training programs substantially decreased. Thus, on the whole, the regulatory environment made it difficult to involve persons in the programme in several ways.

The implementation of the TSDOP (Territorial and Settlement Development Operational Programme) employment pacts, their role in the labour market and regional development

As for the employment pacts implemented under the aegis of the TSDOP, the Operational Programme (and the related calls) named the counties, the cities with county rights and local governments as the main beneficiaries of the projects involved. On the other hand, the county-level Governmental Offices had the legal authority, in their capacity as governmental employment bodies, to provide the support and training aimed at expanding employment, hence much of the available funds were transferred to them.

On the other hand, the size of the TSDOP pacts in itself implied that the labour market activity of these pacts could be nothing more than complementary. The recruitment activity connected to the TSDOP employment pacts is mostly performed by the Governmental Offices, through the involvement of the jobseekers registered with them. The labour market service providers (if this task is not performed by the Governmental Offices themselves) can assist – especially in the case of local pacts – by using their in-depth knowledge of the inactive to include into the scope of the Governmental Offices and thus indirectly help the offices involve the inactive persons in the programme. It must be recognized, however, that the number of persons involved this way is small. Another important activity of the labour market service providers (unless the Governmental Offices perform it) is mentoring among the disadvantaged labour force, through which they can also help the involvement of such workers. The function of the pact offices is to organise and operate the pact, to search for labour market partners and help them come together, to promote investment, local product development, particularly to develop relationships with local enterprises, to identify the labour demand of those enterprises, functions that should be strengthened in the future.

Where the involvement was more successful, in terms of meeting the target, that was probably a result, in part, of setting the targets at a low level. In the case of the TSDOP pact projects, what was substantially overachieved is not so much the PO25 output indicator (that measures the effectiveness of involvement in the programme) but rather the PR25 and especially the PR27 output indicators, in the case of which extreme “overachievement” occurred in various places, with large differences between the individual counties. Since many of the applicant local governments had scant experience regarding labour market programmes, while the Governmental Offices tended to have little experience with the implementation of employment pacts, they made very conservative plans. Due to the low targets, the technical progress was much more successful than the financial progress. There were substantial regional differences. In the more developed counties or cities with county rights, and in districts where there was at least one major employer, attracting participants was not a problem even amid the changed labour market situation. The local pacts in places where there

was no large employer faced a more difficult challenge. As the interviews show, the planners would set higher targets in case of a new planning-programming period.

The employers of the final beneficiaries

To assess the firms that employ beneficiaries, we conducted a qualitative survey via questionnaire among the employers of beneficiaries. The bulk of the firms included in the sample were located in towns, the share of firms located in villages was low in the case of every scheme. Most of them were micro-enterprise or small enterprise (with personnel of 2-9 and 10-49, respectively), while a few were medium enterprises (50-249 employees). They are typically concentrated in a few economic areas, primarily in wholesale or retail trade, food service, tourist accommodation services or, less typically, in construction and non-manufacturing industry, while manufacturing was even less represented in the sample. 75-85 per cent of the employers of the beneficiaries operates in the highlighted sectors.

For more than half (50-60%) of the firms employing subsidized employees was important because without the subsidy they could not have afforded to hire new workers. But another significant minority of firms (20-35%) would be able to hire similar workers even without the subsidy, but if such subsidy is available, they make use of it, and a smaller group of firms take up this opportunity because otherwise, it would be hard for them to find suitable workforce. Both cases may suggest a potential deadweight effect. Regarding the large labour market programmes and the county-level employment programmes, it proved to be possible to identify with qualitative tools the deadweight effect in the case of firms that could hire workers even without the subsidy. In the case of the large labour market programmes, the fact that the subsidy has other benefits also contributed to the deadweight effect. But the possibility to find suitable workers easier and faster through the subsidised employment scheme had no significant deadweight effect.

Amid labour shortage conditions, the respondent firms deemed the temporary wage subsidy by far the most useful as a means to support workforce expansion – there was no significant divergence in the opinions of firms regarding the support scheme they were involved in – and the development of the skills and employability of the workforce lagged far behind wage subsidy as a priority. In contrast with our expectation, the mentoring of potential workers, or giving them financial support to cover the costs of commuting was considered the least useful means of facilitating workforce expansion.

Regarding retaining the workers who benefitted from the programs, however, the *changing economic situation of the firm* was the most important factor: regardless of the scheme, about half of the respondents said whether they retain the supported employees depends on the fortunes of their firm. The economic situation was less important, and the changes in the terms of the support were almost irrelevant in the case of any schemes. On the other hand, the *conduct and discipline* of the workers affected the firms' decision regarding whether they retain the supported employees, especially in the case of the Youth Guarantee and the related traineeship programme that involves the young generation. By contrast, the level of education did not have a significant effect on the firms' decisions concerning retaining workers.

The majority (about 90%) of the firms within the sample would make use of the opportunity of subsidised employment again, the rest would only do so in the absence of a better alternative. In the case of the Youth Guarantee traineeship programme, the picture is more mixed, but still, 70 per cent of the firms would definitely opt for it, 20 per cent only if there is no other option, and 10 per cent would certainly avoid the scheme in the future, partly because of the burdensome administrative load, and partly because of the problems with the hired workforce. With a recession in the cards, they do not intend to hire further workers of low quality and low motivation, rather they look for a new strategy.

Impact and assessment of labour market support instruments

We cannot properly assess the factors affecting the effectiveness of the labour market programmes, due to the absence of adequate data regarding some of the schemes. In the case of the large labour market programmes, we assessed the impact of the labour market services and subsidies on the employment situation of the beneficiaries at the time of exit from the programme and 180 days later, using multinomial logistic regression models based on the individual data of the ESF monitoring database, other things being equal. After controlling for other characteristics of the participants, the majority of services provided under the programmes and, much more significantly, the subsidies provided had a positive and substantial impact on gaining employment. (The exception was mentoring and training, although in the case of the Central Hungary region mentoring services under the flagship projects CCHOP 8.2.1 and CCHOP 8.1.1 had a positive effect as well.) These effects weaken over time (180 days later) but remain substantial. To that extent, the services and subsidies within the programmes are well-targeted, but it is important to highlight the shortcomings: the fact that the impact of training services can be realistically assessed only in the longer term, and the unreliably targeted mentoring service – although mentoring is considered crucial by both policymakers and the actors involved in implementation – that had a significant and lasting positive impact in the Central Hungary region in the case of both programmes while in the convergence regions, the impact was negative in the case of the Youth Guarantee programme and it was weak and transient in the case of “Path to the labour market” programme.

Regarding the findings described above, however, a caveat is needed: we could not control for every factor relevant to the labour market with the help of the models. Thus, it can be assumed that the apparent negative effects rather reflect some factors that have a detrimental effect on employment outcomes but are not controlled for in the model. Such a factor is, in the case of the training support, that low-skilled persons or persons with non-marketable skills apply for such support more likely, but our model could not factor in the level and quality of the skill or educational attainment of the participants. A similar factor is likely to have been affected the results regarding mentoring.

An important lesson, beyond the results of the models, is that given the available data, a model calculation on the independent effect of labour market programs, based on microdata, could only be performed on the large programmes, even though in principle, such data could be compiled regarding the other programmes from the compulsorily compiled ESF data as

well. Such integration would make it possible to give an assessment and integrated analysis on the effect of the smaller, ESF-funded support programmes, in addition to the four large programmes discussed in detail in this evaluation. Furthermore, we could only come to limited conclusions based on the available data: in the absence of detailed microdata, a counterfactual scenario could not be simulated, that is, we could not examine how the programmes (and their components) affected the participants of the programme compared to the hypothetical case in which they do not enter that programme. For a more accurate evaluation, a dedicated anonymised database could be created by data linking, with the inclusion of public administration data.