



Benchlearning Initiative External Assessment

Summary report – NES Hungary



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PES of Hungary – National Employment Service (NES)
Summary Report

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Benchlearning Initiative External Assessment

National Employment Service of Hungary

Summary Report - Draft

1. Introduction

This report outlines the results of the Benchlearning (BL) external assessment of the PES of Hungary (National Employment Service – NES) conducted between 13th and 15th October 2015. The team of five external assessors comprised two peer PES staff (Estonian and German PES), one from the European Commission and two experts from ICON-Institute (the supporting contractor). The programme of the three days visit included meetings with senior officers of the Ministry for National Economy and the Ministry of Interior (who both exercise supervision of and management control over the NES) in Budapest and a visit to a district PES office (Rétság) about 60 kilometres from Budapest. The time and resources invested in the preparation for the Benchlearning visit by the NES and in particular their internal self-assessment, were crucial to its success.

NES as the public employment service includes several institutions that are involved in the planning and implementing of employment policy and labour market issues. It is the collective name of the stakeholders in the public sector. NES is responsible for the disbursement of insured unemployment benefit (UI) while the means-tested allowance for the long-term unemployed (UA) is paid by municipalities. Recipients of the UI and UA are obliged to register with NES, while jobseekers with disabilities are served under the professional supervisions of the NRS.¹

2. Strengths

A number of strengths were identified during the assessment visit. One of these relates to the strong focus on employers' needs. Most district PES branches have specialised staff that pro-actively contacts employers and sources potential vacancies. Self-service registration of vacancies has been made available on the PES portal. There is a clear separation of responsibilities among staff responsible for corporate contacts (one staff member collects additional vacancies, one matches the existing vacancies) and there are clear individual targets.

Another strong feature is a focus on early intervention, including a discussion on training opportunities and potential job offers early in the initial interview.

The district PES offices are in close cooperation with regional and central management. There are clear and regular (quarterly) reporting and control mechanisms in place between

¹ The National Rehabilitation Service (NRS) was established in 2012 and is supervised by the National Rehabilitation Agency (NRA, which reports to the Ministry of Human Capacities). The county level offices of the NRS have been integrated into Employment Services Departments of the General Government Offices at the county level since April 2015. Recipients of the rehabilitation allowance are not on the unemployment register but are obliged to cooperate with the NRS.

district and county as well as between county and central level on general performance (related to financial/input and output targets).

Lastly, despite the recent reorganisation, the NES network has retained most of their experienced staff members (at least at district level) and the level of commitment and motivation has remained high.

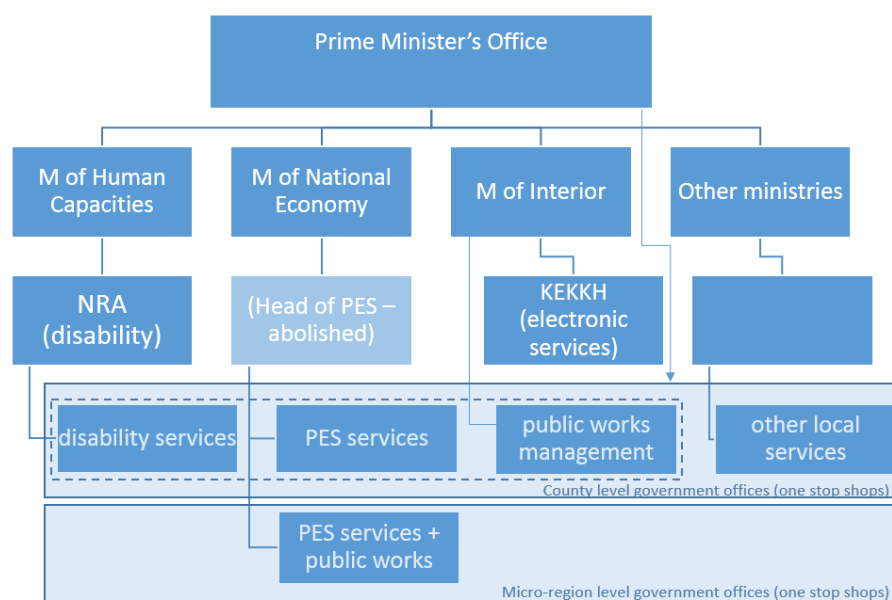
3. Contextual influences

Institutional context

The governance structure is highly centralised in Hungary with a strong executive power relegated to the Prime Minister's Office, which controls government offices at the county and district level. The government is strongly committed to increasing employment² and reducing welfare dependency. Accordingly, the duration of the insured unemployment benefit was cut to 3 months and the amount of the means-tested unemployment benefit was reduced in 2011. In line with the Europe 2020 strategy, the main objective of the NES is to promote employment and employability as well as direct 'job creation' (via public works).

NES have recently fully been integrated into the general government offices both at the county (NUTS3) and micro-region level. The 172 district NES units report to the Employment department of the county level offices (EDC), but their staff are employed by the head of government office of the micro-region. The status of the EDCs is complex as their staff are employed by the Commissioners of the county level government offices (appointed by the Prime Minister's Office), and the head of department reports to three different ministries (see figure below).

Figure 1. Organisation of the Hungarian PES as of April 2015



² The employment rate had been among the lowest in Europe until the recently observed rise from around 55 % in 2011 to 62 % in 2014.

The integration of the PES network into this general administrative structure in 2011, and the dissolution of the Head Office of the PES in 2015 are not without risks. The effectiveness of PES services may be impaired by the overly complex allocation of responsibilities in that the core functions of the PES are supervised by the Ministry for National Economy, public works are governed by the Ministry of Interior and rehabilitation services are controlled by the Ministry of Human Capacities. Accordingly, strategic management is divided between the different Ministries. Planning cycles and methods are not harmonised and no integrated performance management system is established. Within the area of responsibility of the Ministry for National Economy, Management by Objectives (MBO) is established, but this covers only actions under the competences of this Ministry and therefore a relatively small part of ALMP spending.

The supervision and management control of the line ministries over the PES network is weakened by the fact that the human resources and infrastructure of the PES network are controlled by the Prime Minister's Office. Moreover, the data system supporting both management and frontline staff in the PES network, has been recently moved under the supervision of the Ministry of Interior, which has caused delays in data access and analysis as well as delays in updating the software when relevant legislation has changed.

Funding for NES has been stable between 2012 and 2015. Since 2013 the main source of funding has come from social security contributions (about 40%), which are paid by employers into the national budget. Out of this, the Minister of the Ministry for National Economy allocates resources into the National Employment Fund. The NES also relies on ESF funding to operate ALMP and to increase staff capacities.

Economic context

The Hungarian labour market has been characterised by a rapid restructuring of the economy. Mass-unemployment of the early 1990s (combined with the increasing level of disability and early pensions) led to a high rate of inactivity and long-term unemployment, affecting especially the low-skilled and older workers. There are also large regional disparities such as unemployment being twice as high in the North and East as in the West of Hungary. In common with neighbouring countries, specific target groups such as the Roma minority especially suffer from unemployment and long-term unemployment.

Some of the recent increase in the employment rate may be explained by improvements in educational attainment and also by government measures to strengthen supply side incentives, such as tightening access to social benefits and pensions. A wage subsidy targeting the low skilled and other disadvantaged groups has also been in place since 2011. However, the minimum wage (and especially the tax wedge on low wages) continues to be relatively high and the general business environment and the investment climate would appear to have improved very little since the start of the global economic crisis. Thus, demand for low-skilled workers has remained low in the open labour market.

4. Current and potential Good Practices identified during the assessment

The NES strengths outlined above are supported by a number of potentially transferable good practices.

- The MBO system formerly developed by the Head Office of the PES, is still in place for some of the PES functionalities, and is based on good quality data. The model of performance monitoring formerly operated by the Head Office of the PES could serve as blueprint for establishing a uniform system that covers all PES functions in the new organisational setup.
- Labour market forecasts (surveys among employers) and the employer satisfaction survey provide a good foundation of knowledge to support target setting and resource allocation, although there is some room for developing the underlying methodology.
- The already referenced strong commitment of PES to serve employers' needs and in particular the dedicated employers' specialists who are charged with proactively collecting information on vacancies is a notable practice.
- The quality development circles implemented in the district offices appear to be instrumental in keeping staff motivated and also in improving the operational efficiency of PES services.

5. Areas where improvements may further enhance PES operations and outcomes

As already mentioned above, the current institutional setup of the PES and particularly the fragmented nature of strategic management carries considerable risks and may hinder fully effective functioning at all levels of the PES network.

While relatively strong in planning and implementation for most of the Benchlearning enablers, checking performance and adjusting procedures based on evidence seems to be weak in the Hungarian PES. Not acting on the existing evidence (e.g. evaluation studies) on the ineffectiveness of public works as opposed to other ALMPs is of particular concern.

In this context, the 2014 and 2015 CSR for Hungary underlined the strong reliance on public works as a key feature of NES services. While the 2015 CSR called for reorienting resources allocated to the public works scheme to other active labour market measures to foster integration into the primary labour market, the Government plan outlined in the 2015 public budget seems to go in the opposite direction.³

The planning of ALMP measures supervised by the Ministry for National Economy is to some extent based on labour market forecasts and local needs and targets are negotiated between the county level and the ministry. By contrast, the planning of the public work schemes seems to follow a top-down approach following a calculation based on the number of registered unemployed. The assignment of clients to measures is mainly driven by their eligibility for the programme (or targets to be met, in the case of public works) rather than client needs or the expected effectiveness of the given measure. This leaves considerable

³ According to the mid-term plans outlined in the 2015 budget, government spending on public works will increase by 19% to 270 billion HUF (900 million EUR) in 2015 and will be further increase to 450 billion HUF by 2018.

room for improving efficiency both in the allocation of resources across measures and in the referral of clients to particular measures.

No multi-channel management and no blended services exist in the NES. Access to services is generally possible by telephone, by the internet or via personal contacts, but the latter remains predominant. Communication is usually done by regular mail and face-to-face contacts. Employers can upload job vacancies directly online without having to go through the district office, but district offices do not seem to encourage employers to use this facility. Developing multi-channel management has the potential to save time for both the clients and PES staff which could be reallocated to more personalised and intensive counselling of those jobseekers most distant from the labour market

Although the NES recognises economic and social partners, municipalities and service providers as partners, no clear strategy on objectives for partnerships and networks could be identified during the Benchlearning visit. With the exception of the former local employment pacts, no formalised agreements related to partnerships' and networks' objectives exist. District offices do not seem to actively take the initiative in setting up networks. It is not sure whether employment pacts will be re-established in the future and which role they can play in order to increase employment.

Preventive services are only available in the case of mass layoffs. In general, jobseekers are entitled to register with the PES only after they are made redundant however job changers and employed persons who need PES-services may also register. Outreach to youth under the age of 25 within the Youth Guarantee seems to be limited and is only partially meeting the challenge of youth unemployment.⁴

6. Recommendations

The team of assessors produced a number of recommendations which they felt would need to be prioritised by the NES and which can be grouped around four main areas where management and performance of the NES may be improved. The **first** of these concerns the overall framework of goal setting and performance management.

- Effective governance can be achieved in this centralised model provided that some basic coordination requirements are met. Particularly at the ministerial level, a coordination and cooperation between all ministries involved to defining strategic middle and long-term objectives and their yearly achievements would appear to be essential. The political objectives translated into operational achievements would also need balancing with the available resources under the control of the Prime Minister's Office. Ideally the provision of the Head of the County Administration with **one** set of operational objectives in line with the resources for a given period of time would be preferable, ideally over more than one year. Best results could be expected if one performance management system for the

⁴ <http://ec.europa.eu/social/main.jsp?catId=1161&langId=en&intPageId=3338>

whole public administration would be applied, at least for the objectives of the employment branches of the administration.

- In order to provide the operational units with one set of objectives and indicators, the planning cycles and methodologies would also need to be harmonised. In addition, a single controlling model would need to be applied, implying that additional targets from different ministries should be integrated into one model. This could be developed on the basis of the former MBO model operated by the Head of PES.
- We recommend the development of an integrated management system at the ministerial level harmonising operational objectives and linking them to results (outcome and effectiveness) and budget (instead of the current practice of focusing on inputs and outputs). We also recommend providing one management line of communication between the ministerial and the county level and developing a common, integrated controlling system, linking operational targets to budget, based on evidence. This would take into account regional and local specificities and allow for local flexibility within a strong bottom up process and would thus further improve effectiveness.
- Communicate performance and labour market challenges and situation to stakeholders, focussing on the value added by PES. Build on the good existing benchmarking basis in order to be able to compare the target levels and evaluate results and ambitions.
- Currently the organisation is vertical from the ministry down to the execution level for operational purposes, with additional complexities entailed by the separation of professional and functional (including HR) responsibilities. The services for the citizens could be further improved by introducing a strong horizontal element to allow a holistic response to the problems of jobseekers and employers.
- It would also be necessary to increase transparency in labour market statistics. To this end, we would recommend to include participants in ALMP – and especially participants in public works – in the unemployed statistics, as to do otherwise conceals the full dimension of the unemployment challenge.

The **second** area relates to the evidence base of decision making and the availability of relevant information at all levels of the system.

- There is potential for substantial performance improvement by strictly focussing organisation, services, activities and ALMP on their effectiveness and efficiency. To achieve this, the existing main programs should be evaluated using counterfactual methods and amended in a way to significantly improve the integration rate on a long-term perspective – e.g. six or twelve months after the measure into the first labour market. Special attention would be required for the public works scheme, in order to improve effectiveness of the programme and to avoid unintended side effects such as deadweight.
- Evaluations should also cover outsourced services. Such evaluation of the performance of active measures and providers should be taken into account when contracting out.
- The elaboration and introduction of a quality management system for ALMP and processes within service provision (including public work and trainings) should be a top priority.

- As there are good data available about participations in the ALMPs and the integration into the labour market, these data should be put into better use. A strategy for conducting impact and implementation evaluations should be developed to steer the process. Any evaluations conducted should focus more on the outcome indicators and ideally the net effects of different ALMPs should be evaluated (compared outcomes to that of the control group). The results of these evaluations should feed into the profiling and segmentation methodology. Conducting impact evaluations requires skills and resources. If it is not possible to conduct the evaluations in-house, outsourcing possibilities should be considered.
- It is also recommended to adapt the ICT-system to meet new challenges and to integrate responsibilities for ICT system design and implementation. Integration of information of all running programmes of ALMP would also be helpful for front office services and would facilitate programme evaluations as well. The system would be worth extending to provide front-line staff with contextual information (e.g. on the labour market) as well as information about the unemployment history of job-seekers.

The **third relates to** management incentives that can only bear fruit if PES units have some degree of autonomy in implementing PES strategy at the local level.

- For further development of local labour markets, the local potentials and needs should be taken into account in two ways. First, the designated target levels would need to take into account spatial economic factors. Second, a strong bottom up process would also need to be established. The district level would need to anticipate or at least be able to react to developments on the district labour market. Therefore a sufficient flexibility is required to reallocate resources between programmes and to create programmes to meet the needs of jobseekers and employers. District offices also need to be given more scope for individual decisions on the selection and assignment of active labour market measures.

Lastly, there are a number of issues concerning the design of PES services and the partnership approach.

- Efficiency may be improved by introducing a proactive approach to encouraging people to use PES services before they actually become unemployed. Implementing a clear concept and subsequent services for those who are at the risk of becoming unemployed would reinforce preventive measures.
- The elaboration and introduction of a multi-channel management system and of blended services according to PDCA is recommended. Making stronger use of online possibilities would free up staff to deliver more quality services.
- It is finally recommended to consider the implementation of a strategy for partnerships and networks and to define the specific objectives of the networks and its partners as well as the role of the district offices. A regular assessment of the achievements of objectives related to partnerships and networks should take place. Ex-post evaluations of previous local pacts are recommended, in order to understand what worked well and what should be improved. It is recommended to consider the reestablishment of the local em-

ployment pacts with clear definitions of partnership/network objectives, transparent and regular (yearly) assessment procedures as well as mechanisms to ensure their continued functioning post ESF.