

**Employment Program Monitoring and Assessment at the EU
Level and in Hungary**

By

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Author's Declaration Form

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Abstract

This thesis gives a comparative perspective on public work as one of the main active labor programs used after the economic crises of 2008 in the European Union in general and in Hungary in particular. Hungary has chosen different redistribution and policy making in welfare compared to other countries having similar historical background in the region. Two main inquiries are to be carried out. Whether the intended objectives of public work programs are met and at what cost? What circumstances and design features would explain effective outcomes of public work programs in Hungary? While investigating the country-specific factors of employment policy formulation of Hungary, thesis offers different ways of program assessments and compares its benchmarking methodology with one another. A combination of qualitative and quantitative methods are used to find that the objectives of public work programs haven't changed much in the last 24 years in case of Hungary. Furthermore, thesis fits into argument about public work program assessment, as this form is the least effective but most costly active labor market program used in long-term. Last part will offer policy recommendation for change in employment policy formulation and its evaluation methodology.

Acknowledgements

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List of Abbreviations

ALMP- Active Labor Market Policies

ERBD- European Reconstruction and Development Bank

EU- European Union

NRP - National Reform Programs

OECD- Organization for Economic Co-operation and Development

OMC –Open Method of Coordination

SME- Small and Mid-scale Enterprises

INTRODUCTION

According Eurostat, educational qualification is among main determining factors against unemployment. This feature was noted in 2013 unemployment statistic in EU-28, for those aged 25 - 64 as a significant segregation in the population in respect of their possibilities on the labor market. Those having attained at most a lower secondary education had at 17.9 %, a much higher than the rate of unemployment than those who had obtained a tertiary education qualification (5.9 %) (Eurostat, 2014)). The largest decreases in unemployment rate were registered in countries such Hungary 10.2 % to 7.8 % between July 2013 and July 2014 (Eurostat, 2014) due to public work programs funded to the great extent by the European Social Fund.

Public work programs are widely used elements of Active Labor Market Programs (ALMP) worldwide, but especially in Europe. Generally, they provide temporary employment to unskilled workers with the purpose of ensuring the income of the poor and parallel to that aiming to create or rehabilitate public infrastructure of the settlement. Studies conducted by World Bank (2010) and OECD (2004, 2010) show that public work program have high social and economic effectiveness in short term. However, there is another public work model used mostly in developed economies, in which workers are hired for a longer period, usually as the part of countries' social protection interventions or poverty reduction strategies in order to provide work or training elements when other opportunity is not available. Public works, by their nature are public goods and natural monopolies (Weber, 2010) providing a set of policies, such as trainings, temporary work programs in order to ease employability of long-term, primarily low-qualified unemployed. When well defined

objectives and good beneficiary targeting happens, these programs may serve as a good tool for reaching out specific communities or geographic areas. For instance unemployed Roma people in Hungary are particularly involved in public work programs as in one of the three pillars of employment targeted developments to fight against negative stereotypes through the National Social Inclusion Strategy.

Hungary has a long history of public work programs with common changes since the first half of the 1990's, with the aim of open labor market reintegration. Yet EU experts and other, non-governmental organizations have identified a lack of detailed assessment studies to evaluate the efficiency and effectiveness of these programs (Civil Society Monitoring Report 2013, 2014; ILO Committee of Experts yearly data inquiry; 2014 European Commission's Country Specific Recommendations on Labor Market and Social Inclusion). In the beginning of the 2000's O'Leary (1998, 2000) did extensive work on evaluating the effectiveness of active labor programs in Hungary and found public work as the least efficient program. Recently, only few studies have explored the efficiency of public work programs on employment compared to other elements of the ALMP in Europe, for instance Card et al. (2010) and Kluve (2006, 2008). Both addressed the concern of cost effectiveness and least favorable impact on participant future employability. Yet a large proportion of the earmarked fund is being spent on public employment element in Hungary. Therefore, it is worth investigating possible country-specific factors of employment policy making in Hungary as well as evaluating these policies in order to demonstrate their impact and efficacy.

Drawing lessons from the past, this thesis focuses on the practice of evaluation of public work in Hungary using measures offered by European Employment Strategy. Furthermore, by comparing factors crucial for effective public work design offered by OECD (2009) it gives recommendations on whether and how public work schemes should be adapted. In achieving this goal two further questions must be addressed: first, to what extent

have public work programs evolved since their first introduction in Hungary and to what extent do policy makers take into account the lessons learned from previous program design when planning next public work program. And building on that, what circumstances and design features would explain effective outcomes of public work programs in Hungary? To answer these questions, measures that would ensure greater public accountability will be discussed as well. Discussing accountability will shed light on other important characteristics of the program design and point the way forward for improvement to evidence based policy making.

The thesis is structured as follows. The first chapter briefly clarifies the general use of Active Labor Market Programs in the European Union, and explains its historical and functional characteristic in wider political context that shape public work and public employment programs evolvement in Hungary. Chapter two offers an overall picture on the internal employment policy making in Hungary and briefly investigate EU employment policy influence. The third chapter is devoted to the theoretical background of public work program monitoring and assessment and its impact on the effective outcome of employment public work policies. The fourth chapter will explain methodology and apply all data used to assess necessary feature design and effective program outcomes. Chapter five critically evaluates the findings, while conclusions and recommendations are discussed in the last chapter.

CHAPTER 1

BRIEF INTRODUCTION TO THE ACTIVE LABOR MARKET PROGRAMS

This chapter focuses on main labor market policies used in Europe by highlighting the importance of program targeting, program design and its assessment. Then narrowing the scope for the Hungarian context, two relevant aspects are analyzed: the function and the implementation of public work programs which represent the largest category in terms of volume and expenditure.

1.1 European Labor Market Programs

The European Employment Strategy is aimed at fostering coordination of Member States' employment policy by providing a framework throughout open method of coordination (OMC). The Annual growth survey is used as a basis of yearly evaluation of National Reform Programs (NRPs) by looking into measures set by the Employment package. Active Labor Market Policies (ALMPs) constitute the core part the European Employment Strategy effort to combat unemployment and to restore the dynamics of labor market after the financial crises of 2008.

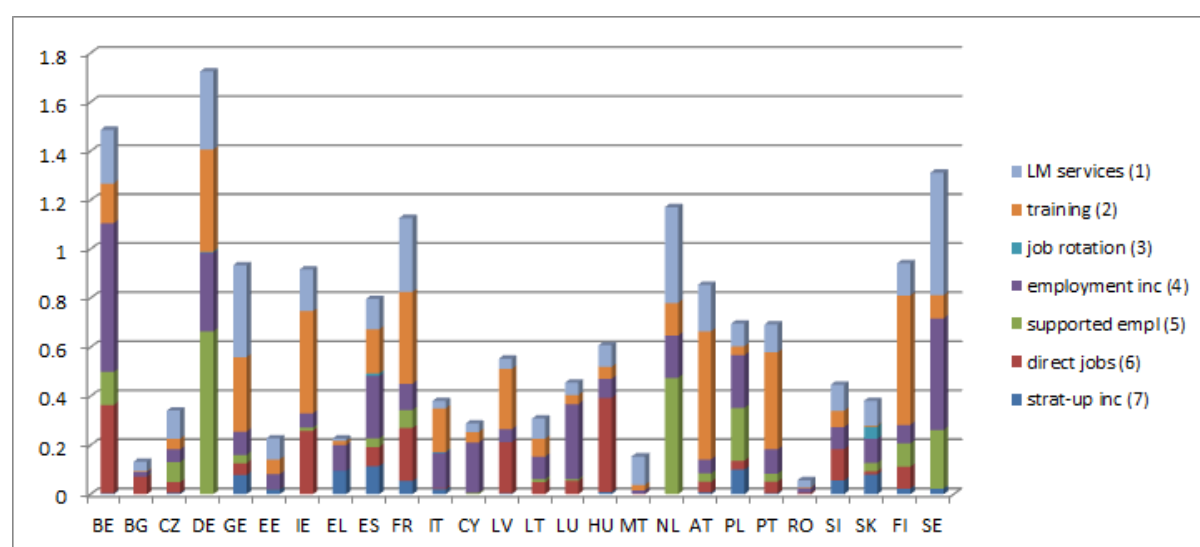
Wide ranges of different ALMPs are used in EU Member States and in other European countries targeting the achievements of the Europe 2020 objectives. Theoretically, structural unemployment can be lowered by ALMPs; through more efficient matching of jobseekers and vacancies, or by bringing back socially excluded workers into the labor force (Dar & Tzannatos, 1999). According to Eurostat, these activation programs are “interventions that aim either to provide people with new skills or experience of work in order to improve their employability or to encourage employers to create new jobs and take on people who are unemployed or otherwise disadvantaged” (Eurostat, 2014). The OECD

classifies these programs into four categories: (1) *labor market training* providing either general education (such as language courses) or specific vocational skills (such as manufacturer or technical skills); (2) *private sector incentive programs* to alter behavior of private sector participant by providing financial incentives in the form of *wage subsidies*. Other type of subsidy is *self-employment grant* for unemployed to start own business; (3) *direct employment programs in the public sector* aim to produce public goods or services by hiring most disadvantaged and pursuing them to keep contact with almost any form of job activities; (4) *job search assistance* such as job search counseling, job clubs and in case of non-compliance with job search requirements *sanctions* such as benefit sanction or compulsory public employment services. Some categories describe program types, others specify target groups, while a few such as youth training programs encompasses both type. Bonoli (2011) categorized these programs along two theoretical dimensions as investment in human capital and in market orientation. In practice, specific national programs, for instance those targeting Roma minority throughout EU countries (OSI, 2014), frequently combine several of the above mentioned categories.

ALMPs have popular objectives of social, economic and political, particularly designed for targeting long-term unemployed whose number constantly rises (EC, 2014), hence expanding greatly money being spent as seen in Member States' budgetary plans after the financial crises of 2008. In 2010 estimated 240 480 million Euro (Eurostat, 2014) was spent on active measures among EU (28) countries. *Figure 1* depicts expenditure on ALMPs by type and as a percentage of GDP in EU Member States in 2010. High public spending on ALMPs are in countries such Denmark, Sweden, Finland and Netherlands (with more than 1% of GDP). In contrast there are few countries with modest spending on ALMPs, including Slovenia, Czech Republic or Estonia. According to *Figure 1*, Hungary has spent the largest portion of total ALMP expenditure on direct job creation. At first look, this is not only the

best path to choose when having persistent large number of long-term unemployed, but also a growth friendly expenditure spending that can give fiscal room for maneuver in the future as it generates tax income for the country. However, direct job creation means public work programs in this case, rather than true employment opportunity in the real labor force. Direct employment programs in the public sector aim to produce public goods or services or have to have investment dimension in human capital or in market orientation. By supporting employability of long-term unemployed, facilitating sectoral reallocation, program should increase labor supply. Difficulties with proper implementation, as well as insufficient monitoring and evaluation system for assessing efficacy are hidden public work programs real effectiveness compared to other ALMP components.

Figure 1 ALMP expenditure by type of action and by Member State (2010, in % GDP)



Source: Eurostat Key Statistical Indicators of Active Labor Market Policies, Figure 7¹

Nevertheless, specific attention needs to be paid to realistic achievements with these types of programs (Betcherman et al. 2004), as no such a universal tool exists that would

¹ http://ec.europa.eu/europe2020/pdf/themes/24_almp_and_employment_services.pdf Extracted on 10 Feb 2015

improve participants' labor market prospect at once (Ecorys, 2012). Earlier reviews of impact evaluation (World Bank 2002, OECD 2009) have come to similar conclusions, highlighting the importance of program targeting, program design and its assessment. The findings of these reviews imply that positive labor market effects almost excessively dependent on programs' features. Additional evidence by Kluve (2004) and Betcherman et al. (2004) shed light on the fact that among all contextual factors such as labor market institutions, spatial inequalities or occupational immobility of a country, regarding program effectiveness the type of the program matter almost exclusively. Program design and dedicated budget for ALMPs "enshrined in the different welfare state models" (Duell, 2012:7), thus program designs are attached with different societal and economic values.

1.2 Historical and functional characteristics of the Hungarian Labor Market Programs

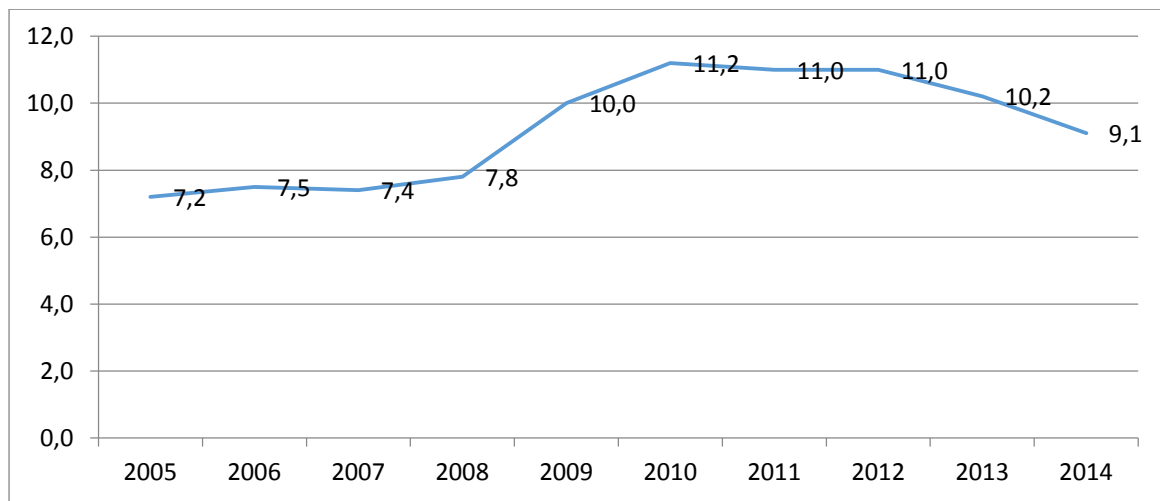
There are several country specific factors that influence employment policy making in Hungary, as previous part revealed that societal and economic values of a country is attached to employment program design, which is the most important feature when examining labor market effects of one program. This section examines historical and functional roots of the Hungarian Labor Market Programs.

Historical

The majority of long-term unemployed in Hungary are unskilled and/or middle-aged/elderly people living in small settlements (Fazekas & Scharle, 2012). The quality of skills affects economic development (Fazekas, 1997:1), thus spatial inequality among counties as a form of internal structural distortion provide partial explanation for the low level of employment (*Figure 2*). "Greater density of foreign capital coincides with higher level of education" (Fazekas, 1997: 7), the continuity of the inherited economic structure

ensured, as the constantly low employment level of unqualified workforce does not attract foreign investments in rural areas of Hungary.

Figure 2 Long-term unemployment trends in Hungary



Source: Own work based on Eurostat Database²

Fazekas et al (2012) point out that due to generous welfare policy after the political transformation in 1989, mass number of people could leave the labor market throughout various welfare provision, by following the main objective of employment policy of the new government, aiming to reduce the number of unemployed. Scharle (2013:135) speak of more than one third of inactive social beneficiary as of the overall active population (age of 15-64). Despite attempts of the previous two decade, same characteristics of the vicious circle are being reproduced (Fazekas & Scharle, 2012) such as low productivity, high indebtedness or regional inequalities among counties. Additional surveys done by (Köllő & Scharle, 2012) and (Fazekas, 2001) have come to similar conclusions that employment policy so far has not

^{2 2}: http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_and_beyond Extracted on 10

had a positive influence on the employment situation; long-term unemployment was still a persistent problem until 2013 (see *Figure 2*). From the beginning of the 2000's, next to regional employment offices, local governments gained greater responsibility in coordination with dealing with social beneficiary, whose people are usually long-term unemployed (Keller & Bodis, 2013). Bódis et al (2008) revealed the lack of capacity and competency at local level in regard handling of long-term unemployed plays crucial role in troublesome program delivery.

Functional

Public work programs are one form of direct job creation of a country, with primarily economic objectives. Nevertheless, social and political dimensions of public work programs are as important as the economic aspect (Duell, 2012). In particular in Europe, participation in these activation programs has become a prerequisite for receiving unemployment benefits (Larsen, 2001). Public work programs' popularity has risen greatly after the financial crises of 2008 (Koltai, 2012), giving stabilization tool for governments to provide temporary jobs directly through these activation programs. Various objectives can be achieved parallel to production of public good and services, regained contact with some form of labor market, higher income effect or increase in employability skills and productivity (Betcherman, 2004).

Public good creation is the base of public work programs in developing economies (WorldBank, 2002) such building of infrastructure system and its later maintenance, thus public work policy is part of fiscal policy both of expenditure and revenues side. Public good of a country is a natural monopoly, best known example is Roosevelt' Works Progress Administration in the USA during the Great Depression, where public workers rebuilt streets, buildings, highways. This program was used as a Keynesian 'fiscal stimulus' to create demand where market has failed. One of the most criticized feature of Hungarian public work

schemes that has not changed in the last two decades is the 80% of simple physical tasks carried out in local governments territories without the production of any public goods or services (Csoba & Nagy, 2011:138)(Frey, 2009)that would serve as assets, created to benefit everyone with the purpose of maximum value (WorldBank, 2002:19).These programs operate differently in Europe; contribute to social inclusion and cohesion and may have visible political benefits by demonstrating response to problems such poverty or unemployment (Betcherman, 2004). However, added value of these programs have been questioned several times (Koltai, 2012), as simple physical tasks mainly on communal areas are carried out by public workers such as street cleaning or working in cemeteries (Köllő & Scharle, 2012:138).

This section explored that employment policy has not had significant positive influence on the employment situation due to lack of capacity and competency at local level in regard handling of long-term unemployed. Furthermore, in case of Hungary, public work programs do not create public good, which could work as a baseline for Keynesian fiscal stimulus, namely generating job creation, but rather social and political dimensions play more important role. The next section is analysis the implementation procedure of public work programs, exploring more factors which contribute towards this.

1.3 Implementation of public work programs in Hungary

In Hungary, in terms of the overall compositions of the ALMP spending, public work program represent the largest category in terms of volume and expenditure (see numbers in *Annex I*). The number of public works employees has risen to 244,000 in September, 2014, according to the Interior Ministry. The cabinet set aside over 230 billion HUF to this end, as it aims to raise the average employment figure for 2014 to 200,000.

The role of municipalities

Municipalities, as lower level of the government public administration executives, participate in direct job creation procedure, provide work for public work employees and carry out administrative tasks in accordance with the law of 1997/CLVI (latest modification: 2011/CVI). Since 2001 Hungary has had two waves of reforms, both targeted at the activation and the testing of commitment to work (Keller & Bodis, 2013). By 2009 the smallest municipalities (less than 1000 inhabitant) has joined public work program schemes too (Köllő & Scharle, 2012), gaining extra funds from government in case of organizing public work at the micro regional level (Keller & Bodis, 2013:64). Fekete (2011) in her research found that organizing public work is through association of more than 45% of local governments. Yet, research finds that cooperation is burdensome (Váradi, 2013:71). Additionally, lack of harmonization at the regional level makes the institutional system fragmented (Váradi, 2013:72).

The main objective of municipalities is not to become the local labor market stimulus (Keller & Bodis, 2013:63) but to test the willingness to work of the social beneficiary (Keller & Bodis, 2013:63). Lack of capacity and skills at local level to manage duties related to long-term unemployment (Váradi, 2013:71) can be explained by the limited role in job creation in the past. However these programs' added value is more focused on societal values and social acceptance than on economic considerations. In addition, due to local governments' deficit problems and other difficulties, these programs have controversial goals comparing national and local public work plans (Keller & Bodis, 2013:63). Additionally, there is no 'built-in automatic barrier of the system' that would stop greater central government subsidy flow to local levels (Köllő & Scharle, 2011:158), as around 90% of wage costs covered by central government subsidy (Koltai, 2012). Evidence is from 2009, the normative-based ex-post financing (Köllő & Scharle, 2011:158)), in order to ensure other form of employment policy

consideration or fiscal saving (Keller & Bodis, 2013:64). Several authors ((Köllő & Scharle, 2011; Frey, 2009; Fazekas & Scharle, 2012)) have emphasizes local municipalities' advantage over greater, constantly raised central subsidy and its misuse to compensate lack of other financial resources.

Even though the National Employment Office analysis (Keller & Bodis, 2013) shed light on the fact that public work programs efficiency is limited by many factors, accumulated administrative data from local governments were not monitored and thus feedback was not given on the basis of evaluation assessments (Frey, 2009:213). Additionally, Scharle (2011) reveals absent of check and control of the implementation of public work program plans.

To sum up, despite various difficulties, public work program represent the largest category in terms of volume and expenditure in Hungary, with constantly raised central subsidy flow at local level and with the main objective, to test the willingness to work of social beneficiary. In the light of this, the question that must be addressed is whether the intended objectives are met and at what cost? I will address this question in Chapter 5, as first; however, it is important to examine other characteristics.

CHAPTER 2

EMPLOYMENT POLICY MAKING

The role of the Chapter 2 is to briefly investigate EU employment policy influence to offer an overall picture on employment policy trends in the region. To be able to compare EU against Hungarian employment policy objectives, internal employment policy making in Hungary will be further investigated in more details.

2.1 European employment policy

Employment policy in the EU has been geared towards meeting the aim that labor supply should match demand, if EU countries hope to continue to remain relevant in the global arena. Hence, policy design is centered towards removing the possibilities that would frustrate this goal. Ways (such European Employment Strategy 2020) by which this employment policy can be achieved have been identified. First, EU countries need to continue to equip their citizens with the right skills for employment. This calls for strengthening skill-acquisition sources, like tertiary education and other institute of higher learning – to make citizens acquire knowledge that is relevant to the 21st century needs. It is figured that when European citizens appear to acquire skills that are not enough to tackle the problems of the century, they become less competitive and employers might seek qualified hands elsewhere. The immediate but also the long-term result of this development would be that jobs would be shipped abroad in search of skills, and EU citizens would lack jobs. That is, there would be more people without jobs – a situation that would have ripple effects. To counteract this, the EU as part of its long run employment policy, continues to set out scholarship funds for studies and research especially in sciences. The essence of this is to be the center of scientific discovery, which would make EU the center of global attention.

Second, EU employment policies continue to advocate towards improving job quality and working conditions. This is rooted in human dignity, and the fact the workers should have a sense of belonging and fulfillment in what they do. Thus, exploitative techniques geared towards denying workers their dignity are not allowed in the EU employment policies. Employers cannot afford to do as they like, fire or hire at will without severe consequences on their part. The philosophy behind this kind of EU employment policy is different from that which is visible in capitalist economies like the United States or communist dominated

economy like China. In contrast, EU employment policy believes that citizens are not to be used as labor in the old sense of the word. Thus, workers under the EU could have welfare packages – job security, good pension, early retirement, and other related social security elements.

Third the EU employment policy seeks to encourage job creation by encouraging the growth of Small and Mid-scale Enterprises (SMEs). Given that the SMEs are the biggest employers in the EU labor market, they enjoy more tax cuts than corporations. Quite recently, the EU has become more forceful in making credits available to the SMEs – hence, the European Reconstruction and Development Bank (ERBD) is dedicated to giving credits to business entities especially the SME's to startup businesses and create jobs, in order to ensure that labor supply continue to match job openings, so as not to create a mismatch.

Because employment policy can support the matching of supply and demand, reduce the cost of hiring and employment, finally in the case of good-quality data and improved policy measures, ensuring fast interventions that can improve productivity and may have a major effect on economic growth (Fazekas & Scharle, 2012:15). ALMP's are a crucial component and one of the main priorities of the European Employment Strategy. Although such policies have been used in most countries for many years, few scientifically justified measures of the effectiveness of ALMPs have been developed (Kluve, 2005:1).

Welfare regime type has great influence over ALMP types chosen by particular country, as 'standardization of unemployment support in principle can take a variety of forms' (Clasen & Clegg, 2006:533). Countries have also developed different evaluation efforts and practices in line with 'the role they play in terms of governmental expenditure' (Kluve, 2005:2). European labor market performances and its methodological requirements for enabling cross-country comparisons gained higher attention throughout EU's Economic

Guidelines, the Broad Economic Policy Guidelines (Kluve, 2005:1). Although these guidelines have no coercive nature (meaning no consequence when not following), participation is obligatory, as these guidelines are being used as a framework for development of the yearly national reform programs. Open Method of Coordination (OMC) ensures the consistency with the central policy documents via soft governance mechanism. Advocating evidence-based policy (EBP) (see *Table 1*) fundamental purpose is to offer a methodology for concerning the effectiveness and efficiency of policy settings and possible alternatives for program improvement (Head, 2010:16). However, despite involuntary attachment of the policy cycle of the Europeanization process and EES varying degree of influence on domestic policies (Risse & Börzel, 2009:18), large differences in terms of substantial part of methodology of program evaluation remained, previous domestic practices are followed (Kluve, 2005:27). No applicable best government practices exist among countries (Andrews, 2010) that would counter-offer such common measures against existing ones (Hallsworth, Parker, & Rutter, 2011:18). On the one hand, good government means different things in different countries (Andrews, 2010: 5). On the other hand even EBP - due to its complexity and variety of scales of conceptualization resulting from diversely framed policy problems, debates and researches (Head, 2010:21) - fails to identify solutions that would take into account value conflict among countries while capturing the range of effects policies produces (Hallsworth, Parker, & Rutter, 2011:18) even in EU countries that exhibits similar domestic arrangements (Risse & Börzel, 2009: 17). However, estimations of achievements with usage of different elements of ALMP's have been done by scholars such Lehmann (2011) or Kuddo (2012) (see *Table 2*).

Table 1 Actions and procedures by different actors in the classical cyclical model of policy making

Actions taken at different stages	Role of Decision Maker	Role of Expert
<ul style="list-style-type: none"> • 1 Agenda setting and defining issues • 2 Developing policy alternatives • 3 <i>Ex ante</i> assessment of alternatives • 4 Decision making upon through consideration of the above • 5 Implementation • 6 <i>Ex post</i> evaluation of policy 	<ul style="list-style-type: none"> • 1 Politicians in charge and policy makers • 4 Politicians in charge: minister, government or parliament 	<ul style="list-style-type: none"> • 2 Civil servants and/or external experts • 3 Civil servants in accordance with criteria defined by decision makers • 5 Civil servants • -6 Experts not involved in the decision making and implementation

Source: Own work based on Váradi work (2013:77 Table 1)

Lacks of impact assessment of employment policies are interconnected with the way of employment policy is made (Galasi & Nagy, 2013: 190). Scharle et al (2012:18) highlight the importance of employment policy making process, as a contribution of a country to improve its job creation capacity, which would ensure stable business and predictable macroeconomic environment as such. Similarly, as Hallsworth et al (2011:17) emphasize, ‘the strength of policy making is integral to the strength of government as a whole ‘. Nevertheless, political realities do not correlate closely with the notion of rational and cyclical policy process (Colebatch 2006 as cited in : Head, 2010: 20). Rather, domestic political processes better described with Lindblom’ punctuated equilibrium theory which is characterized by stability and incrementalism or mutual adjustments, combining issue definition and agenda setting stages (Lindblom, 1959).

This part of the chapter highlighted EU effort for improving the effectiveness and efficiency of policy settings and possible alternatives for program improvement. The analyses showed, that the policy cycle of the Europeanization process has diverse influence on domestic policies due to lack of common measures that would be able to take into account value conflicts among countries. Incremental policy making is presented in countries, meaning small adjustments of the existing policy, while EU multi-level character offers a pathway thru multitude of opportunities for a convergent employment policy. Both features have varying degree of impact on national policy making of an EU country.

2.2 Employment policy making in Hungary

Throughout the transformation process from the communist regime and since after, large-scale changes carry important implications behind recent employment policy making. Despite being a post-communist country, Hungary has chosen different redistribution and policy making in welfare compare to other countries having similar historical background in the region. This part of the chapter underlines that, given its social and macro embedding of policy making.

The Hungarian employment law of 1991 recorded the elements and its resources of ALMP, focusing the scope on labor supply stimulation (Galasi & Nagy, 2013:185). The period between EU accession of 2004 and financial crises of 2008 focused more on stimulating labor demand by easing burden of taxation (Frey, 2011). Thereafter, as a treatment of long-term and structural unemployment, public work schemes have become dominant (Galasi & Nagy, 2013:185). Volume of 2009 was the 20 % of total ALMP spending; while it has reached 50% of total spending by 2010 (see *Figure 1*). However, without a comprehensive economic growth strategy that would stimulate labor demand and supply, employment cannot be successfully increased (Fazekas & Scharle, 2012:17-18).

From the introduction of new public management in the country, evidence-based policy making (*Table 1*) is considered by Váradi as the perfect approach for quality policy making (Váradi, 2013:77). Yet, previously prescribed incremental steps describe better employment policy making in case of Hungary. Váradi (2013:77) points out the practice of what Lindblom called the ‘danger of local optimums’, meaning a certain type of decision making which is narrowing down and shifting the focus from the full range of available policies to a small number of small scale change alternatives. Furthermore, in comparison with other Eastern-European post-communist countries, despite having similar baseline and experiencing the same external economic shocks (Váradi, 2013:78) Hungary’s unemployment trends greatly differs from Slovaks or Polish numbers (Bajnai, Hámori, & Köllő, 2008: 45). Explanations are deriving from the different decision-making procedures. The operation of welfare and particularly the labor support system functions differ greatly (Bajnai, Hámori, & Köllő, 2008:55) such as the long existence of generous welfare benefits and possibility of earlier retirement or the remained loose connection between unemployed and employment services.

Greater influence of political consideration over economic one in case of employment policy making (Váradi, 2013:87) is nominated as a reason of no improvement of Hungarian employment policy over the past two decades (Fazekas & Scharle, 2012:14). Inauspicious combination of policy responses has developed permanent imbalances that keeps Hungarian employment thus labor demand at a low level (Fazekas & Scharle, 2012:5). Additionally, poor policy integration and coordination between education, labor and economic development policies (Váradi, 2013:72) together with previously mentioned lack of harmonization at the regional level makes the overall system fragmented.

A sign of the continuity of such policy making is the significantly increased volume of large-scale public work programs from 2009, despite considerations, as being the least

efficient ALMP' element by several scholars (Váradi, 2013:84)(D. Card, 2010)(Kluve, 2005). Váradi (2013:86) points out in regards of cyclical, EBP policy making model, the absent of the second step – the development of possible alternatives by civil servants (see *Table 1*), highlighting the lack of influence of experts or civil servants on developing solutions or measures in Hungary. Policy instruments are defined by politicians without *ex ante* evaluations – third step (see *Table 1*) – thus not attached to social or economic objectives, but rather instruments are the result of 'haste' political decisions (Váradi, 2013:86). *Ex post* evaluations of policies – last step (*Table 1*) –are made more difficult with the practice of employment policy measures assessment. Nationally funded projects – as opposed to projects funded by the Structural Funds –documentations and therefore their evaluations rarely sufficient (Váradi, 2013:86), due to missing development of transparent evaluation system based on outcome, output or impact indicators (Galasi & Nagy, 2013:186). Instead, there is an ad-hoc, yearly evaluation system done by the National Audit Office of Hungary.

Absence of systematic ex-post monitoring is emphasized of each yearly assessment of the European Commission. Further country-specific recommendations are:

“The activation element in different labor market and social measures (Public Work Scheme, unemployment benefits and social assistance) needs to be strengthened. The Public Work Scheme attracts the bulk of budgetary resources available for employment measures, but in 2013 less than 10% of its participants were able to return to the open labor market after exiting the scheme. This raises the question of whether the scheme should be adapted, for example by building stronger links to activation, training and job search support, to secure a more lasting employment impact.”(EC, 2014:9)

As mentioned previously, public work programs represent the largest category in terms of volume and expenditure. Impact evaluation literature is rarely available which sufficiently addresses the issue of longer-term program impact. Similarly, previous impact evaluations have descriptive nature, only two studies exist which have used quantitative analysis to interpret cross-country evidence of ALMPs. Kluve (2006) and (Kluve & Schmidt, 2002) collected studies of a total 95 and 53 European ALMP, respectively, and analyzed them with meta-analysis approach. The main findings of the comparisons of both program evaluations suggested that the public work program was the least sufficient type regarding program effects. Evaluation literatures usually provide an insight into what programs work but leave open the question of why. The next question to be addressed, therefore, what circumstances and design features would explain effective outcome of public work in Hungary? This question is considered in Chapter 4. Following this, Chapter 5 will turn to the question of whether and to what extent public work should be adjusted.

To conclude this chapter, it is framed now that in policy formulation political consideration has been an important driver of reshuffling employment policy in Hungary. While similar traces of unequal regional distribution and weak policy coordination among development policies has led to a fragmented overall system and, simultaneously, the absence of sufficient and transparent evaluation procedure is questioning the existence of macroeconomic perspective in such a large scale program. In contrast, the policy cycle of the Europeanization process point toward the need of evidence based policy making, by providing a methodology for concerning the effectiveness and efficiency of policy settings and possible alternatives for program improvement. As it is revealed in this chapter, Hungarian employment policy making is closer to Lindblom's so-called local optimum type of decision making, holding the risk of narrowing policy options according to actual political climate.

CHAPTER 3

EMPLOYMENT PROGRAM MONITORING AND ASSESSMENT AT THE EU LEVEL

It is not easy to create a system that monitors the twenty-eight members as to how they implement the directives. Given that member states are allowed to implement directives as it would best be practicable to them, there is no scientific method or an absolute method of viewing directives implementation amongst the member states – this is a huge challenge especially given that the cost of seeking redress in court is enormous and citizens who fall victims might choose not to enforce their rights in court. This gives a false impression of how efficient the implementation of employment policies is in the EU, as reported cases of failure form only a tip of the iceberg.

In this context, because some member states are economically stronger than others, the stronger ones can afford to throw their weight around in formulating EU laws that suit them better. For example, the 2001 Regulations governing the creation of a European Company Statute – which mandates company with more than a certain number of employees to create a system of workers involvement is nothing but a replication of Germany's co-determination labor law. This is done regardless of the fact that such system is unknown to some member states. The suspicion that what is enacted at the EU level is nothing but the legal system of one or two countries in the EU could lead to loss of confidence in the system, and leads further to lack of good implementation of whatever policy that emanates from such. This accounts for why there is no perfect coordination or a functional unification of taxes and pensions systems at the moment –these are vital systems that ought to be in place for the realization of free movement of labor amongst the EU member states.

The present chapter role offers a comparative perspective regarding effective program outcomes and to tackle difficulties of measuring success. Its second objective is to elaborate a set of qualitative and quantitative indicators and explain methodology, to be able to test against each other by results of different methodological approaches in the next chapter.

3.1 Effective outcome of programs, measuring success

In order to assess the impact of ALMPs and its elements, it is essential to take into account the context and the objectives of the program, next to political and social economy considerations. Notwithstanding problems of conceptualization and measurement of the effect of ALMPs (Dar & Tzannatos, 1999:12), several evaluation studies have been dealing with one or more aspects of these programs. For instance as their costs (World Bank, 2002) net impact (OECD, 2009) efficacy (Betcherman, 2004), efficiency - as net impact compared to total costs (Betcherman et al. 2004, Kluve 2006, OECD 2009) lack of general effectiveness (O'Leary, 1998) sustainability ((Scharle, 2011)) or with the implementation of such programs ((Dar & Tzannatos, 1999) (Csoba, 2010)). Typically, micro-level evaluation studies identify only one aspect of successful programs. Putting together several benchmarks indicators can help to find out which elements of the process and its implementation procedure have the highest impact and lead to success in the case of Hungary.

Table 2: Efficacy of ALMPs

Type of Program	Costs	Evidence on Effectiveness
A. Public Employment Services ("Job Brokerage") and Administration	A. Relatively Cheap	A. Highly Effective* (Unanimous)**
B. Labor Market Training	B. Relatively Very Expensive	B. Effective (Mixed)***
C. Employment Incentives/Start-Up Incentives	C. Relatively Expensive	C. Effective (Mixed)***
D. Direct Job Creation/Public Sector Employment	D. Relatively Expensive	D. Ineffective (Unanimous)**

Source: Own work based on (Kuddo, 2012: 21 Table5) who adapted from Lehmann (2011)³

Yearly ALMP evaluation is carried out by the Hungarian State Audit Office in some randomly chosen local governments (usually 30 out of 3200 municipalities are examined), in which program objectives are assessed in accordance with the performance of the national economy level (State_Audit_Office, 2013:23). It is stated in the analysis that despite lack of systematic data collection and indicators, Széll Kálmán Plan public work program was successful as its achieved program objectives (State_Audit_Office, 2013:27).

³ Note: * "effective" means that the average employment or reemployment probability of a person participating in the indicated measure is increased. ** "unanimous" means that virtually all studies show the indicated effect. *** "mixed" means that some studies show the indicated effect but other studies do not.

3.2 Policy evaluation explanatory model in a perfect world situation

Before explaining the methodology, it is important to examine how such a policy would be evaluated in a perfect world situation, meaning that all variable are stable and there is a possibility to take into account counterfactual conditional statements as well.

The true effects of a program can be measured if we have one group of program participants and another group with the same characteristics but without policy intervention. The casual effect of a program would be the difference between the outcomes of a group that participated in a program compared to the outcomes of the counterfactual group where program was not implemented. In case of employment policy intervention, the counterfactual or control group may experience changes in their situation regardless of program intervention, meaning that there is a potential outcome or in other words change in the initial situation even in the absence of policy intervention. In case of cost-effective analysis of a policy intervention, true effect of a program can be seen by looking at the number of people who found job because of the program and comparing them to those who also found job, but without program. The difference between the two would be the casual effect of a program.

Another important implication of counterfactual is that it would help deciding whether the intervention has a positive effect compared to the resources invested in the program. It would be done by looking at the difference between numbers after a certain period of time, let's say six months, and to see how many find job within this period from the two group. This step would allow better evaluation of performance, and would enable to see whether the group with intervention has higher benchmark compared to the other. In a cost-effective manner, in this case, intervention would have positive effect, if difference between two groups is relatively small, than the effect is not significant or negative regarding future

employment prospects of participants. Ex-post counterfactual analysis would shed light on real cause and effect between program interventions and outcomes while revealing costs.

Due to the fact, that in real world situation, apparently, quasi-experimental or observational counterfactual group outcome cannot be compared with the existing one, therefore, the only way remained to evaluate public work program in case of Hungary is by its objectives. The next section presents the methodology and conceptualizes this research and defines impact indicators that will allow comparative examination of different evaluation methods in the next chapter.

3.3 Methodology

This thesis uses multi-method, quantitative and qualitative methods in order to mitigate possible limitations and to close a gap in the impact evaluation literature, as evaluations of public work programs in Hungary limit the evaluation focus to one or two of these analyses. However, limitations of missing information about certain variables and lack of counterfactual or so-called control group (Pierre, 1999) to compare what would have happened without public work programs remain as shortage of analysis. Additionally, evaluating only one component of ALMP's may lead to additional unseen limitations (Pierre, 1999) as programs interact with each other. Nevertheless, the threefold analysis of key indicators accompanied with case studies enable overall effect estimation similarly hypothesis testing and provide answers for the research questions aiming at ensuring a comprehensive evaluation of public work programs in Hungary.

The first part of the analysis is quantitative and qualitative data analysis on ALMP' implementation and on its spending. The aim is to evaluate public work program by its targeting, program efficiency, by performance. According to Betchermann (2004:12), there are several types of program evaluations: (i) *process evaluation (see Annex II)* focuses on

how well a program is delivered, (ii) *performance monitoring focuses* on indicators on how well program objectives are being achieved, while (iii) *impact evaluation* helps to identify the overall effects and the cost-effectiveness of a program by comparing outcomes to a counterfactual situation when the program did not exist.

Data collection is based on (1) online available national database on employment policies in Hungary and (2) secondary literature – evaluations, articles and reports, (3) document analysis of Council recommendations.

The second part of the analysis relies on selected case studies qualitative analysis - specifically on good examples from Hungary in order to investigate program specific characteristics of effective results. The goal is to underscore crucial difference of public work programs at local level. The analysis focuses on the descriptive inference component (Collier, 2011:823) and at the same time on the identification of repeated patterns (Collier, 2011:824). Finally, hypotheses will be tested by process tracing.

The analysis relies on primary and secondary sources. Data collected through (1) media analysis - as secondary sources - to be able to localize success stories and (2) official documents of Structural Fund⁴ funded project that encompass all necessary evaluation measures and information needed for analysis. When suitable, process tracing test (Collier, 2011) is employed to test casual interference and for evidence interpretation.

⁴ Source: http://ec.europa.eu/europe2020/pdf/nd/nrp2013_hungary_en.pdf

CHAPTER 4

ARGUMENTATIVE EVALUATION OF PUBLIC WORK PROGRAM EVALUATIONS

By looking at different impact assessments, this chapter enables testing different results of the same program against each other. Remarkably different results highlight the importance of success definition parallel to serious shortcomings of program monitoring by different methodological approaches. The aim of the chapter is to present evidence of different interpretation of certain program features and to prepare critical evaluation of the next chapter.

For exploring factors that impact on service delivery, firstly process evaluation used by the World Bank is applied to assess public work program. Secondly, two types of performance monitoring is employed to demonstrate gap between Hungarian government' and own calculation based on one scholar extensive work. Thirdly, impact evaluation is carried out in comparison to other ALMP elements to demonstrate short and long term effects of the different elements of ALMPs. Lastly, to further analyze research questions, good examples of public work will be detected and common characteristics will be assessed in the end of this chapter.

(i) Process Evaluation

Process evaluation helps identifying problems of service delivery and offers possible strategies for overcoming incorrect activities and procedures (Dar & Tzannatos, 1999:11). According to World Bank ALMP' evaluation incorporated standards (*see Annex II*), crucial

design features include institutional settings but public employment services (PES) have a cardinal role as active labor market policy providers throughout the EU. PES traditional role of registering and supporting unemployed enriched with more complex goals of activating and facilitating participation of currently underrepresented groups on the labor market (Fuller, 2011:2). In Hungary PES's are responsible for training delivery next to placement and matching of workforces.

Selected indicators (see *Annex II* and *ANNEX III*) are assessed in accordance with available information:

Management (Institutional settings)

As mentioned in the previous chapter, several ministries are responsible for the Hungarian employment policy. Local governments with PES are responsible for local implementation of public work programs. No other stakeholders or member of civil society is involved in the goal setting or in the evaluation process (NAL, 2013). . Based on Udvari et al (2010) public work plans' content analysis in 51 local governments, it is proven that initial public work plans lack of efficient work arrangements and long-term employment strategies at local level. From 2013, district offices has been set up in PES as part of a new organizational structure, policy formation remained at the county labor office level, where local office managers reports to district office managers(NAL, 2013:12). Likewise, county labor office managers report to the county government offices, where policy formulation belongs to the Hungarian National Labor Office (NAL, 2013:12). Even though this reform, there is no common tool regarding PES performance management system, which would be able to compare input and output measures. In other words current evaluation system not only unable to compare cost-effectiveness (input) and performance indicators (output) but also

elements of measuring cost-effectiveness are already missing from indicators when ensuring target-setting.

Local governments have initial role as data providers, however as discussed previously, due to their technical, professional and financial difficulties, information is tracked improperly and transferred inefficiently. Furthermore, current resources allocation among local governments as primary public work providers due to normative-based ex-post financing and lack of ‘built-in automatic barrier of the system’ that would stop greater central government subsidy flow to local levels, it can be said that resources are not allocated according to plan.

Projects

One of the biggest distinctions of the Hungarian public work projects compared to other projects running in EU countries, that projects are not specified regarding creation of public good or services nor regarding timing as it bound to duration of public good creation.

As regards targeting, a public work program reaches the intended people from location-specific point of view, in regards of the most disadvantaged regions. However, the ‘practice of creaming-off’ considering participation of poor people is a popular selection process that are employed and widely used by local mayors (Bódis & Nagy, 2008)(Köllő & Scharle, 2012). Scharle (2011) identified a number of other factors which limited the effectiveness of national public work plan’s execution. Municipalities own changes to PW plans during the year of execution do not require PES’ comments nor permission from State Treasury. Changes are not examined or restricted neither from professional nor from financial point of view. Repeatedly, information about changes is not recorded and is not part of the Hungarian public work monitoring system.

Beneficiary

By introducing the principle of ‘work instead of benefit’, the government expects efficient filtering of ‘free riders’ of the welfare beneficiary system as well as the reduction of long-term unemployment (Scharle, 2011; Fazekas, 2001). Participation in public work is not obligatory, but a prerequisite for receiving welfare benefit. ‘Locking-in effect’ (Galasi & Nagy, 2013; Scharle, 2011; Kluve, 2005) is nominated as a reason of failed improvement of participants employment chances on open labor market, as time spent of job search is shrinking. Nevertheless positive or balanced net employment effect can be reached if public work program contained training element. More importantly, families living in the most disadvantage regions become worse off (Scharle, 2011:160), as low percent will get real job, most will return to another public job or will be eligible for welfare benefit for short period as become unemployed. In 2013, 10,5 % of participant of public work programs could reenter to open labor market (Commission, 2014:79). The so-called ‘public employment trap’ (Farkas & Molnár, 2014) refers to the high possibility of falling into poverty as salary is lower than minimum wage but higher than social benefit, thus level of family spending is codetermined for long term. However, the initial purpose of lower benefit level is to increase the chance of program exiting due to financial incentives offered by future ‘real’ job (Castonguay, 2010:111).

After the analysis of economic and labor market policy environment in previous chapters, process indicators helped identifying further input requirements which are still belong to the first stage within the policy cycle. To sum up, current evaluation system within institutional settings not only unable to compare cost-effectiveness (input) and performance indicators (output) but also elements of measuring cost-effectiveness are already missing from indicators when ensuring target-setting. Information about changes is not recorded and is not part of the Hungarian public work monitoring system. Lastly, both phenomenon of

creaming off and locking-in effect are generated by public work program and counterproductive with initial goals.

(ii) **Performance Monitoring**

Performance monitoring belongs to output indicators (See *ANNEX IV*). Clarification of success is necessary, yet performance monitoring may take several forms. This part briefly introduces two paths of performance evaluation in order to shed lights of the importance of the choice and definition of outcome indicators. Relevancy is that even communicated desired effect is found to have alternative interventions that may have higher social returns (Dar & Tzannatos, 1999:2).

Firstly, performance assessment is based on success defined by the government. In this case national program ‘Way to Work’ objectives (program goals) are assessed against outcomes by content analysis of program plan. In this regards success means achievement of communicated objectives.

Table 3 Performance indicators of the Public Work elements of the Way to Work program (“Széll Kálmán Terv 1.0”)

Objectives	Achievements	Assessment
New, Integrated Public Work Support System	From 2011, new integrated system come into force (replacing previous 3 public work schemes)	Achieved
Creation Of New Legislation	Act CVIII of 2011 on public procurement was adopted by the parliament on 11 July 2011 and entered into force in January 2012	Achieved
Exit/Access To Open Labor Market	App. 10 % of public workers found new job on open labor market	Achieved

Poverty Reduction	Wage is higher than social benefit, mainly poor people participate	Achieved
Testing willingness of work	Participation in public work is prerequisite of social benefit	Achieved
Diminishing Number Of Social Beneficiaries	Participation in public work is prerequisite of social benefit	Achieved

Source: Author's own calculation based on Széll Kálmán Program 1.0, came into force in 2011

Regarding public work, Széll Kálmán Plan 1.0 objectives are fully achieved. The “Way to work” program is successful according to the chosen output indicators defined by the government. Obviously, governments set up indicators that are easy to achieve. This case showed that comprehensive program evaluation require independent evaluator, as well governments must have limited control over selecting indicators.

Secondly, performance assessment is based on success defined by Castonguy in 2010. Success defined by accumulated scores of sub-indicators based on public work program elements.

Table 4 Performance indicators for the process of work-based employment programs

Indicator	Sub-indicator	Score=5	Score=1	Own evaluation of Way to Work Program
Mode of delivery	Mode of provision Performance pay	Strongest focus on efficient delivery	Weakest focus on efficient delivery	1
Timing of start	Number of weeks after claim before program starts	Quickest start	Latest start	3 ⁵
Length of the program	Number of months	Shortest programs	Longest programs	1
Hours per week	Number of hours per week in program (total for all activities)	Most hours	Least hours	1 ⁶

⁵ Depending on the 3200 local municipalities

⁶ As Way To Work Program' aim is to involve more people for shorter period

Work environment	Private for profit Public/regular Public/stimulated Voluntary sector	Closest to regular labor market	Farthest to regular labor market	1 ⁷
Rewards	Benefit only Bonus on benefit Salary -Amount of reward as % of benefit level	Highest reward as % of regular benefit, salary as reward	Lowest reward as % of benefit (only benefit as reward)	1 ⁸
Sanctioning procedure	Formality Flexibility	Most formal and flexible	Least formal and flexible	1 ⁹
Total				9

Own calculation based on Julie Castonguy work (2010:114)

The “Way to Work” Program scored 9 points out of 35, meaning 35% of matching with standard requirements of regular performance indicators. Conversely, there are several other objectives to be used to determine the success of such programs. Assessment studies conducted by different actors lead to huge differences; therefore proper emphasis on specifying efficient instruments for performance evaluation is necessary within the planning stage of the policy cycle as well during the implementation of projects. Additionally, evaluation and monitoring of expected indicators of the projects should be done strictly and continuously. In this analysis, performance indicators do not lead to clear answer, yet features of program elements remained questionable.

The next part investigates with the help of impact evaluation the question of at what costs the intended benefits are met.

(iii) Comparative Impact Evaluation

In order to be able to judge effectiveness, it is important to consider cost. Economic effectiveness may be considered by short and long term or by comparing ALMP’s elements

⁷Due to lack of involvement of non-governmental and/or private actors

⁸Only benefit as reward

⁹Least formal as not participation equal of losing social benefit

to one another. Kluve et al (2010) highlights the importance of minimum of three years distance after the program closing in order to access its real impact. Therefore, year of 2010 is chosen for impact evaluation¹⁰.

Wages for public work are financed from the state budget, however more than 10% of total cost is circulated in the system and then returned back to the state budget (in form of tax and other contributions). Besides this, there are organizational and capital costs next to other factors reducing value of work (see *ANNEX V*). In total, state budget expenditure was above 92 billion HUF in 2010.

Table 5 Assumptions for public work indirect cost calculation with hypothetical computations

	Social benefit¹¹	Public work	Reintegration services (such as services offered by PES etc.) ¹²
Expenditures of certain provided benefits (month/person), HUF	28 500	84 858 (gross wage)	254574 (3*public work net direct cost)
Hypothetical exit rates ¹³	5%	2% - 10% ¹⁴	30%
State total spending (Billion HUF) in 2010 ¹⁵	70,639	Total: 130,08 but own source is 92 310 ¹⁶	100 -130 ¹⁷
Total number of participants in 2010 ¹⁸	223 661	100 000 ¹⁹	In total = 200 000 ²⁰ , but 1300 is job related ²¹

Source: own calculation based on Scharle work in 2011:68

¹⁰ Furthermore, from 2010, more available data on the topic can be accessed.

¹¹ Meaning restricted only for income support for working age population

¹² All personalized, complex, intensive development of workforce

¹³ From certain benefit concerned, the proportion of those who enter to open labor market

¹⁴ Depending on sources and methods used for estimation

¹⁵ Source: National Treasury, National Employment Office

¹⁶ Only part of the own source, without external sources (such from EU FUND)

¹⁷ Source: Eurostat

¹⁸ Source: National Treasury, National Employment Office

¹⁹ Approximately, comparing different sources (variation is between 80 000 to 11 000)

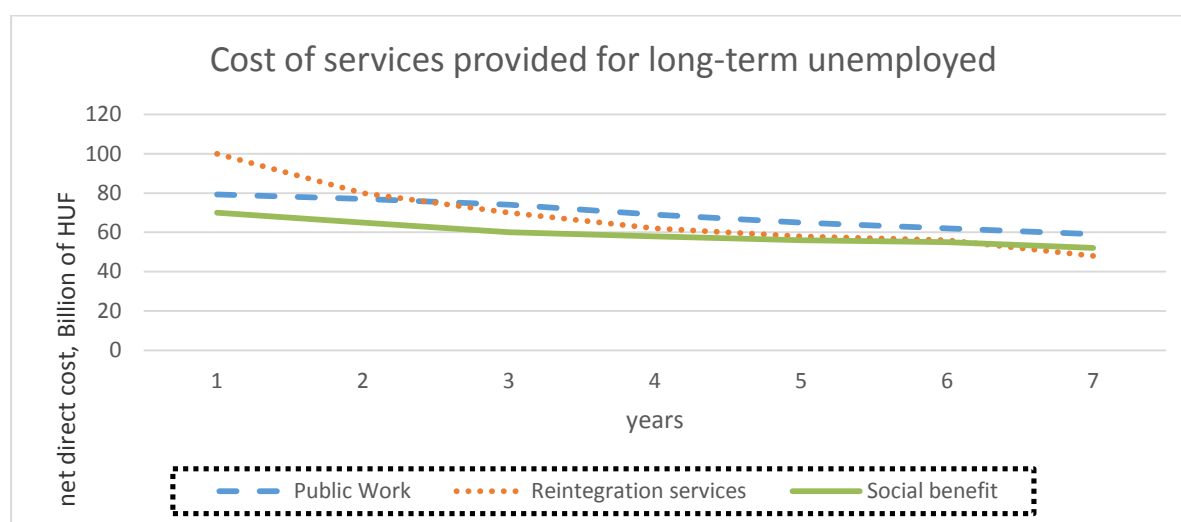
²⁰ Source: Eurostat

²¹ Source: Scharle 2011:32 estimation regarding to long-term unemployed (approximately 6%)

One public worker's net direct cost was approximately 63,000 HUF in 2010 (see *ANNEX V*) which is higher than monthly social benefit, but cheaper than the monthly reintegration service provided for one person. At first glance, public work seems to be the most cost-effective solution.

For comparison among choices of long-term unemployment solutions, costs of the three different options are examined for longer period of time (for calculation see *ANNEX VI*).

Figure 3



Source: Author own calculation based on Scharle (2011:32) hypothetical strategies

Assuming that reintegration cost is 30% higher than public work cost, in first years public work means less state budget spending. In other words, public work is the most cost-effective option in short run. Nevertheless, as the years go by, differences shrinking and from the third year, the cost of reintegration becomes cheaper. Explanation is that cost of reintegration decreasing the number of long-term unemployed year by year. After the sixth year, cost of reintegration is the lowest budget expenditure. Additionally, cost of reintegration achieves the highest rate of labor market reintegration, having real influence on unemployment rate, therefore this option provides the most cost-effective option in long term.

Paradoxically, public work effectiveness in long term shows similarities to social benefit, as both options provide benefit farther from regular labor market, as well in terms of higher cost in long term. However, hypothetical results do not reflect on effect of other interventions, nor on recent changes of public work program, such as training element, or the fact that in 2012 132 Billion HUF²² was allocated for public work programs. Taking into account limitations, it can be claimed that more cost-effective alternative instruments exist, other than public work. This part of thesis confirms that public work program is currently the least effective element compare to other active labor program elements in Hungary in long-term.

There are other significant barriers to measure the real impact of programs such as creaming off. Furthermore, all targeted groups named in public work are struggling with multiple disadvantages on the labor market, thus not tailor-made but the program targeting is generally poor people. Discovering real effect of program require closer examination of experience of most disadvantage regions. Therefore, the next part investigates good examples and its diversity from mainstream public work programs.

Learning from good examples

Choice of policy outcomes determines what can be considered as success. Choosing the right outcome measures is complicated, as discussed in previous chapters. Reason is that one intervention may have an effect on several outcomes; likewise outcomes may be not comparable or may have numerically unmeasurable side-effects (Kluve, 2005:26).

For brief examination media content analysis helped identifying successful public work programs. Information was more available on projects partially or fully funded by EU Structural Fund.

²²According to Central Statistical Office

Table 6 Best practices of public work programs in Hungary – according to Hungarian media content analysis

Name of municipality or project/ Year	Number of participant in projects	Duration of projects/total cost	Success factor ²³	Specific/different feature than mainstream public work project	Source
Tiszadob 2012	694	10,5 months - part time job/808 million HUF	Creation of public good: -Maintenance of internal water channels -Maintenance of agricultural roads -Maintenance of public roads -Agricultural brigade	Activity is specialized and performed in forestry work at flood-plain area and participants belong to Roma community	Roma Source 2012
“Sorsfordító” project in Gyulaj 2010	50	10months/150 million HUF	-Local primary school renovation -Complex reintegration program based on creation of public good (several maintenance activities)	-8 months training element -Religion based charity service is involved in the implementation	Károly & Kézdi, 2011
“Sorsfordító” project designed 2010-2012 with 33 small disadvantage municipalities	229 (Gyulaj is involved with 50 participant)	2 years/ 780 million HUF (together with Gyulaj)	-Locally specified, different goals - involvement of professionals from several fields (such as agriculture, academic professors, teachers) -project designed locally aiming at sustainable development and future self-financing (from local municipality point of view)	-8 months training element - Small scale business initiatives based on locally defined creation of public good (such as production of agricultural crops (jam, vegetable cream etc.))	Károly & Kézdi, 2011

Source: Author own work

In case of “Sorsfordító” projects, projects designed locally aimed at achievement of sustainable development and future self-financing from local municipality point of view. In

²³Success factor: how success is defined, what element/s was/were highlighted in reports?

fact, projects did not have the explicit aim of finding job on open labor market, yet, that might be a future implicit aim of many municipalities by supporting small scale business initiatives. The quality and intensity of various elements of success factors cannot be measured, yet, certain elements are among main determining factors of other ALMP's (such as reintegration service elements). Moreover, earlier discussed negative effect of the lack of reflection of the state on public work projects is found to give room for flexible changes during execution of programs.

It is important to take into account the validity of this part of the analysis. Even though the examined cases are partially funded from EU, thus monitoring of projects was done, there is no available published information on that. Therefore this part only represents an analysis of major features of successful programs. The question of whether these programs are continued or what have happened with them without additional revenue remains unanswered. However, best practices located success factors that as evidence showed are highly related to specification of projects at local levels.

Nonetheless, this part of the analysis highlights the importance of good scaling and targeting regarding one segment of unemployed (such Roma minority, disabled or women) as well as geographic targeting as program specific characteristics. It can be claimed that complex, locally focused projects are more resemble rural development plans rather than mainstream public work plans. Yet, public work projects are crucial component for community building and common, local, public good identification, but not in the sense of the initial program objectives.

CHAPTER 5

FINDINGS

Understanding the significance of crucial public work program features and the importance of monitoring through different options require deeper examination of economic situation, labor market policy making and the implementation of public work program at each executive levels from different evaluation technique point of view.

To sum up, in line with what the scientific evaluation literature suggested, this analysis support the overall achievement of public work programs, namely that it has short term net benefit as well as it may strengthens social cohesion locally. Nevertheless, long term impact remains limited, likewise its effect compared to other ALMP' elements, as this element do not improve future prospects of long term unemployed on big scale. In contrary, in long-term, likewise scientific evaluation literature suggest (Scharle, 2011:47)(Csoba & Nagy, 2011:141), locking-in effect prevail, when public worker stuck in an unfavorable situation worse than initial starting position. However, best practices suggest that if public work enriched with other component of ALMP's or serve as a baseline concerning bigger, complex development plans, its' effectiveness can be very high. To the contrary, if public work employed alone as a single ALMP tool, side-effects prevail for long-term and participants become worse off than their initial situation was.

By analyzing different objectives and cost-effectiveness, first research question of *whether the intended objectives are met and at what cost can be answered*. The initial hypothesis (H1) was that *despite lack of program assessment, public work programs in Hungary still achieve its initial, national goals such promotion of social cohesion*.

The fact which is relevant here is that assessment is objective dependent. Initial program objectives such as promotion of social cohesion, poverty reduction and testing of willingness to work are met at cost similar of providing only social benefits for long-term unemployed. H1 is confirmed by performance indicators defined by Way to Work Program objectives. On the contrary, H1 was eliminated by performance indicators used for the process of work-based employment programs. In international comparison, Hungarian public work performed poorly. However, using process tracing (Collier, 2011) Straw-in-the-Wind test, H1 affirms relevance of hypothesis but does not confirm it. H1 hypothesis is substantially weakened in lights of international comparison, but not eliminated.

Regarding second research question of *what circumstances and design features would explain effective outcomes of public work in Hungary*, it is revealed that design of public work programs matter. Certain characteristics ensure significant additional revenue for municipalities, due to cheap labor provided by public workers at local level. Contradictory, this is not correlated with improved earning prospect neither possibility for future employment on open labor force from public worker point of view. Nevertheless, even that design contains potential opportunity for real labor market exits. Current analysis did not examine changes after 2010, but case studies showed that training elements of public work projects increasing the chances of real employment opportunities.

CHAPTER 6

POLICY RECOMMENDATIONS

Based on findings, this chapter provides policy recommendations elaborated on cost-effectiveness point of view regarding participants' future employment prospects.

Furthermore, question of whether and to what extent public work should be adjusted is one main focus of this chapter.

Improving employment policy making in Hungary is the initial part of the recommendation, regardless the mixed evaluation picture. Key issues for future improvement reflects practical difficulties in the implementation process at local levels, starting with the lack of data collection, gaps in executives knowledge and not proper evaluation methodology using inadequate indicators in a fragmented system. When well defined objectives and good beneficiary targeting happens, these programs may serve as a good tool for reaching out specific communities or geographic areas. However, in case of Hungary program evaluation is rare or not adequate for the purpose of public accountability or cost-effective evaluation.

A unified IT system would address the issue of above mentioned problems. Such system would provide a complex approach to tackle lack of knowledge of local executives and equip policy makers with necessary indicators for evidence-based policy making. First, a country wide IT system would provide a sharper geographic focus and provide a good potential to scale and target programs better. Second, simply by having all necessary information for overviewing ALMP programs, number of policy interventions which try to deal with unskilled long-term unemployed would multitude, as next to political and social considerations, economic criterion would be considered too. Third, check and control of the implementation of public work program plans would be ensured next to monitoring of the impact of ALMPs. Finally, policy makers would better understand what features design explain effective outcomes in certain regions Hungary and why. It has high importance that government evaluates their own employment programs according to which new or altered interventions are based.

Findings of process evaluation revealed need of improvement in public work program delivery. Public private cooperation would ensure better program delivery and may lead to higher program wages. By a greater number and new range of non-governmental actors, local governments' limitations in terms of resources, skills and other constraints would soften or disappear. Furthermore, private actors can use mass of unskilled workers more efficiently, that would also attract foreign investors and may lead to direct job creation in the real labor force.

Another dimension of this thesis, that evidence revealed differences in the impact of ALMPs in long-term; therefore governments should be realistic about ALMPs achievement in general and with public work programs in particular. Resource allocation should depend more on cost-effectiveness regarding different ALMP instruments. More investment on ALMPs that have positive returns is crucial parallel to dropping or altering those elements that are not economically useful. Evidence rooted in the performance monitoring exercise support proper emphasis on specifying efficient indicators within the planning stage of the policy cycle as well during the implementation of projects. Additionally, evaluation and monitoring of expected indicators of the projects should be done strictly and continuously based on independent evaluator assessments.

As evidence of good practices showed, in fact, public work is an effective tool for short term as well as a first stage of a complex rural or regional development program. Due to the fact, that problems are mainly found in rural areas or in disadvantaged micro-regions therefore solution should rely on more decentralized and specialized public work program formulation. Additionally, other elements of small and family sized enterprise initiatives may provide suitable path for further program adjustments. Comprehensive service packages where labor demand linked to real workplaces are good examples of successful program targeting and scaling.

APPENDICES

ANNEX I – KEY FEATURES OF PUBLIC WORK AND PUBLIC SERVICE EMPLOYMENT PROGRAMS BY WORLD BANK

DESCRIPTION AND OBJECTIVE	EXAMPLE OF PROJECTS	POSSIBLE PROS	POSSIBLE CONS	SOME KEY ISSUES
Publicly funded low-wage employments to address poverty and nutrition objectives and create temporary employment – these programs are mainly income-generating schemes rather than autonomous employment generation.	Road construction – Albania. Sewage/waste collection – Lithuania. Construction of schools and health care facilities – Honduras, Yemen.	-May assist disadvantaged groups to regain labor market contact -Leads to production of public goods and develops infrastructure -Self-targeting, if wages are set effectively -Program may be used to get people off social assistance – people refusing jobs are not provided unemployment insurance.	-Crowding out of private sector jobs, especially if targeting is ineffective. - Stigma attached to them may not increase individual's employability. -Jobs may be of low productivity.	-How long should job last? -What should be the wages of the job? -What should be the proportion of wages in the total program cost? -How should the benefits of such a job be maximized despite their low marginal productivity? -Are these programs effective in generating employment and higher wages for program participants, and are they cost-effective? -Should private or public contractors be hired to implement the projects?

SOURCE: Dar & Tzannatos, 1999: 5, Table 2.1

ANNEX II Sample questions to address in a Process Evaluation

Level of process evaluation conduct	Questions
Management	Who is implementing the projects? <ul style="list-style-type: none"> - Oversight – local governments.... - Use of contractors Is the program well organized? Are resources allocated to plan? <ul style="list-style-type: none"> - Are they tracked properly and delivered efficiently?
Project	Are projects completed on time and to specification? How many people are being hired? <ul style="list-style-type: none"> - Is this number less than expected? - More than expected?

	What is the wage with respect to the local wage and rules? - If not self-targeting, what selection processes are employed?
Beneficiary	How did beneficiaries hear about the program? Are the beneficiaries coming from local communities? Are people being paid on time? Are the working conditions appropriate? Are there any accommodations for female participants?

Source: Kalanidhi Subbarao, 2010:174, Table 7.4

ANNEX III. Public work all direct and indirect costs and yields by person from one month's work (2010) HUF

Direct cost	Net wage + pension contributions	84859
	Other contributions and personal income tax	10324
	Organization of work + tools (capital) : together 10% of the wage cost	9518
Items reducing direct costs		
Returned expenditure to budget (state)	Other contributions and personal income tax	10324
The value of completed work in principle	Minimum wage cost	95183
Factors reducing principle value	Lower productivity (27%)	25699
	Fraud: less work done than accounted for (10%)	9518
	Organization of work is less efficient than would be on the real market (20%)	19037
	The welfare loss of resources distortion from distribution (10%)	9518
Net direct costs (total)		62966
Indirect costs		
Distortionary tax imposed due to the higher relative impact of aid financing		No data available
Foregone budgetary revenue		No data available

due to lack of reintegration (open labor market employment)		
Lost yields due to the lack of additional reintegration: health status improvement, socialization of the next generation, reduction of social exclusion		No data available

SOURCE: Scharle, 2011: 31²⁴, Table 4

ANNEX IV. Calculation of cost of three options for providing unemployment benefits

	Social benefit	Public work	Reintegration services	Total
Expenditures of certain provided NET benefits (month/person), HUF	28 500	63 000	18 9000	-
State total spending (Billion HUF) in 2010	70, 639	Total: 130,08 but own source is 92 310 ²⁵	100 -130	-
Participants	69%= 13800	25%= 5000 ²⁶	6%= 1200 ²⁷	200 000 (100 %)

Source: Author own calculation based on Scharle (2011:32, Figure 9) hypothetical strategies for 200 000 unemployed, assuming that spending on public work cannot extent spending on reintegration

²⁴The numbers in brackets are the estimated cost of certain elements, if 100% is the total cost of wages

²⁵Only part of the own source, without external sources (such from EU FUND)

²⁶According to Scharle (2011, p 32) hypothetical strategy, public workers are 25% of total unemployed

²⁷According to Scharle (2011, p 32) hypothetical strategy, participant of reintegration services takes up 6% of total unemployed

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