



## WORKING PAPER

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### Employment and the Social Economy

### EU Funding Opportunities for Developing Human Resources<sup>2</sup>

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*The paper examines the role of EU cohesion policy in the field of human resources development and improving conditions for employment. The main objective of the analysis is to present a comprehensive picture about funding opportunities in connection with financing the activities of organisations of the social economy. As a background, the study stresses that the success of the European integration process depends to a great extent on the strength of economic and social cohesion between EU member states and regions. In order to create conditions for sustainable and balanced growth with social inclusion, there is a need to enhance the competitiveness of less developed regions combating the difficulties of structural change, and to improve their development prospects. To achieve this aim, one of the most important fields is to improve human resources. The paper points out, that EU cohesion policy has a crucial role in reducing disparities. After a general introduction to the EU level regional policy funding, the study focuses on the activities supported by the European Social Fund (ESF). The next part of the study deals with the possible types of the social economy projects and problems of self-financing. The author emphasises that social innovation emerges where State and markets fail to deliver for society (theory of non-profit/third sector) but not just to fix or replace them. The author concludes that these projects require state subsidies (official grants) at the beginning, but at the same time they can generate income. In this respect they follow same economic goals as other market actors, however, the crucial difference is that their main goal is not to make high profits for the owners. In the last part, as a concrete case study, the paper concentrates on the priorities of the Hungarian development plan in relation to social renewal. The author explains the priorities and fields of interventions of the social renewal programme. Finally, the chapter deals with the recent changes in the Hungarian employment policy and related measures supported by the European Social Fund. The chapter concludes that several employment programmes, projects for the development of social economy and programmes assisting the spreading of voluntariness and the training of volunteers have been launched with the co-financing of ESF.*

## **Introduction**

The success of the European integration process depends to a great extent on the strength of economic and social cohesion between EU member states and regions. In order to create conditions for sustainable and balanced growth with social inclusion, there is a need to enhance the competitiveness of less developed regions combating the difficulties of structural change, and to improve their development prospects. To achieve this aim, one of the most important fields is to improve human resources. The increase of competitiveness is essential for Europe, this would aid the recovery from the crisis, but competitiveness must not be an exclusive organizing principle. Competition must go together with cooperation and solidarity with losers. Cooperation, generosity and solidarity are signs of strength, rather than weakness. They are not sources of helplessness, but rather that of creativity.

EU cohesion policy has a crucial role in reducing disparities. The European economy can only become more competitive and economic and social cohesion can be strengthened if significant development is achieved in education and training, both in terms of the institutional system and content. Education and training, vocational training plays a determining role in improving the composition and quality of labour supply. More flexible forms of training and contents taking into account economic and technological development and social needs are necessary. To achieve this, it is also very important to build stronger ties between social enterprises and human resource development.

Concerning social processes and activities the vision of the EU is not really clear. It stresses sustainability and inclusiveness but the bottom line is growth and jobs. Social innovation has mainly 2 meanings: 1) innovative ways to tackle old problems (eg. long-term

unemployment and climate change) 2) a new paradigm for society and its development. The EU seems swinging between both trying capturing both. At the same time the EU looks for a new way to engage with society.

The European Union provides a number of funding programmes for all types of people and organisations such as public bodies, corporations, NGOs, universities and other educational institutions. This financial support is available for projects and initiatives in various fields from education to agriculture, from environment to transport. One of the biggest share (around 36%) of the EU budget is spent on regional assistance. This funding category includes EU funds that are devoted to regional development and economic and social cohesion of EU member states.

Regional assistance is available through the Structural Funds (European Regional Development Fund, European Social Fund) and the Cohesion Fund. The European Social Fund (ESF) is the EU's financial instrument for investing in people. It uses resources to tackle unemployment and to prevent people losing touch with the labour market. In particular, it supports projects and initiatives in the areas of employment and human resources development. The fund seeks to achieve to upskill workers, to increase the number of marginalised persons in the workforce, and to promote equality and eradicate discrimination in workforce. These are the fields where social enterprises, and in general, the actors of social and solidarity economy can play important role as employees and trainers and can be beneficiaries of European funding.

## **1. The importance of EU regional policy in social development**

EU regional or cohesion policy transfers have the effect of enabling the least wealthy regions to achieve higher levels of investment in human and physical capital than would otherwise be the case, so helping to improve their long-term competitiveness. There is evidence of significant growth in GDP and a considerable reduction in unemployment compared with the case without subsidies. However, beyond its quantitative effects, the added value of the policy arises from other aspects, like the contribution made to national development policies by factors such as multi-annual programming frameworks, partnership, evaluation, co-operation between regions, and its political added value. These impacts have clearly contributed to the "Europeanization" of objectives, contents and operation of national development policies.

The commitment to reduce economic disparities within the European Union has strengthened as the number of EU member states has grown and as integration has deepened, since both processes have resulted in an increase in regional problems. The Structural Funds and Cohesion Fund have been created and their budgetary significance grown considerably. An effective cohesion policy is crucial to the development of an integrated EU. If the EU does not have a commitment to reduce the disparities in income differences and living standards, the future of the integrative process would be undermined. It would be unacceptable for citizens in differing parts of the Union to be subject to significantly different standards.

The most important argument in favour of an EU policy is the necessity to have an active device by which the welfare benefits of economic integration are spread throughout the European Union. There is no guarantee that this will occur if market forces are allowed to operate freely. Evidence would suggest that the opposite effect might result and that development would become even more concentrated in the centre of the EU. It is, however, unrealistic to attempt to equalise all conditions throughout the EU, which are the result of different resource endowments and historical factors. The measures adopted by the EU in the form of cohesion (regional) policy are not intended to do that. The funds aim to promote a better economic and social balance across the European Union and to reduce regional disparities, by co-financing with member states development actions in their regions.

It has sometimes been argued that cohesion policy is and should be essentially a tool to redistribute resources from richer to poorer areas. If this route is taken, the next step is to call for measures aimed at compensating very backward areas by providing unconditional support, possibly through automatic devices. This characterization not only looks like a misrepresentation of what cohesion policy today is about, but it actually misses the point of the very meaning of cohesion target in both EU history and its Treaty. Cohesion policy is not about redistribution, is about growth and social inclusion.

The most important factors that support cohesion are the improvement of the conditions of employment and the strengthening of the economic potential of the more backward regions. The crucial element in accelerating the process of catching up in these regions is to improve the conditions of economic development, since these regions are in a disadvantageous position in every respect. It should be noted that the measures promoting cohesion are not meant to replace the EU policies driven by free market principles, but are applied parallel with and in harmony with them: the cohesion measures are a concession to interventionism, but within the general framework of the market.

Among the factors determining regional inequalities, differences in infrastructure and human resources largely contribute to the competitiveness of individual regions. The historically low level of infrastructural investment has undoubtedly hindered the improvement of productivity and employment levels in the least developed member states of the EU. The infrastructural background, the quality of human resources, the levels attained in research and development activities, and, as a consequence of all the above, the region's ability to attract direct investments, are all factors determining competitiveness, which clearly reflect the development level and prospects of a region. The EU cohesion policy has to improve these conditions that influence competitiveness in such a way that the given region becomes more attractive to investors, the spirit of enterprise is stimulated, and, as a result, economic growth takes off together with social inclusion and higher level of employment.<sup>3</sup> (See ANNEX 1)

### ***1.1. Evaluating the “qualitative added value” of EU-level regional policy***

Most of the effects of cohesion policy cannot readily be expressed in quantitative terms. Beyond the net impact of policy on GDP or employment, its added value arises from other aspects<sup>4</sup>, like the contribution made to regional development by factors such as:

- multi-annual programming (strategic planning, integrated development policies);
- partnership;
- evaluation;
- co-operation between regions (exchange of experience and good practice);
- political added value.

Multi-annual programming has been one of the main successes of the Structural Funds method and the benefits of this approach have become clearer over time as member states capacity to plan programmes over a number of years has developed. The relative consistency and coherence in programming since 1989 has facilitated longer term and more strategic planning. The EU programming approach has promoted strategic dimension in regional

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<sup>3</sup> In details see Chapter 1 in Kengyel, Á. (2008): Kohézió és finanszírozás. Az Európai Unió regionális politikája és költségvetése. /Cohesion and Financing. Regional policy and budget of the European Union/ Akadémiai Kiadó. Budapest, 2008, pp. 15-56.

<sup>4</sup> Bachtler, J. – Taylor, S. (eds.) (2003): The Added Value of the Structural Funds: A Regional Perspective. European Policies Research Centre. University of Strathclyde. Glasgow. June 2003; Kengyel, Á. (2005): Cohesion and Cohesion Policy. The added value of EU level intervention. February 2005. 17 p. ([www.lisboncivicforum.org/Docs/D06\\_AkosKengyel.pdf](http://www.lisboncivicforum.org/Docs/D06_AkosKengyel.pdf))

development policy making. From a financial perspective, multi-annual programming gives rise to a greater degree of certainty and stability as regards the availability of funding than annual budgeting.

Partnership has widened and deepened and has extended in some cases beyond the Structural Funds into other areas of national and regional administration. While in the 1988 reform partnership was conceived primarily as vertical relationship between the Commission and national, regional or local authorities, the horizontal dimension of partnership, including a wider range of stakeholders at local, regional and national level, has grown stronger over time. When it works effectively, partnership adds value in many ways. It stimulates ideas for projects, through partners communicating opportunities in relation to Structural Funds requirements. In programme design, it helps to focus interventions on the needs of the region or particular target group. Partnership has brought enhanced transparency, co-operation and co-ordination to the design and delivery of regional development policy.

Evaluation of Structural Funds programmes developed and improved during the 1990s, leading to greater transparency and accountability in the management of the funds. Whereas in 1988, the emphasis was mainly on auditing the operation of the funds, the focus broadened over time to the results achieved from the expenditure carried out. The strong emphasis placed on monitoring and evaluation has been one of the central innovations of the Structural Funds. As a direct result of the Structural Funds, considerable progress has been made in terms of integrating monitoring and evaluation into regional development programming across the EU. In several member states, there was little or no culture of evaluation in economic development prior to the Structural Funds being introduced. Evaluations are now required to be undertaken at an ex ante stage by member states, at mid-term by member states in co-operation with the Commission and ex post by the Commission. Enhanced transparency, in terms of what has been done using regional development budgets, is among the benefits of a growing evaluation culture.

The Structural Funds provide a common international policy framework and timetable for regional development programming. As a result, a class of experts has progressively developed across Europe with a common background, culture and competences, delivering programmes which, while they vary significantly, have a core of common features. This provides scope for cross-national networking, which broadens horizons and facilitates the dissemination of the best practice.

Co-operation plays a very strong role in achieving EU added value of cohesion, since it can help overcoming existing or potential divides and enhance socio-economic integration. Co-operation addresses a number of goals:

- by facilitating the development and implementation of joint projects of European relevance, helps re-connecting discontinuities generated by the presence of borders and barriers, especially in the field of accessibility, of labour market conditions, of research networks;
- by facilitating the enhancement of under-utilised local potentials across the borders, works as a positive sum game and contributes to the growth of European competitiveness.

There is also a so-called political added value of the cohesion policy. An important intangible effect of the Structural Funds is to make the EU more visible to citizens, enterprises, communities and public authorities. Among the perceived benefits is stronger support for European integration. "The cohesion policy makes the EU visible for citizens. Projects supported by the Structural Funds show in regions and cities of all member states that Europe cares and matters. Structural Funds are the vivid proof of the EU's solidarity with poor and

those in difficulties.”<sup>5</sup> There are tangible outcomes in terms of the encouragement given to regional and local organisations to become involved in European political and policy debates and to internationalise their operations.

The structure of EU cohesion policy – based on co-financing by the member states, partnership among all interested actors, and multi-annual programming – describes a policy set which is unique, when the whole spectrum of EU policies is taken into account. Indeed, it provides a framework to finance investments for sustaining development of regions based on coherent long-term programmes, conditional on a set of enforceable rules. But, for EU cohesion policy to fully act as a tool to increase competitiveness and social inclusion, significant changes must be introduced in its delivery system, by achieving simplification of operation and implementation of the policy.

## ***1.2. Programming documents***

In the present programming period (2007-2013) the member states had to prepare a national development plan, officially called National Strategic Reference Framework (NSRF). The development plan is prepared by the member state after consultation with relevant partners. The NSRF should be consistent with the Community Strategic Guidelines on cohesion.<sup>6</sup> National authorities use the guidelines as the basis for drafting the national strategic priorities and planning for 2007-2013.

The guidelines define 3 priorities:

- Improving the attractiveness of member state, regions and cities (improving accessibility, ensuring adequate quality and level of services, and preserving the environmental potential);
- Encouraging innovation, entrepreneurship and the growth of the knowledge economy (improving research and innovation capacities, new information and communication technologies);
- Creating more and better jobs (attracting more people into employment, entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital).

In order to reach the strategic goals and priorities of the NSRF, operational programmes (OPs) should be prepared. The OPs should cover the whole period (2007-2013). The main rule is that OPs are financed from only 1 fund („monofund” approach), but in specific cases maximum 10% „cross finance” is allowed. For transport infrastructure and environment the ERDF and Cohesion Fund can jointly provide assistance.

## **2. European Social Fund: a potential tool for financing the social economy**

Among the Structural Funds the European Social Fund concentrates on developing human resources, basically through improvement of skills and the quality of labour force. The ESF has a budget of EUR 75 billion for the period 2007-2013 which means that this amount of funding gives ¼ of the total budget of the EU cohesion policy (EUR 308 billion) and it has more than 10 times higher budget compared to the Lifelong Learning Programme (the education and training policy funding) for the present programming period.

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<sup>5</sup> See Hübner, D. (2005): Policy Focus: The future of cohesion policy in the larger EU. 17 January 2005. Brussels ([www.eupolitix.com/EN/News/200501](http://www.eupolitix.com/EN/News/200501))

<sup>6</sup> Community Strategic Guidelines on Cohesion 2007-2013: [http://ec.europa.eu/regional\\_policy/sources/docoffic/2007/osc/index\\_en.htm](http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/index_en.htm)

According to the ESF regulation<sup>7</sup> the fund contributes to the EU priorities as regards strengthening economic and social cohesion by improving employment and job opportunities, encouraging a high level of employment and more and better jobs. It supports member states' policies aiming to achieve full employment and quality and productivity at work, promotes social inclusion, including the access of disadvantaged people to employment, and reduces national, regional and local employment disparities. The ESF takes into account the relevant priorities and objectives of the EU in the fields of education and training, increasing the participation of economically inactive people in the labour market, combating social exclusion – especially that of disadvantaged groups such as people with disabilities – and promoting equality between women and men and non-discrimination.

The assistance takes the form of non-reimbursable individual or global grants, reimbursable grants, loan interest rebates, micro-credits, guarantee funds and the purchase of goods and services in compliance with public procurement rules.

According to the ESF regulation the fund supports actions in member states under the following priorities:

(a) increasing adaptability of workers, enterprises and entrepreneurs with a view to improving the anticipation and positive management of economic change, in particular by promoting:

- lifelong learning and increased investment in human resources by enterprises (in particular low-skilled and older workers, the development of qualifications and competences and the promotion of entrepreneurship and innovation are supported);

- the design and dissemination of innovative and more productive forms of work organisation (including better health and safety at work, the identification of future occupational and skills requirements, and the development of specific employment, training and support services);

(b) enhancing access to employment and the sustainable inclusion in the labour market of job seekers and inactive people, preventing unemployment (in particular long-term and youth unemployment and increasing participation in the labour market are supported), in particular by promoting:

- the modernisation and strengthening of labour market institutions;

- the implementation of active and preventive measures ensuring the early identification of needs with individual action plans and personalised support (such as tailored training, job search, outplacement and mobility, self-employment and business creation, including cooperative enterprises, incentives to encourage participation in the labour market, flexible measures to keep older workers in employment longer, and measures to reconcile work and private life, such as facilitating access to childcare and care for dependent persons);

- mainstreaming and specific action to improve access to employment, increase the sustainable participation and progress of women in employment and reduce gender-based segregation in the labour market;

- specific action to increase the participation of migrants in employment and thereby strengthen their social integration and to facilitate geographic and occupational mobility of workers and integration of crossborder labour markets;

(c) reinforcing the social inclusion of disadvantaged people with a view to their sustainable integration in employment and combating all forms of discrimination in the labour market, in particular by promoting:

- pathways to integration and re-entry into employment for disadvantaged people (such as people experiencing social exclusion, early school leavers, minorities, people with

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<sup>7</sup> Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999.

disabilities and people providing care for dependent persons) through employability measures, including in the field of the social economy, access to vocational education and training;

- acceptance of diversity in the workplace and the combating of discrimination in accessing and progressing in the labour market, including through awareness-raising, the involvement of local communities and enterprises and the promotion of local employment initiatives;

(d) enhancing human capital, in particular by promoting:

- the design and introduction of reforms in education and training systems in order to develop employability, the improvement of the labour market relevance of initial and vocational education and training and the continual updating of the skills of training personnel with a view to innovation and a knowledge-based economy;

- networking activities between higher education institutions, research and technological centres and enterprises;

(e) promoting partnerships, pacts and initiatives through networking of relevant stakeholders (such as the social partners and non-governmental organisations) in order to mobilise for reforms in the field of employment and labour market inclusiveness.

To maximise the efficiency of ESF support, operational programmes shall, where appropriate, take particular account of the regions and localities facing the most serious problems, such as deprived urban and outermost regions, declining rural and fisheries-dependent areas, and areas particularly adversely affected by business relocations. In the framework of each operational programme, particular attention shall be paid to the promotion and mainstreaming of innovative activities.

The ESF regulation stresses that the Commission shall promote exchanges of experience, awareness-raising activities, seminars, networking and peer reviews serving to identify and disseminate good practice and encourage mutual learning and transnational and interregional cooperation with the aim of enhancing the policy dimension and contribution of the ESF to the EU objectives in relation to employment and social inclusion.

### **3. Possible types of the social economy projects and problems of self-financing**

Social innovation emerges where State and markets fail to deliver for society (theory of non-profit/third sector) but not just to fix or replace them. The ambition is to lead development with a values-based approach – sustainability and social justice globally – working in partnership with the other sector on an equal footing basis (multi-stakeholder partnership). Such a vision has been emerging in the last decades but, in the last decade, accelerated by a combination of global trends:

- postindustrial economy in Western countries (Rifkin);
- impact of globalization and its casualties (Stiglitz);
- internet and network society (Castells).

Theoretically, projects of the social economy should fulfil 3 functions:

- Protective function: offering permanent long-lasting or contemporary jobs for those people who wouldn't be able to find jobs normally at the market. Those projects which concentrate on this function provide usual labour market tasks, because they make the most problematic types of unemployed people active members of the society. Generally these projects are not able to become self-financing.
- “Bridge” function: reintegration of unemployed persons into the normal labour market through offering interim employment together with training, social and psychological assistance, consultancy and assistance for job seeking. These are

such services which are provided also by labour market organizations. The difference is the way of organizing these activities.

- Business function: projects which produce products or services for the market. These cover such needs which are not profitable and – at least at the beginning – official (public) support is required.

These types of projects have common characteristic features: employment, training, social care activities are provided to those people who can find jobs hardly at the normal labour market. It is very important to stress that the aim of these projects shouldn't be to maintain isolated forms of activities for "second-class" citizens. The basic goal should be to create possibility for returning to the labour market. Generally, these projects require state subsidies (official grants) at the beginning, but at the same time they can generate income. In this respect they follow same economic goals as other market actors, however, the crucial difference is that their main goal is not to make high profits for the owners.

In general, the social economy involves such local initiatives whose basic goal is to integrate "problematic" people into the labour market through offering employment and improvement of their skills. The target groups are the long-term unemployed persons, young unemployed persons, elder people, people with disabilities and persons with social inclusion problems. These initiatives reflect to local needs which are not fulfilled by private enterprises and state institutions. These projects create new jobs, generate income and there is an endeavour to become self-financing for a longer term.

An important feature is that in several cases the activities which help reintegration to the labour market provide social services. This connection can be explained by the fact that social services are suitable for reintegration of disadvantaged people because these activities are labour-intensive and don't require high skills. But, obviously there are several other fields of activities like activities linked to the environment, culture, sport or the media.

Concerning organizational forms the social economy traditionally includes cooperatives, mutuals, associations and foundations. These forms are completed by the social enterprises. These organizations have social goals and their profit is reinvested according to their goals. The profit is not used to fulfil the owners' and share-holders' profit maximizing interests. Social enterprise is not just an enterprise delivering social goods and service but it is a new way to conceive an enterprise in between profit and non-profit.

According to the NESsT<sup>8</sup> "civil society organizations (CSOs)<sup>9</sup> can increase their long-term viability and independence by generating some of their own resources through social enterprise or self-financing to supplement philanthropic support from public and private donors. Income from social enterprise can be one alternative for CSOs to support work oftentimes more difficult to finance through traditional philanthropic sources of funding (e.g., "core" operational expenses, on-going programs, advocacy efforts, etc.). Through social enterprise, some CSOs are also empowered by their own abilities to generate new revenues and to determine the course of their work."

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<sup>8</sup> NESsT works to solve critical social problems in emerging market countries by developing and supporting social enterprises that strengthen civil society organizations' financial sustainability and maximize their social impact. Since its founding in Budapest in 1997, NESsT has provided financial and business mentoring support to nearly 2,000 social enterprises in 40 countries. The NESsT Venture Fund currently operates in 10 countries across Europe and Latin America, including Argentina, Brazil, Chile, Croatia, Czech Republic, Ecuador, Hungary, Peru, Romania and Slovakia. Visit: [www.nesst.org](http://www.nesst.org)

<sup>9</sup> "civil society organization" (CSO) refers to the wide diversity of not-for-profit, non-state organizations as well as community-based associations and groups (distinct from both the governmental and business sectors) that advance a collective or public good. These organizations are also referred to as "non-profit organizations," "non-governmental organizations (NGOs)," "charities," "voluntary organizations," etc.

The term "social entrepreneur" is currently used to mean very different, albeit interrelated, things. Some use the term social entrepreneur to refer to a "social innovator" (i.e., an individual that is addressing a critical social problem in a particularly effective or innovative way). Others, including NESsT, use the term social entrepreneur (or social enterprise) to refer to a CSO that uses entrepreneurial, business activities as a means to generate income and/or otherwise further its mission impact (e.g., to create employment opportunities for underserved constituents). A social enterprise is also referred to as a "non-profit enterprise," "social-purpose business," or "revenue-generating venture" that operates with a "double bottom-line" of generating financial return while simultaneously advancing a social mission.

Non-profit, civil society organizations compete for a limited pie of existing philanthropic resources. This reality makes the CSOs very much dependent on short-term, project-based funding and prevents them from focusing attention on the longer-term, strategic development of their organizations and missions. The for-profit capital market includes a wide variety of financing sources (e.g., banks, venture capital and private equity funds, etc.) and financing instruments (e.g., bonds, equity, loans, etc.) for capitalizing the various stages of enterprise development. Meanwhile, despite the tremendous diversity within the non-profit sector, the non-profit capital market relies predominantly on grants (donation). Many CSOs, particularly those smaller organizations working for social change and development, remain highly vulnerable, underfunded and unsustainable.

According to the NESsT, the non-profit capital market faces the following key limitations:

- a strategic focus on philanthropic "fundraising" versus a wider, more holistic approach to organizational "financing";
- a mentality that "one size (i.e., the grant) fits all" financing requirements of non-profit organizations;
- a focus on diversifying sources of fundraising (e.g., individuals, foundations, corporations, governments, etc.), not on diversifying types of financing;
- a heavy emphasis on funding for start-up/innovation in the non-profit sector (versus long-term sustainability of non-profit organizations);
- a primary focus on projects/programs, not organizational development;
- an "equity gap" due to the non-profit, non-distribution constraint (i.e., non-profit organizations may not have shareholders or ownership as in the for-profit world);
- "weak" balance sheets (i.e., non-profit organizations have tremendous difficulty in acquiring hard assets or carrying over liquid assets from year to year due to terms and conditions of donor grants);
- limited availability and application of comparable, standardized performance measurement metrics and systems.

While these limitations exist in the non-profit capital market throughout the world, they are more acute in the "developing" and "emerging market" countries in Africa, Asia, Central/Eastern Europe and Latin America where poor economic conditions, political instability and/or different cultural traditions have hindered the development of a rich philanthropic sector. This is the reason why EU funding opportunities can play important source of financing the activities of the social economy in Central and Eastern European new member states.

#### **4. Priorities of the Hungarian development plan in relation to social renewal**

Within the framework of the EU regional policy funding for 2007-2013, Hungary is eligible for EUR 22.4 billion. Hungary could reinforce its current potentials, and eliminate barriers and drawbacks that constrain the development by successfully using this enormous amount of money. Most important objectives of the Hungarian National Strategic Reference Framework (New Hungary Development Plan, NHDP) relates to raising the level of employment and establishing conditions underpinning permanent growth. Coordinated state and EU funding focuses on 6 priority areas: the economy, transport, initiatives targeting social renewal, environmental protection and energy, regional development and tasks relating to state reform.

The NHDP contains 15 operational programmes.<sup>10</sup> These programmes define the areas in which, and proportion according to which Hungary is able to use the available funding at a sectoral and regional level. The highest shares of funding will be spent within the frameworks of the Transport Operational Programme (TOP), the Environment and Energy Operational Programme (EEOP) and the Social Renewal Operational Programme (SROP).

The Social Renewal Operational Programme<sup>11</sup> expounds the interventions related to the “Social renewal priority” of the NHDP. The budget of the programme is EUR 4.1 billion. Its financing is based on the resources of the European Social Fund and related domestic resources. Its territorial scope covers the entire territory of Hungary, all the seven NUTS II regions. The programme contributes to the achievement of the expansion of employment and the promotion of permanent growth (the overall objectives of the NHDP) primarily through the development of human resources and by measures aimed at the supply side of the labour market.

Compared to European figures, unemployment in Hungary is of an average extent; on the other hand, the level of labour market activity and employment is low, and this might hinder economic growth in the long run. This is the reason why the overall objective of the SROP is to increase the labour market activity of the population of working age. The improvement of the quality (employability, adaptability, level of qualification, competency, and state of health) of human resources is an indispensable prerequisite for increasing activity. Actions to increase labour market participation must go together with the extension of employment. The programme stresses that one of the important instruments of raising the level of employment is to reintegrate persons forced out of the labour market, which calls for enhanced help to be given to inhabitants of disadvantaged regions, or persons disadvantaged because of age (e.g., persons aged 55+), gender, and disability, social or family environment.

The possibilities inherent in available labour supply cannot be exploited unless job-seeking increases, labour market and social discrimination decreases, the harmony between qualifications, skills sought and supplied improve, and the proportion of healthy labour force grows owing to the development of health culture. Hungary intends to achieve the above objectives with the improvement of the quality of the human resources primarily, through the implementation of the following specific objectives, which requires both the instruments of employment, education and training, the social field, health care, culture and general education, and anti-discrimination instruments.

Specific objectives of the Social Renewal Operational Programme:

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<sup>10</sup> Operational Programmes of the New Hungary Development Plan: Economic Development OP, Transport OP, Social Renewal OP, Social Infrastructure OP, Environment and Energy OP, State Reform OP, Electronic Administration OP, West Pannon OP, South Great Plain OP, North Great Plain OP, Central Hungary OP, North Hungary OP, Central Transdanubia OP, South Transdanubia OP, Implementation OP.

<sup>11</sup> The Government of the Republic of Hungary: Social Renewal Operational Programme 2007-2013. CCI number: 2007HU05UPO001. Commission Decision No C(2007)4306, 13 September 2007. Modification No. 1 Commission Decision No. C(2009) 6606, 21 August 2009. File name: TAMOP\_adopted\_en\_modification1.doc. www.nfu.hu

- Improving the alignment of labour market demand and supply,
- Reducing the regional differences in activity,
- Promoting adaptability to changes,
- Promoting lifelong learning,
- Improving the state of health and ability to work,
- Strengthening social inclusion, promoting equal opportunities.

The interventions are implemented within the so-called priority axes covering fields of actions. These priority axes determine the structure of the content, implementation and funding of the programme. (In details see ANNEX 2) The priority axes of the SROP also describe along what kind of aspects of the interventions of the given priority axis regional cohesion are planned to be reached.

The priority axes of the programme are as follows:

- Improving employability, promoting entry to the labour market;
- Improving adaptability (to help employees and organisations to adapt to economic and social changes);
- Providing quality education and access for all;
- Developing the content and organisation of higher education to create a knowledge-based economy;
- Strengthening social inclusion and participation;
- Health preservation and human resource development in health care system;
- Technical assistance in the convergence regions;
- Implementing the OP's priority axes in the Central Hungary Region<sup>12</sup>;
- Technical assistance in the Central Hungary region.

The SROP emphasizes that enhancing the economy's competitiveness and increasing labour market participation, employees and enterprises should be able to meet requirements of the changing economic environment and ongoing technological innovation, and should have competitive and updated knowledge. To advance adaptation to changes, the opportunities of lifelong learning must be improved and made available in the first place. Employees should be encouraged to participate in training, employers to spend more on training. At the same time, while making efforts in general to raise the number of participants in training, actions should be taken to increase participation of low-skilled people to help them catch up. Young people and adults alienated from certain forms of learning due to failure at school should be supported to find their way back to learning. Important instruments can be training and learning supporting opportunities that offer locally available tailor-made services.

The horizontal objective of the SROP includes elements to further equal opportunities specifically gender equality, equal opportunities and social and labour market integration of the Roma and people with disabilities. The programme also stresses that Hungary's aim is to prevent reproduction of poverty, social and labour market disadvantages while advancing independent earning capacity. The joint objective is to enhance social cohesion and develop communities. The operations planned should advance multi-facet support of the most

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<sup>12</sup> Being the only one among the regions of the country, the Central Hungary Region is, in accordance with rules on structural funds, subject to the "Regional Competitiveness and Employment Objective" that consists of the more developed regions of the Union. Therefore, within the operational programme Hungary holds development projects to be implemented in this region together under a special priority axis (this is priority axis 6). The objectives and fields of action of the priority axis "Central Hungary Region" of the programme are mostly identical with the development projects implemented under the priority axis regarding the rest of the regions of the country. Each measure is, as a matter of fact, implemented to fit the specific features and problems of the region, in different concentration and with different emphases than those applied in the Convergence Regions.

disadvantaged members of society helping them to access the labour market, which will increase labour market participation. Employment and the creation of independent earning capacity are the key instruments of combating poverty and accumulated, inherited disadvantageous social and labour market status. As poverty and exclusion from the labour market is more frequent in the Roma population, and other disadvantaged groups, in the course of raising activity and labour market reintegration, efforts should be made to establish inclusive environment.

The programme emphasizes that social cohesion can be enhanced by strengthening communities through increasing their activity, self-advocacy and civil empowerment advocacy, helping their self-organisation, encouraging tolerance between people and social groups, and reducing prejudices. This calls for promotion of local community development programmes, extension of capacities of NGOs and organisations of the rights of patients, persons cared for, children, interest representation and consumer protection, the strengthening of social capital, the advancement of social participation, voluntary actions and non-professional assistance as well as increased social responsibility assumed by enterprises.

The SROP emphasizes that in disadvantaged regions and at disadvantaged settlements, social economy should be established and local employment initiatives should be supported as instruments of job creation. To ensure lasting results, the instruments of training, employment, job creation, education, community development, transport development must be used jointly.

## **5. Recent changes in the Hungarian employment policy and related measures supported by the European Social Fund**

From the end of 2008 the financial and economic crisis confronted employment policy with a new situation: in the short term the measures had to focus on easing the labour market tensions caused by the recession and on retaining jobs.<sup>13</sup> However, it should be emphasised that these steps do not substitute but rather complement measures that have been taken to improve the employment situation of the unemployed and inactive population and to promote the labour market integration of the disadvantaged groups.

The most important tool of strengthening social cohesion is the improvement of the employment opportunities and labour market integration of permanently unemployed, inactive groups. To achieve these goals, Hungary has strengthened its employment policy tools in recent years and extended them to some inactive social groups as well (e.g. to people who regularly received social benefits earlier, to disability pensioners); on the other hand, it continues to develop social benefits and services, too, in order to enhance their working incentive and employment promotion character.

The most important short-term interventions designed to improve the employment situation were the following:

- temporary working time reduction and support of training of the employees to enable them to retain their jobs,
- increasing the funds available for the improvement of the employment situation by regrouping EU resources,
- reduction of the burdens on employment paid by the employers and the tax burdens of work incomes.

A decision has also been taken on structural changes that underpin the long-term increase of the economic activity of the population. These include:

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<sup>13</sup> See the mid-term evaluation report on the implementation of the Hungarian NSRF: National Strategic Report according to Article 29 of Council Regulation (EC) No. 1083/2006. Hungary. Presented for the European Commission on 31 December 2009. [www.nfu.hu](http://www.nfu.hu)

- increasing the activity of the elderly workers through restructuring the pension system,
- restructuring of the tax burdens in several steps in order to reduce the costs of employment and to legalise employment.

The most important tools helping the employment of the most disadvantaged people are reduced contributions, complex labour market programmes offering personalised assistance and development opportunities and support to non-governmental initiatives. To encourage job-seeking and employment the whole system of unemployment benefits was modified and modifications were made in the social allowances system that aimed at eliminating the effects discouraging employment. The programmes completed under priority 1 of the SROP greatly contribute to the restructuring and implementation of the systems (SROP programmes 1.1.1, 1.1.2, 1.1.3).

Another important tool for improving opportunities on the labour market is reduced contributions facilitating the employment of disadvantaged people (SROP 1.2.1). Such reductions are available for enterprises employing first-time employees, people returning to work after caring at home for a child or other close relative, permanent unemployed (with priority for people aged 50+ or with low level of education), and job-seekers eligible for availability allowance. The importance of reductions will become perceivable when job opportunities increase with the upswing of the economy.

ESF awards grants also to initiatives of non-governmental organisations with the objective of facilitating the permanent employment of disadvantaged unemployed people and their integration at the workplace and in society, and to elaborate new experimental methods and models for overcoming labour market disadvantages (SROP 1.4.1, 1.4.3).

In response to the new sorts of challenges raised by the economic crisis numerous elements were added to the Hungarian employment policy tools that can in the short term, help improve the adaptability of labour market players (SROP 2.3.3). The success of the labour market integration of disadvantaged people and the durability of their employment are fundamentally determined by the success of their workplace integration and whether or not the employer organisation can provide an integrating and involving environment for the disadvantaged worker. The attainment of these objectives is helped by SROP Priority 2.4.2 promoting the organisational development of enterprises employing disadvantaged workers and their adjustment to the changing economic and social environment, and by SROP Priority 2.4.3 promoting non-typical employment forms which, by encouraging non-conventional employment frameworks, also strengthen the integrating nature of the labour market.

The Hungarian government set the objective to develop the capacities of employer and employee interest organisations and non-governmental umbrella organisations performing interest representation tasks to help efficient participation in social partnership and dialogue. This objective is based on the recognition that if current trends spontaneously continue in Hungary the development of partnership and social dialogue could stop and may not perform the functions obtained through organic development in developed market economies. SROP programmes 2.5.1 and 2.5.2 help maintain and develop the efficiency of social dialogue.

The intervention entitled “Development of atypical, non-formal and informal training services in the public education system” aims at developing atypical non-formal and informal training capacities for the public education system (institutions and non-governmental organisations) in line with local demand to help adult education activities and develop abilities and creativity before and during school age. As a result of the supported activities the institutions were enabled, through capacity extension and human resource retraining and further training, to perform among other activities, adult education activities that can range from development of general skills facilitating employment (e.g. training enterprising skills) to targeted training aligned with the vocational training system. The supported activities are

particularly important in disadvantaged regions and settlements where public education institutions are the only base for adult education.

Summing up it can be stated that large-scale labour market and training programmes were launched from EU funds, aiming at the inclusion of inactive persons, too, in addition to the registered unemployed. For example, decentralised labour market programmes aimed at the inclusion of 19 thousand people, various tools offering discount on contribution, and the programme assisting the rehabilitation of those with altered working capacity. Experimental employment programmes, projects for the development of social economy and programmes assisting the spreading of voluntariness and the training of volunteers have been launched with the co-financing of ESF. The EU funding opportunities can play crucial role in financing the activities of civil society organizations including social enterprises.

## ANNEX 1

## EU cohesion policy instruments and priorities between 2007-2013

Objectives and instruments	Eligibility	Priorities
<b><i>Convergence objective</i></b>		
National and regional programmes (ERDF, ESF)	NUTSII regions with per capita GDP < 75% of EU25 average	<ul style="list-style-type: none"> <li>• Innovation</li> <li>• Environment</li> <li>• Accessibility</li> <li>• Infrastructures</li> <li>• Human resources</li> <li>• Administrative capacity</li> <li>• Housing projects in the new members</li> </ul>
	Statistical effect (“phasing out regions”): regions with per capita GDP < 75% of EU15 and > 75% of EU25	
Cohesion Fund	Member states with per capita GNI < 90% of EU25 average	<ul style="list-style-type: none"> <li>• Transport networks</li> <li>• Sustainable transport</li> <li>• Environment</li> <li>• Renewable energy</li> </ul>
<b><i>Regional competitiveness and employment objective</i></b>		
Regional programmes (ERDF) and national programmes (ESF)	The member states propose a list of regions (NUTSI or NUTSII)	<ul style="list-style-type: none"> <li>• Innovation</li> <li>• Environment</li> <li>• Accessibility</li> <li>• European employment strategy</li> </ul>
	“Phasing in regions” covered by Objective 1 between 2000-2006 and not covered by the convergence objective	
<b><i>European territorial cooperation objective</i></b>		
Cross-border and transnational programmes and networks (ERDF)	NUTSIII border regions and large transnational cooperation regions	<ul style="list-style-type: none"> <li>• Innovation</li> <li>• Environment</li> <li>• Accessibility</li> <li>• Culture, education</li> </ul>

Source: Council Regulation (EC) No. 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999. Official Journal of the European Union. No. L210. 31 July 2006.

## ANNEX 2

**Social Renewal Operational Programme priority axes and expenditure structure**

<b>Priority axes and interventions</b>	<b>Total funds (including 15% national co- financing) (EUR)</b>	<b>Division of Funds (%)</b>
1.) Improving employability, promoting entry to the labour market - Development of the employment services and establishment of an integrated employment and social service system - Labour market activation, prevention and training - Social economy, innovative and local employment initiatives and pacts	800.609.853	19,54
2.) Improving adaptability - Facilitation of access to training - Development of the institutional system promoting adaptability on the labour market - Enhancement of the adaptability of organisations	646.751.921	15,79
3.) Providing quality education and ensuring access for all - Supporting the dissemination of competence-based education - Improving efficiency of the public education system; developing innovative solutions and cooperation - Decreasing the segregation of severely disadvantaged and Roma pupils, promoting their equal opportunities in public education - Supporting the education of groups with different educational needs, and the integration of pupils with special educational needs, intercultural education	889 574 998	21,71
4.) Developing the content and organisation of higher education to create a knowledge- based economy - Improving the quality of tertiary education in accordance with lifelong learning - Expansion of the capacities of R&D&I&E of tertiary education, thus supporting the enhancement of institutional cooperation with businesses	447 736 944	10,93
5.) Strengthening social inclusion and participation - Developing the human capacities of the most disadvantaged territories - Investment in our future: child and youth programmes - Improvement in access of increasingly disadvantaged groups to social services, in order to promote their integration into the labour market - Development of the social care system, improvement in access to services - Development of local communities and the civil society - Enhancing social cohesion through crime prevention and reintegration programmes	443 900 000	10,83
6.) Health preservation and human resource development in	221 277 984	5,40

health care system - Improving health and encouraging health-conscious behaviour - Development of human resources and services to support restructuring of health care		
7.) Technical Assistance* in the convergence regions	125 124 155	3,05
8.) Implementing the OP's priority axes in the Central Hungary region	503 830 553	12,30
9.) Technical assistance* in the Central Hungary region	18 273 647	0,45
Total	4 097 080 055	100,00

\*The financing of the implementation of the operational programme.

Source: The Government of the Republic of Hungary: Social Renewal Operational Programme 2007-2013. CCI number: 2007HU05UPO001. Commission Decision No C(2007)4306, 13 September 2007. Modification No. 1 Commission Decision No. C(2009) 6606, 21 August 2009.