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## **Employment Policies under Budget Austerity in Times of Crisis**

■ The world economic crisis has affected much harder the labour markets of the countries, which are either EU-member states, or are much closer to their EU accession. However, the labour markets of the other group of countries have already been hit hard because of other reasons, such as war consequences and the effects of other kinds of domestic conflicts.

■ The employment rate among the working age population (15-64 years) varies in an extremely wide range, for example, between 25 percent in Kosovo and 60 percent in Bulgaria. Long-term unemployment is typical for the region and usually affects persons of low qualification and skills and/or people of qualifications and skills, which are no longer in demand on the market.

■ The economic crisis and a number of specific domestic reasons have decreased the chances of the vulnerable groups to re-enter the labour market, including low educated people, Roma population, people with disabilities, and long-term unemployed. In most of the countries, specific labour market policies, focused on the vulnerable groups, have been put in place.

■ The labour market policies and practices are usually funded by the government budgets, as most of the countries in the region are not EU-members yet, or their negotiation process for EU accession has not started altogether. However, the share of support received from EU funds has already begun to increase for all these countries.

■ In most of the countries, migration and the demographic issues, the informal employment and informal economy are mentioned as specific phenomena. In practice, such issues are common for the region, rather than being specific issues for some of the countries only. In some of them, however, the dimensions of these issues have acquired particularly large proportions.

■ The main recommendations are focussed on training and life-long-learning, new employment opportunities, including professional orientation, carrier planning, and mobility and flexibility of the labour market itself.

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## 1. Labour Market Situation (developments of the latest years: 2006 – 2011)

The labour market situation in the past 6 years has been influenced by several factors, some of which are fundamental and some are situational. As a rule the fundamental factors have a long-term impact, whereas the situational ones produce a mid-term and short-term effect.

### FUNDAMENTAL FACTORS

*The demographic crisis* started in the late 80s, but became especially serious in the transition period. The contributing factors were the sharply increased emigration flow, mostly of well-educated and qualified young people, and the delayed processes of transformation and restructuring of the national economy, which had a negative effect on the living standards of the population and hence on its reproductive patterns. This had a lasting influence on the quantitative and qualitative characteristics of the workforce entering the labour market.

The disparity between labour demand and supply is growing, which **makes the Bulgarian labour market structurally weak**, with high relative shares of discouraged workers, long-term unemployed, and contingents accumulating several vulnerability factors, which results in low competitiveness and adaptability of the labour force to the changing labour market. These phenomena are also brought about by the shortcomings related to the education reform. On the one hand, a relatively high early school drop-out rate is being sustained, and on the other – there is a structural mismatch between the demanded and supplied professions and practical skills.

Despite all mantras and interventions aimed at reducing **the grey economy and**

**grey employment in particular**, they have remained the most sustainable labour market segment for the past 20 years. This fact reinforces the indeterminate nature of the actual economic processes and makes it difficult for them to be measured using adequate statistical tools and indicators. The grey labour market does not only have a competitive advantage as compared to the official labour markets (primary and secondary) but it is to a great extent integrated in the regular markets and, depending on the economic situation, able to absorb or divert workforce groups from or to them.

### SITUATIONAL FACTORS

*The influx of foreign direct investments* (FDI) is one of the key factors fostering job creation and influencing the employment rate in general. In the period up to 2008 the FDI grew consistently and drove economic growth, development and employment in the industry, trade and financial sectors. FDI were attracted by both existing niches in those sectors, and by the low labour costs, which ensured relatively fast returns and high profits (sewing industry, banks). The strong dependence of the Bulgarian economy on FDI and the sharp decline of FDI after 2008 is one of the main causes of the drop in employment.

*Internal investment activity* is a situational factor influenced by both the cyclic nature of economy and the business environment. Long before the global financial crisis affected Bulgaria, there were clear internal indicators that the Bulgarian economy was “overheating” (ESC/2/006/2009, p.13). For a long period of time the gross fixed capital formation grew faster than the GDP. What is more, the investments were not used to fund the technical, technological and organisational restructuring of the real sector, but were mostly directed towards the establishment

of non-production sites. Thus employment in the construction sector sky-rocketed but the ensuing reversal was even sharper after the collapse of the real estate market. The unused opportunities for technological modernisation, however, left their mark – this is a fact that definitely slows down the recovery of the labour market after the crisis.

**The global financial crisis** was triggered by the bursting housing bubble and started from the banking sector in the US and Europe, but in Bulgaria it mostly affected (with an expected one year time lag) the industry sector. The decreasing orders and the sharp decline in goods produced necessitated staff reductions. To survive, many companies started cutting jobs, predominantly laying off the low-skilled workers and employees, while others were forced to shift to other products and markets. The concurrent budget expenditure restrictions as an anti-crisis measure minimized the options for mitigating the negative effects for the labour market and for sustaining a reasonable rate of employment. No sufficient measures were taken to stimulate domestic demand and investment, or to retain the existing jobs and create new ones.

EMPLOYMENT TRENDS

The combined impact of the above factors resulted in the emergence of two employment trends:

- consistent growth in the period up to 2008 inclusive
- a sharp downturn from 2009 on.

The data shown in Table 1 indicates that in the period 2006-2008 the number of employed aged 15 and above increased by 8.1% and those in the 15-64 and 20-64 age groups by 7.6% and 7.7%, respectively. This demonstrates that, in the period of growing workforce demand, the shortages were filled not so much by young workers entering the labour market, but by employing people above the working age. The relative increase of those employed in the 15-24 age group was by 9%, whereas in the over 64 age group it was 42%. The total increase in the number of employed people for the two years amounted to 250 thousand and the employment quotient grew by 4-5 percentage points. In fact, in the decade after 2000 this was the period when employment registered its highest increase. In parallel with the increasing employment rate, the real GDP grew dynamically by 5-6% per year and the increase of the mean wage reached record levels of 10.2% in 2007 and 12.6% in 2008.

**Table 1: Number of employed (in thousands) and employment quotient in the period 2006-2011**

Indicators	2006	2007	2008	2009	2010	2011 Q1	2011 Q2
Employed aged 15 or above	3110.0	3252.6	3360.7	3253.6	3052.8	2890.7	2934.1
Employed aged 15-64	3071.7	3208.8	3306.2	3204.8	3010.4	2849.4	2895.5
Employed aged 20-64	3041.9	3180.9	3275.8	3178.6	2993.9	2840.7	2884.6
R (15+)	46.7	49.0	50.8	49.4	46.7	44.7	45.3
R (15-64)	58.6	61.7	64.0	62.6	59.7	57.3	58.2
R (20-64)	65.1	68.4	70.7	68.8	65.4	62.6	63.4

Source: National Statistical Institute: Labour Force Survey

Since 2009 the number of employed people has declined rapidly (with the exception of the second quarter of 2011 due to seasonal employment) and by the end of the year the decrease was by 426,000. In fact the current employment rate is at the 2004 levels. The following parallel trends could be outlined in this period of declining employment:

- in 2009 the GDP dropped by 5.5% with this sharp decline being compensated in the second quarter of 2010, since when the annual statistical data has shown a consistent growth in five consecutive quarters varying from 0.3 to 3.1% annually.
- though at a slower pace, real wages continued to grow – in 2009 they increased by 8.7% and in 2010 by 3.7%, but this was almost entirely due to the structural transformations in employment (laying off of low-paid and low-skilled workers), a trend which was sustained in the first two quarters of 2011.

This comparative analysis shows that the crisis strongly affected the labour market, especially in terms of declining employment,

whereas its impact on the labour costs was less pronounced, given the overall tendency for the employers to freeze wages (with some exceptions of raising or lowering wages depending on the situation in the particular branch). The declining employment and the structural transformations in it resulted in increased labour productivity that has been growing for six consecutive quarters (from the beginning of 2010 to the middle of 2011). The parallel increase of GDP indicates that the economy is recovering and the crisis is gradually being overcome, but this does not apply to the labour market, where the problems are in fact deepening.

#### SECTORAL AND STRUCTURAL TRANSFORMATIONS IN EMPLOYMENT

For a period of two and a half years after the crisis started the main blow to employment was sustained by industry – the decline in this sector in absolute numbers was by 309,000 people (-25.3%). In the service sector the number of jobs decreased by 81,000 (-4.3%), and in agriculture employment went down by 37,000 people (-14.7%).

*Table 2: Number of employed (in thousands) by economic activity for the period 2008-2011*

Economic activities	2008	2009	2010	2011 Q1	2011 Q2
<b>Total</b>	<b>3360.7</b>	<b>3253.6</b>	<b>3052.8</b>	<b>2890.7</b>	<b>2934.1</b>
Agriculture, forestry and fishery	251.2	230.7	208.1	177.8	214.2
Mining industry	35.0	34.0	33.0	30.0	25.8
Manufacturing	769.7	713.9	637.4	591.8	587.6
Generation and distribution of electricity, heating and gas	42.1	41.2	42.7	45.1	44.9
Water supply; sewage services, waste collection	37.0	34.9	33.6	40.4	40.3
Construction	340.3	322.5	268.5	221.0	216.1
Trade; car and motorcycle repairs	530.0	527.9	531.1	528.8	523.4
Transport, storage and postage	189.5	187.6	177.3	172.7	173.6
Hospitality industry	168.8	168.7	159.7	151.9	160.9
Creation and dissemination of information and creative products; telecommunications	71.2	70.8	70.3	61.8	65.2
Financial and insurance services	57.0	61.5	52.7	46.8	51.5
Real estate services	14.1	13.1	10.1	7.5	9.9
Professional activities and research	83.9	87.7	84.8	84.3	80.2
Administrative and supporting activities	73.9	72.4	76.0	65.2	82.1
Government services	235.3	235.1	226.2	222.3	222.0
Education	205.6	191.2	184.4	192.6	193.1
Human medicine and social work	158.1	164.1	159.4	156.6	150.0
Culture, sports, entertainment	43.8	40.8	39.0	39.0	38.4
Other	54.1	55.4	58.4	55.2	54.9

*Source:* National Statistical Institute, Labour Force Survey

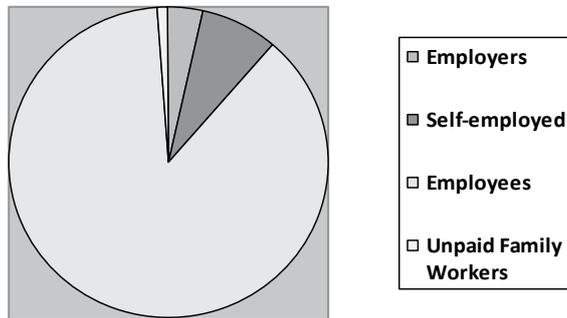
The data in Table 2 shows that the job cuts during the crisis were asymmetrical with the manufacturing and construction sector amounting to about 72% of the employment decline, while the decrease in the other economic sectors was significantly lower and there was even an increase of between 3 to 8% in three sectors (energy, water supply and sewerage, and administrative and supporting activities).

The breakdown by occupation and qualification reveals that the employment drop is the highest for the professions that do not require

special qualifications (-35.6%). This is a natural development – the first to be laid off in a crisis situation are the low-skilled workers. The decline in the group of qualified manufacturing workers and machine workers is considerably lower (about -20%), while employment among professionals has increased by more than 11%.

The status structure of employment did not register significant changes, because the pace of decline in the group of employers, self-employed and employees is more or less the same: -11.1%, -15.0% and -12.6% respectively.

**Chart 1: Distribution of people employed by employment status (Q2 of 2011)**

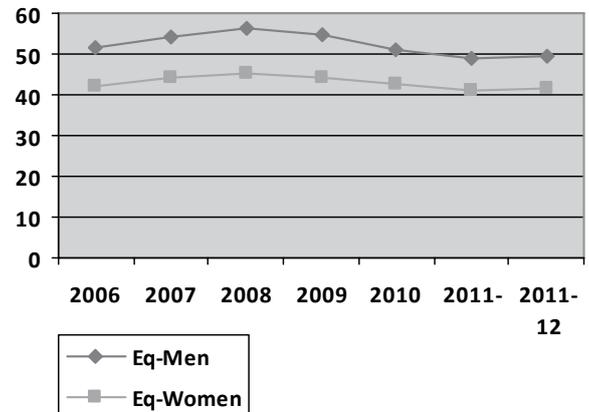


*Source:* National Statistical Institute: Labour Force Survey.

As of the middle of 2011 87.6% of employed people were hired workers, 7.5% were self-employed, 3.7% were employers and a little more than 1% were unpaid family workers (Chart 1). The breakdown by gender and employment status reveals some specific details. The share of women in the employers' group and the group of self-employed is significantly lower compared to the share of men – only 30.7% of employers and 37.9% of self-employed are women. In the group of employees the relative share of women is almost equal to that of men (49.3%), whereas in the group of unpaid family workers women predominate (60.2%).

In general the employment of men is higher by about 8-10 percentage points, but in the past two and a half years the gap has been closing, which shows that the decline in employment goes in parallel with gender divergence (Chart 2).

**Chart 2: Employment quotients by gender for the period 2006- Q2 of 2011**



#### UNEMPLOYMENT TRENDS

The data from the Labour Force Survey (Table 3) indicates a dynamic change in unemployment. After 8 years of consistent decline, unemployment went down to 5.6%: a level that the experts define as balanced (healthy) for Bulgaria in macroeconomic terms. The recession resulted in the first massive layoffs in the beginning of 2009, which increased the unemployment quotient to 6.8%. The trend was reinforced in 2010 when the numbers rose sharply to 10.2% to reach even higher levels in the first two quarters of 2011: 12.0% and 11.2% respectively.

*Table 3: Unemployed aged 15 or above (in thousands) and unemployment quotients for the period 2006-2011*

Indicators	2006	2007	2008	2009	2010	2011 Q1	2011 Q2
Unemployed aged 15 and above	305.7	240.2	199.7	238.0	348.0	395.5	369.8
<b>Unemployment quotients (percentages)</b>							
<b>Total:</b>	9.0	6.9	5.6	6.8	10.2	12.0	11.2
<b>By gender:</b>							
men	8.6	6.5	5.5	7.0	10.9	13.2	12.2
women	9.3	7.3	5.8	6.6	9.5	10.8	10.0
<b>By age:</b>							
15-24	19.5	15.1	12.7	16.2	23.2	29.1	25.3
25-34	9.2	6.7	5.7	6.9	11.4	15.3	13.0
35-44	7.5	5.7	4.3	5.5	8.1	8.9	9.3
45-54	7.6	5.9	4.9	5.8	8.7	10.2	9.4
55 and above	7.4	6.4	5.2	5.9	8.9	9.1	9.0

*Source:* National Statistical Institute: Labour Force Survey

Several characteristic features of the dynamics and structure of unemployment can be outlined:

**First.** The data in Table 3 shows that in the period of increased labour demand (2006-2008) the construction and industry sectors recruited mostly unemployed men, which is the reason why the unemployment quotient of men is lower compared to that of women. In the preceding years this ratio was reversed. The crisis, however, effected rapid changes and the sharp decline in the above two sectors of the national economy resulted in a large number of male workers losing their jobs. Unemployment in the male group for the period 2009-2011 is significantly higher than unemployment in the group of women – by more than 2 percentage points.

**Second.** The problem of youth unemployment came to the fore once again, following a period when Bulgaria registered positive trends (in 2008 it dropped to 12.7%). In the

course of only two years, though, the unemployment quotient for the 15-24 age group has doubled and it was close to 30% at the beginning of 2011. Undoubtedly the crisis has been especially detrimental to young people, who find it harder to get a job after leaving high-school or graduating from university.

**Third.** The comparison of the employment and unemployment data shows drastic quantitative discrepancies between the employment outflow and the unemployment inflow. In two and half years employment has decreased by 426,000 people, while unemployment has increased by only 170,000. Notwithstanding the arbitrariness of such a quantitative comparison, it should be noted that the discrepancy is considerable (more than 2.5 times). There are dynamic processes taking place involving significant transitions both in terms of scope and frequency in the labour force status, and in the economic activity of the population.

**Fourth.** There are several hypotheses that could explain the phenomenon: lower numbers of unemployed register as such, increasing grey employment, higher emigration flow and, last but not least, growing numbers of discouraged workers. All of the above hypotheses find justification in the results of different surveys:

- according to data published by the Institute for Trade Union and Social Studies (ITUSS) of CITUB, about 24% of the unemployed do not register with the Labour Offices for a number of reasons (Tomov, Lyuben, p.81);
- in a situation of crisis the informal economy expands rapidly and some estimates show that it exceeds the current pessimistic forecasts of 35% of GDP (Association of Industrial Capital in Bulgaria, p.11);
- NSI data on the registered emigration shows that the average annual number of emigrants amounted to 2-3 thousand people before 2009 as compared to 2009, when it sharply increased to 19,039, and reached 27,708 people in 2010 (NSI, Population, web site);
- the number of discouraged people grew from 149,900 in 2008 to 232,700 people in the second quarter of 2011 (NSI, Labour Market, web site).

**Fifth.** Only 7.4% of the unemployment cases could be defined as frictional, i.e. related to unsatisfactory work conditions and a desire to change the employer. The predominant percentage (43.1%) is unemployment due to layoffs and job cuts and 19.2% result from finished temporary and seasonal work. First time job-seekers are also in a difficult situation: the relative share of first time job-seekers is 15.3% of all unemployed. Mostly these are young people joining the labour market after finishing school or graduating from university.

**Sixth.** The qualitative characteristics of the unemployed contingent are deteriorating, which is a clear signal for the low competitive-

ness of the Bulgarian labour market. Approximately 1/3 of the unemployed have elementary or lower education. The unemployment quotient for people with elementary education is 19.6%, and is 43.1% for people with primary or lower education (2010 data). Respectively, the employment quotient of this group is extremely low – for people with elementary education it is 20.0%, and it is only 8.5% for those with primary or lower. This in fact means that their chance to enter the primary labour market is slim.

**Seventh.** The relative share of long-term (12 to 23 months) unemployed grew to 24.3% as a result of the crisis, and the figure for the jobless who have been unemployed for two or more years reached 32.4%, hence a total of more than 56% of the unemployed have to a large extent lost their working habits and skills, which means that additional efforts and funds will be needed for their adaptation and reintegration. The long-term unemployment quotient rose from 2.9% in 2008 to 6.3% in the second quarter of 2011, with the figures being significantly higher for the men (7.0%) as compared to women (5.6%).

**Eighth.** There are no considerable regional disparities relating to the unemployment quotients (the variation is between 6.8% in the South-West Region to 14.5% in the North-East Region), but the differentiation increases at every lower level. At district level unemployment incidence is lowest in Blagoevgrad (5.8%), Sofia (6.6%) and Stara Zagora (6.7%), and highest in Shumen (28.8%), Razgrad (22.6%) and Smolyan (19.2%). These asymmetric trends bring about the depopulation of entire regions, massive permanent or labour emigration, increased internal mobility resulting in the working population being concentrated in the capital and the big cities and leads to all the negative consequences that follow (demographic, social, infrastructural).

## 2. Employment Policies and Labour Market Institutions

The status and dynamics of the development of the labour market are both an indicator, and a consequence of the macroeconomic processes taking place, because investments, manufacturing and consumption have a direct impact on it. The type of policies implemented and whether they are adequate in terms of economic cyclicality and whether they stimulate employment is of key significance.

### FISCAL AND TAX POLICIES

Several Bulgarian governments have pursued a consistent policy aimed at ensuring competitive advantages with a view to attracting foreign investments, counting on such an approach automatically producing more and sustainable economic growth, as well as new and better jobs and a less grey economy.

The policy tools used have been as follows: lowering direct taxes at the expense of indirect ones, reductions in social contributions, especially those related to pensions, artificially maintaining the labour costs low, and liberalisation of the labour legislation.

The results from these policies and policy tools can be illustrated using the following facts and statistical data:

- Bulgaria has the lowest direct taxes in the EU: 10% corporate tax and 10% flat rate individual income tax (without exemptions).
- The direct/indirect taxes ratio is 34.6% in favour of indirect tax revenues, whereas in the EU this figure is only 4.7% in favour of indirect taxation.
- Pension contributions were lowered by 15 percentage points only over the four years from 2006 to 2010 and revenues cover less than half of the pension expenditures.
- The Bulgarian pension system has transformed from a social security system into

a tax funded system – a change that has significant negative consequences.

- Bulgaria continues to be the EU country with the lowest income – mean wage was Euro 330 (2010), and the minimum wage has been frozen at Euro 123 for about three years, resulting in its net value being below the official poverty line.
- The relative share of hired labour compensation in the GDP (as a specific indicator of the labour costs) has been 35-37% in the past three years and it remains one of the lowest in Europe.
- Over a period of only two years (2008-2010) the number of employed dropped by 14.5% or 357,100 jobs less.

Given the overall picture, the decline in foreign direct investments was drastic – more than fivefold over two years. The decreasing inflow of foreign direct investments was not only caused by the investors' conservatism and fear of the crisis. In Bulgaria, a country with the lowest taxes and lowest income, the investors' withdrawal could be attributed to essentially different factors, e.g. excessive red tape, high risk of corruption, poor infrastructure and low quality public services. It is an illusion to think that low taxes are a factor contributing to attracting more foreign investments. This is especially true with regard to the serious and strategic investors.

**The tax policy pursued by the government does not promote sustainable employment, but rather reinforces poverty and social inequality.**

The policy of low direct and high indirect taxes resulted in a unique tax revenue structure which is a natural burden that affects to a greater extent the low and medium income social groups. This "reversed tax structure" in fact leads to increased poverty and income differentiation instead of contributing to more fair taxation and more solidarity in addressing issues of social inclusion.

**The consistent lowering of the pension contributions has shifted the pension system towards performing extraneous tasks – stimulating competitiveness and combating the grey economy through the establishment of a “favourable business environment”.**

The first solidarity and pay-as-you-go pillar of the pension system was seen as a reserve to be used for reducing business costs and creating a more favourable foreign investment climate. The low level of social security has had a negative effect in two aspects – firstly, it has lowered the credibility of the solidarity social security pillar, which has directly resulted in underpayments and increased grey employment; secondly, it has served as a prerequisite for the creation of low-protected jobs and not good quality employment.

#### EDUCATION POLICY

In 2008 the school system was reformed via the introduction of delegated budgets. The allocation of funds to individual schools is based on unified cost standards and the number of students enrolled. This practice continued in 2009. As a consequence of the reform more than 5,000 school teachers were discharged and a number of schools were closed down – mostly in villages where the schools could not recruit the required number of students.

The optimisation of the school system allowed for a more just and effective spending of funds on the one hand, and on the other – it made it possible to provide additional incentives for the better qualified and busier teachers. Head teachers received more freedom in itemising the delegated budgets as well as in attracting additional funds by implementing or participating in external projects.

At the same time however the unified per-student cost standards in the 2009 budget for school education were reduced by 10%. The

amounts remained unchanged in 2010 and 2011 which in practical terms meant that the wages in the school education system were frozen and the chances of improving the school environment were postponed.

The big issue facing school education remains early drop-out. Gradually the number of early drop-outs was reduced from 22% in 2003 to 13.9% in 2010 as a result of two main policies – mandatory and stimulating. The former was based on enforcing the rule of not paying child allowances to parents whose children do not attend school, and the latter involved the provision of school aid free-of-charge for all students up to 7<sup>th</sup> grade, free snacks, organised school transport, full day school attendance for the students from 1<sup>st</sup> and 2<sup>nd</sup> grades whose mother tongue is not Bulgarian. Ultimately, however, the effect is assessed as unsatisfactory.

**Early drop-out is one of the main challenges facing the labour market at present, a trend expected to continue in the future when an acute shortage of quality work force is expected.**

The introduction of education vouchers could be said to have facilitated progress in the vocational education system. The option of providing education vouchers to unemployed and employed people by force of a decision of the Monitoring Committee of the Operational Programme “Human Resources Development” accelerated programme fund absorption. The Committee also approved the allocation of BGN100 million for projects related to extracurricular activities, BGN30 million for developing remote education methods and BGN8 million for on-the-job internships for school students.

**The involvement of business in vocational training and education initiatives could be assessed as insufficient.**

On the one hand, the lack of collaboration between the employers and education-

al institutions is a contributory cause of the divergence of demanded and supplied skills and knowledge, and of the non-existent opportunities for on-the-job training and internships. On the other hand, most companies (especially small and medium-sized firms) do not pay the necessary attention to staff qualification and consider the training and qualification costs as an additional burden for company budgets. The state cannot be relied upon to be the only driving force in the

process, especially given the fact that it is not flexible enough to respond to the dynamically changing circumstances.

SWOT ANALYSIS

The following matrix of strengths, weaknesses, opportunities and threats could be made, based on the analysis of employment trends, government policies and the conclusions derived from it (SWOT analysis):

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>✓ Completed privatisation and sectoral restructuring, stable macroeconomic environment, currency board, fiscal discipline</li> <li>✓ Low corporate tax, incentives for job creation and for hiring unemployed workers</li> <li>✓ Rapid penetration of multinational companies opening new jobs, creating good quality employment and new corporate culture</li> <li>✓ High expertise in the development of labour market policies, measures and employment programmes</li> <li>✓ Good social partnership and dialogue relating to the issues of employment and labour market, functioning tripartite cooperation bodies</li> <li>✓ Completed reform in school education, good quality and high qualification of the teachers</li> <li>✓ Control over the operation of the licensed vocational training centres and competitive environment</li> <li>✓ Increased labour force mobility, developed preferences for well-paid, more secure and better jobs</li> </ul>	<ul style="list-style-type: none"> <li>✓ Increasing demographic problems – low birth rate, aging population, increasing emigration flow</li> <li>✓ Reduced economic activity, increased number of discouraged workers</li> <li>✓ Relatively high share of illiteracy and early school drop-outs</li> <li>✓ High share of grey employment, reinforcing the indeterminate nature of the economy and the lack of clear statistical indicators</li> <li>✓ Low level of security in the employment status transition (education- employment – unemployment- retirement)</li> <li>✓ Low level of social security and lack of trust in social security systems</li> <li>✓ Insufficient involvement of business in the education and professional training of the work force</li> <li>✓ Structural defects of the labour market – disparities in the labour supply and demand in professional, qualification and regional terms</li> <li>✓ Poor quality of the road infrastructure limiting commuter options</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>✓ Regular monitoring of the effectiveness of the labour market measures applied, social impact assessment</li> <li>✓ Improving the absorption of European funds and implementation of programmes, reducing fraud and more effective use of the funds</li> <li>✓ Increasing the internal “flexicurity” - work hours optimisation, work/life balance, remote jobs</li> <li>✓ Creation of “white” and “green” jobs. development of health and spa tourism and cultural and historical tourism, environmental vegetable production</li> <li>✓ Lifting the restrictions on accessing the EU labour markets and free movement of labour within the internal European market</li> <li>✓ Lifelong learning and continuing professional training as a shared responsibility of the state, employers and workers</li> <li>✓ Enhanced scope of the collective employment agreements and introduction of minimum social standards</li> </ul>	<ul style="list-style-type: none"> <li>✓ On-going economic crisis, negative impact of global financial instability</li> <li>✓ Increasing financial instability of the solidarity pension system</li> <li>✓ Increasing negative demographic trends, brain drain and loss of highly qualified workers</li> <li>✓ Social dumping, expanding employment in low added value industries and in the grey sector</li> <li>✓ Insufficient budget funding of the education system, health care system and the labour market measures</li> <li>✓ Enhancing and deepening poverty, inequality and social exclusion</li> <li>✓ Unreformed social assistance system and inefficient spending of the funds</li> <li>✓ Insufficient capacity of the Employment Agency structures</li> <li>✓ Growing regional disparities in terms of economic profile and labour markets</li> </ul>

### 3. Active and Passive Labour Market Policies

The dynamic transformations in employment and the main labour market parameters necessitated the implementation of containment measures aimed at both addressing the consequences of, and preventing unemployment. The crisis had serious ramifications in terms of the active labour market measures.

#### ACTIVE LABOUR MARKET POLICIES

In 2008 and 2009 there was a marked diversification of the active labour market policies (ALMP), measures and programmes. National

funding was allocated for 66 programmes and measures in 2008, and in the succeeding year the number increased to 67. Despite the fragmentation, the following measures and programmes were the largest in scope and funding:

#### National Programmes:

- “From social benefits to employment”;
- “Assistants for people with disabilities”;
- “Restoring and protecting the Bulgarian forests”;
- “In support of maternity”;
- The Beautiful Bulgaria Project.

Measures laid down in the Employment Promotion Act (EPA):

- Encouraging employers to create jobs and hire permanently disabled unemployed persons;
- Incentives for employers to hire permanently disabled unemployed persons for temporary, seasonal or part-time work;
- Stimulating employers to hire unemployed women above 50 and men above 55 ;
- Encouraging employers to create jobs for attaining qualification through internships and/or apprenticeships;
- Employment Agency (EA) organising motivational training and professional qualification training.

The crisis and the deteriorating labour market situation in 2009 made it necessary to develop the following anti-crisis measures: National Programme “New Chance for Employment” (3,000 new jobs created) and paying additional sums to workers and employees transferred to part-time jobs – BGN120 per person for 3 months (the effect being 19,000 retained jobs).

The serious problems with the budget deficit at the end of 2009 and beginning of 2010 necessitated large cuts in the national funding of ALMP. As a result the number of measures and programmes laid down in the National Action Plan For Employment (NAPE) 2010 was reduced to 53 and the focus was put on the following target groups:

- Unemployed youth of up to 29 years of age;
- Discharges people or workers transferred to part-time jobs due to the production squeeze;
- People with disabilities;
- Inactive persons who are willing to find a job, including discouraged people.

The scope of the National Programme “From Social Benefits to Employment” was

seriously limited. At the same time new large-scale projects – operations with a duration of several years – were funded under the Operational Programme “Human Resources Development” by the European Social Fund. The most important projects are as follows:

“Development” Intervention: Professional qualification training for unemployed aimed at ensuring their re-employment. The budget of the grant is BGN250 million until 2012 and provides for professional training for 65,000 unemployed and employment for 52,000 of them.

“Back to Work” Intervention: Training and employment for unemployed in providing good quality child care services for children 1 to 3 years of age. The effect will be double – the parents can go back to work and the unemployed will re-engage in work. The total budget of the grant is BGN64 million until 2012 and 8,500 unemployed will be trained (nurses and teachers will be preferred) with 8,000 of those being re-employed after the training.

Intervention “Increasing the Employment of Youth through Sustainable Inclusion in the Bulgarian Labour Market”: Motivational and ICT and language training for youth aged 16 to 29, increasing their employability in vacant jobs. The total grant budget is BGN15 million and covers 10,400 young people.

“Adaptability” Intervention: Increasing the qualification of workers and employees transferred to part-time jobs due to financial and economic difficulties experienced by their employers through providing qualification training for attainment of professional qualifications. The target group is hired workers in the industry and services sectors, who have been transferred to part-time jobs. The scheme will cover 42,000 people, 8,400 of whom will be entitled to use transport benefits for travelling from their workplace to the training centre and back. The total budget amounts to BGN90 million until 2012.

## COMBINATION OF ACTIVE AND PASSIVE LABOUR MARKET POLICIES

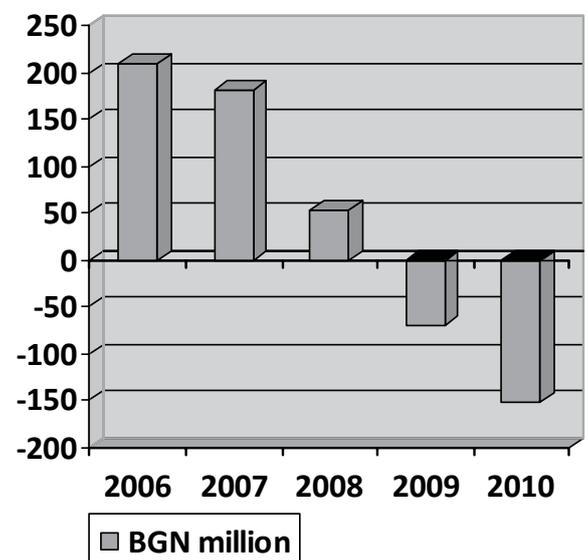
The active and passive labour market policies are relatively autonomous systems, whose management and funding is delegated to respectively the National Social Security Institute (NSSI) and to EA. Despite their autonomous status, several measures have been taken in the last 2 years (2009 and 2010), which were designed to achieve a good combination of active and passive policies aimed at ensuring better and more sustainable security for the unemployed.

Some measures and programmes (including under the Operational Programme “Human Resources Development”), such as extending the unemployment benefit entitlement to three months for people attending training and qualification courses are a step in this direction. The main target group are young people of up to 29 years of age. The condition is for them to actively seek a job and make conscious efforts to acquire knowledge and skills.

According to the provisions of the Social Security Code (SSC), the amount of unemployment cash benefits was set at 60% of the average daily wage of the person for the 9 months preceding the risk event covered by the insurance, but not less than BGN6 and not more than BGN12 per day. The above restriction affected most seriously the highest paid workers and employees. In the case of layoffs they were supposed to receive unemployment benefits which were 3 or 4 times lower than their wages. Amendments to the SSC were adopted, abolishing the maximum threshold and increasing the minimum to BGN7.20. The unemployment benefit was fixed at 60% of the average daily contributory income for the preceding 18 months. The amendments restored the fair principle that the amount of the unemployment benefit should depend on the amount of the contributions paid.

We need to note, however, that the positive changes were effected in an unstable fiscal environment. In times of economic growth and a low unemployment rate the unemployment contributions were 3% and the fund registered annual surpluses. Instead of continuing to accumulate funds as a buffer for potential negative trends on the labour market, the unemployment contribution was reduced to 1% as of 01.10.2007. The problems occurred in 2009 when, in a situation of actual crisis, it turned out that the resources for passive labour market policies (PLMP) were insufficient. In this way the BGN209 million surplus in 2006 was gradually brought down to BGN54 million in 2008 to reach a BGN70 million deficit in 2009, which in the following year peaked at BGN125 million (Chart 3).

**Chart 3: Deficit /-, surplus +/- of the Unemployment Fund (2006-2010)**



*Source:* NSI. Statistical Reference Book “Demographics, Economy and Social Security 1990-2010”. Sofia, 2011, pp. 83

FINANCING OF THE LABOUR  
MARKET MEASURES

Approximately equal amounts of budget funds were allocated for ALMP in the years of high economic growth – in 2007 BGN173.1 million and in 2008 BGN173.0 million, which, in a nominally growing GDP, meant that their relative share was decreasing (respectively in 2007 – 0.29%, and in 2008 – 0.25% of the GDP). Without paying much attention to the first warning signs for the coming financial and economic crisis, the plans of the former government as outlined in NAPE-2009 included national budget funding for ALMP amounting to BGN190 million.

The budget deficit forced the next government to take unpopular measures in the second half of 2009. Firstly, the ALMP funds were reduced to 90% of the initially approved BGN190 million for 2009. In August as a result of the additional measures to limit the non-interest expenditures and transfers from the 2009 State Budget a new reduction was made to the ALMP budget. The EA funds allocated for ALMP were lowered to BGN165.8 million (Table 4). This represents 0.24% of the GDP as a relative share and in the much reduced 2010 Budget the funds dedicated for ALMP as per NAPE-2010 (only BGN65 million) were 0.09% of the GDP.

*Table 4: Budget expenditures for active and passive labour market policies* (fixed exchange rate: BGN 1 = EURO 0.51129)

Indicators	2008	2009	2010
GDP (BGN million at current prices)	69,295	68,322	70,474
Budget expenditures for ALMP (BGN million - planned)	173.0	165.8	65.0
Budget expenditures for ALMP (BGN million - reported)	173.0	155.7	63.3
Expenditures from the State Social Security Budget for PLMP (unemployment cash benefits – BGN million)	99.4	238.2	311.1

*Source:* NSI, NAPE, EA, MLSP, NSSI

At the same time the growing unemployment required additional funds to be allocated for financing both active and passive labour market policies.

Given the diminishing budget resources, the most effective use of the funds under OP “Human Resources Development” 2007-2013 gained in significance with regard to overcoming the effects of the crisis. Whereas in 2009 BGN8.1 million of the programme funds were spent on ALMP, representing 5% of the total programme budget, in 2010 the amounts increased to BGN34.1 million (35% of the total budget). Thus a considerable re-

structuring of the funding sources for ALMP took place:

At the same time, however, two facts that had a negative impact on ensuring the sufficient scope and financing of ALMP were to be noted:

- OP “HRD” is only complementary to the active employment policy funded by the state budget. It is difficult to make up for the large reductions in the state budget allocations (only BGN65 million, and BGN63.3 million reported as expended) using external financing, because most of the operational programme activities are only aimed at providing training for

unemployed and employed persons, i.e. some measures that are specific to Bulgaria do not meet the eligibility requirements of the European programmes and funds.

- The EU Fund absorption rate in Bulgaria is still quite low and, notwithstanding their growing share, the total funding for ALMP fell from BGN163.9 million in 2009 to BGN97.4 million in 2010. In a situation of increasing unemployment this resulted in significant changes to *the resources spent per 1 unemployed* indicator<sup>1</sup>. It fell from BGN740 in 2008 to BGN583 in 2009 to reach only BGN277 in 2010 – this is below the 2003 levels (MLSP, EA, p.39).

The dynamic changes in the unemployment levels and the number of unemployed result-

ed in serious alterations in the amount of the funds necessary for PLMP (Table 4). Their relative share of 0.14% of the GDP increased twofold (0.35%) in the first crisis year – 2009, and in 2010 they represented 0.44% of the GDP.

If in 2008 the unemployed entitled to receive unemployment benefits were 28.9% of all unemployed registered with the Labour Offices, in the crisis years of 2009 and 2010 their share rose to respectively 43% and 39% (Table 5). In absolute numbers the increase is twofold. The average amounts of the unemployment benefits also rose rapidly. This development puts yet another social security system in Bulgaria under pressure (along with the pension and health care systems) and makes it strongly dependent on the budget transfers.

*Table 5: Data about the registered unemployment in Bulgaria*

Indicators	2008	2009	2010
Unemployed registered with the Labour Offices (average number per year)	233,719	280,980	350,944
Unemployed entitled to receive unemployment benefits (average number per year)	67,473	121,034	136,755
Average amount of unemployment benefits (BGN)	136,55	143,97	192,26
Unemployment rate as registered in the Labour Offices (mean percentage per year)	6.31	7.59	9.47

*Source:* Employment Agency and the National Social Security Institute

#### ASSESSMENT OF ALMP EFFECTIVENESS

An overall assessment of the ALMP effectiveness was carried out by the Economic and Social Council of the Republic of Bulgaria (see ESC/2/010/2009).

The results of the research project “**Assessing the Impact of the Employment Services as an Instrument to Achieve Successful Integration of the Vulnerable**

**Groups into the Labour Market”**, developed by MLSP in partnership with NSI and EA and funded by the European Commission, are quite interesting (KOTZEVA, Mariana).

An innovative approach was used to establish the net effect of the employment services (with a more than two-year time lag) with NSI conducting 1600 interviews in May 2010 with unemployed persons who registered in the last quarter of 2007. The survey revealed the following changes in their status:

- **39%** of the unemployed respondents could not find any job after the registra-

<sup>1</sup> Ratio of funds spent on active policies and the average number of registered unemployed per year.

tion in the Labour Offices and joined the group of long-term unemployed.

- **61%** of the registered unemployed who used employment services were able to find a job;
- **87%** of those who re-engaged in work found jobs that were not created under employment programmes and measures, i.e. in the primary labour market;
- **73%** of those who found jobs were still in the respective job at the time the survey was taken;

The following conclusions were made, based on the results:

- The individual employment services produce fast re-employment for the unemployed. An individualised approach is especially successful in the group of higher educated and qualified persons aged 30 to 50.
- There is a group of long-term unemployed who register with the Labour Offices in order to receive benefits and access to free services. More intensive motivation and activation activities are needed for these people because they show no interest in using the available broker services.
- The economic crisis led to a deteriorating labour market and decreased the chances of the vulnerable groups re-entering the market – low educated people, Roma, people with disabilities and long-term unemployed.

The results achieved in the **implementation of labour market interventions under OP “HDR”** have not produced a significant effect yet. On the one hand, the actual implementation of the activities was delayed and most of them will be completed in 2012. On the other hand, there are new operations planned but they are not being effectively implemented. The result indicators could be reported only after the interventions are fully implemented.

We need to point out, however, that in a situation of deepening crisis and limited budget funding for anti-crisis measures the approach of “building on existing programmes” by redirecting external funding for them could be defined as useful and appropriate. What is valuable in this approach is that the complementary functions can be based on the combination of tools and measures, thus overcoming certain shortcomings and weaknesses of programmes that have been tested. The approach can also be socially effective, providing that the state can allocate sufficient budget funds.

#### 4. Horizontal Principles

The labour market in Bulgaria is not only the focus of government policies, but attracts the attention of the social partners as well – trade unions and employers’ associations, NGOs and research organisations. A positive evaluation (both internally and externally) was given to the operation of the Economic and Social Council (ESC), whose structure is based on the model applied in Western Europe and the European Economic and Social Council: equal quotas for three groups of representatives (employers, trade unions and civil sector). As a modern institution designed to promote social dialogue, it serves as a link between the public and the government in the decision-making process regarding the economic and social policy.

#### ECONOMIC AND SOCIAL COUNCIL OF THE REPUBLIC OF BULGARIA

For the period of its existence since 2003 the ESC has drafted and adopted by consensus 53 statements, analyses and resolutions on important issues, sectoral policies, and domestic and international documents. In terms of the labour market and employment policies the Council has drawn up 2 statements and 4 analyses, as well as 10 other documents with

direct or indirect bearing on the labour sphere, dealing in a comprehensive manner with issues such as demographic problems, the education reform, vocational training and education, informal economy, reducing poverty and social exclusion and the specific Bulgarian priorities as related to the Lisbon Strategy, the National Reform Programme and Europe 2020 Strategy.

In its very first statement on “The Labour Market in a Situation of a Financial and Economic Crisis – Challenges and Possible Solutions” (ESC/2/007/2009, pp. 25-31) the ESC proposed three groups of anti-crisis measures:

The first group of measures relates to macroeconomic ones – drafting options for a deficit budget for 2010; retention of the current levels of employment and number of jobs in industries and enterprises of structural importance for the economy; developing new mechanisms for determining the minimum wage and unemployment benefits.

The second group of measures refers to employment flexibility – adapting the national flexibility pathway; increasing the role of collective bargaining in the *flexicurity* system; formulating a modern national industrial policy; developing a National Programme “New Skills for New Jobs”.

The third group of measures is aimed at promoting labour mobility – in the current situation along with the traditional forms of internal mobility (broker services, consultant services and education), which continue to be of interest. The focus is put on external mobility by providing support for the establishment of alternative systems for monitoring the labour markets and dynamics of the flows reflecting the situational transformations.

Later on, following a proposal of the Council of Ministers, the ESC developed „**An analysis of the programmes, projects and active labour market policies laid down in the National Action Plan for Employment 2009, including OP “HRD”, the Beautiful Bulgaria**

**Project and the Social Investment Fund of Bulgaria”**, which contained an assessment of the policies and important recommendations for improvements (ESC/2/010/2009, pp.18-20).

The findings in the analysis demonstrated certain weaknesses in the existing practice of identifying the measures and determining their scope, which leads to: lack of realistic planning which takes into account the existing demand; infeasible measures or strongly overestimated potential impact. The budget cuts made it necessary to seek other sources of funding for the anti-crisis measures.

The main instrument for improving the quality of implemented policies recommended by the ESC is the dynamic management of the funds dedicated for active measures. For this purpose a dynamic monitoring and evaluation system is to be developed in order to conduct annual assessments of all measures and programmes, regardless of the source of funding, based on a set of adequate criteria and indicators.

The ESC recommends that the budget-funded training and qualification activities overlapping with OP “HRD” funded activities be reduced, with most of them being redirected for external funding. Special attention is paid to the need for the people who were discharged or transferred to part-time jobs to be re-qualified and re-employed or to improve their professional qualifications so as not to lose their working habits and skills.

Taking into consideration the importance and rate of youth unemployment, the ESC recommended that special measures be developed (or existing ones reinforced) for the young people finishing school or university, arguing that even temporary employment would be psychologically important in the period when the young people acquire and develop their labour habits.

In the second half of 2011 the ESC drafted and adopted an analysis of “**The Challenges**

**of Labour Markets in the Context of Europe 2020 Strategy”**. The document is valuable because on the one hand it contains a summary of the general trends and problems in the national labour markets in Europe, and on the other it offers a detailed outline of the specific features by country and region (ESC/2/030/2011, pp.6-16). In this way the main challenges to attaining the Europe 2020 objectives are identified. A specific analysis is made to the specificities, shortcomings and threats in the development of the Bulgarian labour market, which is a valuable resource in the decision-making process and in the policy-formulation process in the next two government terms.

## SOCIAL DIALOGUE

The above-mentioned initiatives and documents of the ESC of Bulgaria can be evaluated as very useful, especially given the fact that some of the proposals have been put into practice. The usefulness is not only due to the expert quality of the proposals, but also to the social dialogue mechanisms used to promote the proposals and transform them into specific policies.

The National Employment Promotion Board<sup>2</sup> (NEPB), established pursuant to Art. 8 of the Employment Promotion Act, is a standing body for cooperation and consultation in the formulation of employment policy. The Board is tasked with discussing and giving opinions on proposed legislation, measures and programmes for overcoming the economic crisis, and retaining and promoting employment. The NEPB collects information on the labour market developments, and the effectiveness of both ALMP, laid down in NAPE, and the interventions and operations implemented under OP “HRD”. The social partners can discuss possible changes in the

policies and programmes, take decisions to reallocate funds between programmes and measures and propose new projects.

For instance, the anti-crisis measure aimed at retaining employment through partially supported transfers to part-time jobs, applied in 2009, was developed by CITUB experts, adopted by the NEPB and included as ALMP. “The Bulgarian Pathway for Achieving Better Flexibility and Security in the Labour Market 2009 – 2011” was also drafted by an expert group composed of representatives of the social partners.

Significant support for improving the capacity of employers’ organisations and trade unions to attain the key employment policy objectives was provided within the scope of OP “HRD” intervention, aimed at increasing labour market flexicurity through active involvement of the social partners. As part of this scheme each nationally representative organisation launched separate projects with a 2013 time horizon.

The regional employment policy is being carried out by the District Commissions on Employment and the Cooperation Councils at the Labour Offices. They have an important role to play, both in terms of developing local employment and training initiatives, and in terms of monitoring the implementation of the programmes and measures laid down in NAPE. The regionalisation process became the focus of attention in 2010, when a large number of regional programmes were included in NAPE – 2010. The regional approach is not only a tool for improving the capacity of the local authorities to develop employment projects, but it contributes to increasing the financial resources needed for project implementation.

Tripartism, as a form of cooperation and social dialogue, is also applied with regard to vocational education and training directly associated with employment and the labour market. The Managing Board of the National

<sup>2</sup> It is composed of representatives of ministries and state agencies and representatives of the nationally representative employers’ organisations and trade unions with equal voting rights.

Agency for Vocational Education and Training (NAVET) is composed of equal quotas of representatives of the relevant ministries, organisations of employers, and of workers and employees. Through their involvement in the development and adoption of strategic, analytical and methodological documents related to vocational education, lifelong learning, and continuing professional training, the social partners can influence the labour market policies. Improving the quality of the workforce is in the best interest of all stakeholders – the government, employers and trade unions – and their effective cooperation contributes to finding the best solutions. In fact most of the active labour market measures are implemented by the Vocational Training Centres which are licensed by NAPET and employ curricula and state educational requirements approved by the Agency.

#### EQUAL OPPORTUNITIES

One of the main objectives of the labour market policies is to ensure equal access to work, and, in the case of layoffs – to guarantee fair unemployment benefits reflecting the contribution of the individual to the social security system. This horizontal principle applies to both the passive and the active labour market policies.

The amendments to the Social Security Code provided for a unified mechanism for calculating unemployment benefits: 60% of the contributory income for the preceding 18 months. In this way justice was restored, i.e. equal treatment of all insured.

The national legislation in Bulgaria, and the labour legislation in particular, rules out discrimination by gender, age, religion, and ethnic origin, but the reality is that there are many loopholes in the law. Often Roma people or single young women, who might be expecting to get married and then need maternity leave, are disregarded when they are applying for vacant jobs.

The situation is different as far as the so called “gender pay-gap” is concerned. The differences in labour compensation based on gender (Table 6) are explained with the specific features of employment – women are predominantly employed in the so-called “feminised” industries and sectors such as the textile, sewing and knit-ware branches, where the mean wage is significantly lower than the average for the country (60-70% of it). The other pole is occupied by the “male” industries, such as metalworking, energy, and mining where the compensation levels are much higher than the average for the country.

**Table 6: Mean annual salary by gender (in BGN) and as a ratio (%)**

	2006	2007	2008	2009
Men	4,717	5,629	7,161	8,067
Women	3,928	4,693	5,884	6,539
M/W Ratio	83.3	83.4	82.2	81.1

*Source:* NSI, Data on Employment and Labour Costs

The existing practice of drafting National Action Plans for Employment demonstrates that the active labour market measures are strongly diversified and targeted at a number of vulnerable groups of unemployed. This, to a large extent, ensures that the vulnerable groups will be compensated. This goal, however, is not always attainable, especially if sustainable employment in the primary labour market is sought. Despite the incentives, employers are not inclined to hire people with disabilities, people suffering from mental disorders and addictions, or former prisoners. There are two key reasons for this: the lack of a supporting environment and the lack of appropriate complex services for such people. This is why the ESC recommended that the existing measures and programmes in this respect be revised with a view to developing interventions which are not only adequate for these important target groups, but also pro-

mote the establishment of a favourable environment in which the measures can be implemented. (ESC/2/010/2009, p.21).

## 5. Country Specific / Practical Issues

Two issues that are frequently discussed in terms of the effectiveness of the measures and programmes applied to address them can be described as country specific:

- providing supported employment for recipients of unemployment benefits;
- supporting and stimulating the unemployed to start their own business.

***The National Programme "From Benefits to Employment"*** was launched in 2003 as an innovative intervention aimed at re-engaging long-term unemployed who have lost their working habits and cannot make the transition to the primary labour market on their own. The idea was, on the one hand, to promote the employment and social inclusion of long-term unemployed receiving benefits and, on the other, to motivate them to improve their qualification. Private, municipal and state-owned enterprises and NGOs are eligible to apply as employers, and the jobs the unemployed can perform are: building and maintaining technical and social infrastructure, social services including for vulnerable groups, and community services.

The ambitious goals of the programme were revealed by the initial scale of implementation. In 2003-2004 more than 117,000 unemployed were included in the programme annually, which represented 80-85% of all participants in the Employment Agency programmes. The Programme "From Benefits to Employment" was fully funded by the budget and the allocations for the period varied between BGN129 million and BGN156 million. Gradually the programme was scaled down to include in 2008-2009 about 50,000 par-

ticipants, with the budget allocation dropping to BGN51-53 million. This trend continued in 2010 but, due to the fact that other programmes were redirected to receive external funding, the Programme "From Benefits to Employment" remained the largest budget-funded programme. A total of 39,000 people have participated in the programme in the past year and more than BGN 27 million has been spent on programme implementation. The main activities have been: maintenance and repair of playgrounds, construction works, landscaping, drain cleaning, etc. For reasons that are easy to understand, the initial idea of providing social services was not put into practice.

In spite of this, in the past 8 years the Programme "From Benefits to Employment" has established itself as the most significant active measure providing employment to long-term unemployed in the secondary labour market. Such supported employment is often debated and its effectiveness frequently questioned. It is undoubtedly useful, to the extent that it results in community work instead of payment of benefits. On the other hand, however, this employment is temporary and does not change the status of the programme participants – they return to the same reality of being unemployed, low-qualified benefit recipients. Without taking a categorical position in its analysis, the ESC recommended that programme implementation continue, given the deepening crisis and the social effect of the programme. There is still a marked interest in the programme on the part of employers and municipalities, but (whether under the same title or not) it should be more regional in nature and adapt to the specific needs and demand in the respective region (ESC/2/010/2009, p.20).

This ESC recommendation was taken into account and in 2010 the 80 regional employment programmes aimed at solving specific

local issues started ensuring access to employment for vulnerable unemployed. A total of 723 unemployed per month participated in the programmes throughout the year and another 1288 people were included. The total amount of funds spent at regional level was BGN2,540,800 (MLSP,EA, p.51). Given the growing number of long-term unemployed and the increasing number of benefits recipients, it is evident that the programme will continue to be implemented in the years to come, with its central management being gradually transferred to the regional level.

***The start-up opportunities for the unemployed are also questionable.*** A Micro-credit Security Fund was established in 2001 by force of a Council of Ministers Decree No. 123. A total of BGN20 million of the national budget was allocated to secure the micro-loans. MLSP took part in the project through the branch offices of EA and the objective was to facilitate the access of the small enterprises and start-ups to financial resources and make better use of the available funds. The experience accumulated by the Security Fund until 2009 showed that mostly expanding small enterprises that open new jobs have used the Fund. The extent to which it was used for start-ups was lower and only individual unemployed persons were able to transition to self-employment using the Fund services.

Survey results show that the relative share of unemployed willing to start their own business is not to be ignored. According to data from a survey conducted by the ITUSS of CITUB there is a "hard core" of 5.3% and a periphery of about 15% of people who are inclined to be self-employed, provided the environment is favourable. (ILO, ITUSS, p.7). There are difficulties, however, in translating these attitudes into practical action because no attention is paid to social funding and the traditional loan-giving institutions place impossible conditions on the start-ups. This represents an even big-

ger challenge for the unemployed. Their transition – from the group of unemployed to self-employed, to using family workers or creating a small number of jobs in their own small business – requires special skills and capabilities on the one hand, and the existence of adequate tools and mechanisms making the transition easier, on the other.

The new programme "Support for Entrepreneurial Bulgarians", funded by the European Social Fund brings some hope in this respect. The total budget amounts to BGN75 million, with BGN20 million being allocated for training, and BGN5 million for accounting and consultation services after the start of the business. At least 2,500 unemployed will get a chance to start their own business and receive up to BGN20,000 for this purpose by the end of 2013.

An eligibility condition for the applicants is to have attained at least an elementary education level and to be registered with the labour offices. The approved applicants will receive special training in small and medium business and business services. For this purpose they will be issued a voucher and will be able to freely choose a training centre licensed by NAVET. They will also receive cash allowances for the duration of the training course. The amount is BGN8 per day, with the transport cost to the training venue being covered by the programme.

The next steps are: orientation to business plan development consultations; registration of a company; applying for financial aid with the labour offices (up to BGN20,000 depending on the project); evaluation of the project by the evaluation committee (external experts) at EA; in the case of approval the amount will be paid in three instalments: 20% advance payment, interim transfers and final payment.

The programme has clear advantages compared to previously existing interventions, because it is exclusively targeted at the unemployed, does not require them to secure

a loan or their own funds and in fact provides financial support throughout the entire start-up cycle – training, consultation services, start-up investment, and turnover capital. The scope of the programme is extremely extensive – from small stores, gyms, hair and cosmetic saloons and service centres to micro-enterprises in the IT sector. Only activities related to agriculture, forestry, fishery and aquacultures are ineligible because they are funded under other European programmes.

## 6. Conclusions / Recommendations

The combination of full productive employment with dignified work and pay as a principle underpinning the recovery after a long crisis requires **giving up the dominance of the “economy of supply”**.

Increasing competitiveness using dumping policies does not produce sustainable advantages and the state should focus its efforts on promoting **fair competition among the economic players**. When this mechanism works smoothly and following the market logic, the factors contributing to the expanding grey economy will be largely eliminated. These efforts are worth it because they will lead to the establishment of a normal economic environment and favourable conditions for economic growth, hence better and more sustainable employment.

In a situation of the world economy slowing down, exports cannot be a solution of national economic recovery and **private investments and internal consumption** should be stimulated, which requires an adequate credit policy and active income policy. The negative trends do not only stem from the economic crisis, but from some wrong key policies and approaches to exiting the crisis – turning the strict fiscal discipline into a mantra, freezing salaries and pensions and insufficient loan resources for the business.

The focus of labour market policy should be placed on the gradual transition from retaining jobs as a priority in the period of recovery to creating **sustainable and good-quality employment** after the crisis. Along with applying flexible interventions such as shorter working hours, job rotation and sharing, it is necessary to promote employment in the high-tech sectors and to open “green” and “white” jobs.

It is especially important to increase **investment in human capital** with the state, employers, local authorities and regional communities sharing the burden without ruling out individual responsibility. Concrete tools for implementing the policy of continuing vocational training and life-long learning could be: the establishment of sectoral funds for improving the qualification of the employed and setting up individual training accounts.

The active labour market policies should put the emphasis on promoting the **geographical and professional workforce mobility**. The employment status transition requires better regulation. Stronger protection in the case of transition to unemployment is a step in the right direction, but such social security instruments and mechanisms should be in place for other transitions: from studying to employment; from employment to improved qualification; from employment to retirement, etc.

Last but not least, it is very important to **reduce to a minimum the group of school drop-outs**. Actual progress can be made by decentralising the measures and activities. This means that the national regulations should be complemented by regional action and action at school level because this will allow for: direct contact with the parents, social services and child protection services; and a special approach to the students and attention to their motivation, based on their individual needs and preferences.

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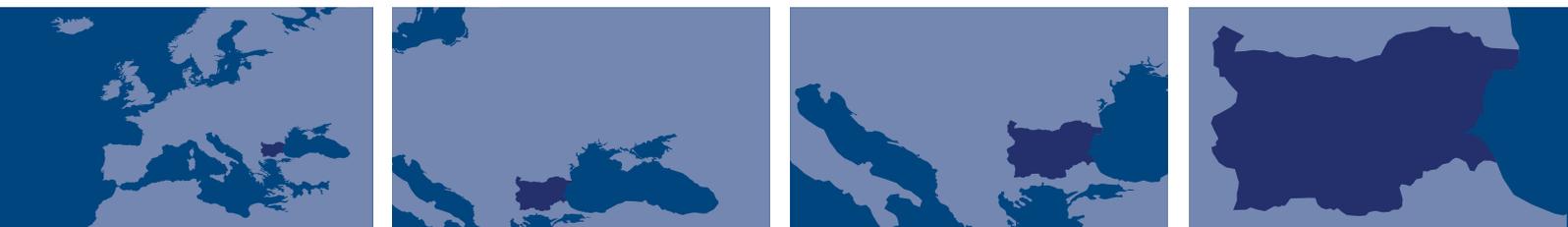
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