

**MUTUAL LEARNING PROGRAMME:
PEER COUNTRY COMMENTS PAPER - BULGARIA**

Short time working arrangements: an effective way to adjust labour costs or a desperate shot at survival for Bulgarian business?

Peer Review on “Employment measures to tackle the economic downturn: Short time working arrangements / partial activity schemes”

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1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Bulgaria's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

During 2010, the decline in GDP in Bulgaria has slowed down, compared to the previous year. Although the main economic sectors face reduction of their gross value added (GVA) in real terms, signs of recovery in industry can already be seen; only construction is still showing a downward trend, while all other sectors are growing at a relatively high rate. According to the flash GDP estimates for the second quarter of 2010, real GDP dropped by 1.5 %¹ (amounting to EUR 8 374 million), compared with the same period in the previous year. GDP decline in the second quarter of 2010 was mainly due to the fall in GVA in the services sector, 1.7 % less than in the second quarter of 2009. In comparison with the same period in the previous year, real GVA in industry was down by only 0.3 %, while real GVA in the agricultural sector was up by 1.6 %. The share of GVA in agriculture represented 5.5 % of the total GVA. The industry sector share was 32.2 %, and the services sector represented the largest share of total GVA – 62.3 %. In the context of the above figures the Government forecast for 3.6 % GDP growth and a budget deficit of 2.5 % for 2011 seem somewhat unrealistic, or at least very ambitious.

In Bulgaria, in 2009 the financial and economic crisis interrupted the upward trend in employment, which had started in 2002. The reduced activity of companies following the economic downturn had a negative effect on the dynamics of labour market indicators, especially since the middle of 2009. The decreased revenues and the limited financing opportunities made employers seek ways to reduce their labour costs. Until the beginning of the third quarter of 2009 entrepreneurs strived to retain their staff, anticipating that the economy would recover rapidly and return to its positive development trend of previous years. During these months they tried to optimise their labour resource by introducing short time working arrangements (STWAs), an opportunity which soon exhausted its potential to impact positively on the economic situation of enterprises, leading to a sharp increase of lay-offs in the second half of 2009.

The delay in the effect of the economic crisis on the Bulgarian labour market for a period between one and two quarters, depending on the economic sector, led to enterprise restructuring and determined the rapid decline in employment since the beginning of 2010; the employment rate amongst 15 – 64 year olds fell to 60.2 %. In the private sector the year-on-year reduction in the number of employed for the second quarter of 2010 showed a slowdown, compared to the previous quarter and levelled out at 6.8 %. In the public sector, however, the processes of staff optimisation in the context of Government efforts to reduce the budget deficit, which according to Eurostat was 3.9 % of GDP for 2009, led to an upsurge in the employment decrease (to 7.1 %). From April to June this year, the sharpest decline in the number of employed was registered in the industrial sector (11.9 % on an annual basis), despite the positive trend in companies' revenues as a result of increased external demand and export turnover. For the service sector, the employment reduction was 3.6 % compared to the second quarter of 2009.

Manufacturing and construction were most severely affected by the crisis in terms of employment decrease in the industrial sector, the production of vehicles being the only sub-sector to register a 1 % annual increase of employees under labour contract. The situation was similar in the service sector, where wholesale and retail trade followed by

¹ All statistical data presented in Section 1 are derived from National Statistical Institute (NSI) website and publications.

accommodation and food service activities and transport were the sub-sectors to suffer most severely as a result of the reduced domestic demand.

The age structure of employed people radically changed since the middle of 2009 when the economic downturn led to a sharp increase of lay-offs and rapid aggravation of the situation on the labour market. The employment rates for all age groups decreased, with the exception of the population aged 55 – 64 years, labour participation after retirement age proving to be more common during economic crisis. The sharpest decline in the employment rate is registered amongst individuals between 25 and 34 years of age, due to employers' practice of laying off mostly young people and retaining their older and more experienced staff in times of economic downturn. The educational structure of employed people reveals that workers having secondary vocational education are those most affected by reduced activity of enterprises. The trends described correspond to the increase in the respective groups of workers in the structure of registered unemployed.

In the second quarter of 2010 the number of unemployed persons was 342,200 and the unemployment rate was 10.0 %. Compared to the same period in 2009 the number of unemployed went up by 119,600 and the unemployment rate increased by 3.7 percentage points. Unemployment growth was greater for men than for women (the unemployment rates rose by 4.2 and 3.0 percentage points, respectively), and in the second quarter of 2010 the male unemployment rate (10.5 %) surpassed the female unemployment rate (9.4 %) by more than one percentage point.

The higher absolute decline in the number of employed compared to the increased number of unemployed is indicative of the reduction in economic activity among part of the population laid off from work. This is determined by the economic factors associated with limited opportunities to hire labour force on part of employers. On the other hand, the economically inactive population faces serious difficulties in finding a job, leading to a decrease in the activity rate amongst 15 to 64 year olds, from 67.6 % in the second quarter of 2009 to 66.9 % a year later.

2 ASSESSMENT OF THE POLICY MEASURE

The opportunity to introduce STWAs was first presented to employers by the 2006 amendments in the legal basis in Bulgaria. More specifically, the Labour Code Art.138a allowed employers to transfer part or all of their staff to STWAs (with 50 % working time reduction at the most, for a period up to three months on a yearly basis), after reaching an agreement with representatives of trade unions and employees. More recently the 2009 National Employment Action Plan envisaged the introduction of measures aimed at preserving jobs in companies affected by the crisis and facing reduced demand for their products and services. The particular rules for granting financial support to employers willing to retain their staff during economic downturn by introducing STWAs, and using subsidies for partial compensation of their employees' reduced earnings, are specified in a Government Decree, No 44 of 27 February 2009. Employers operating entirely or predominantly in the sectors of industry and services, sub-sectors B, C, D, E, F, G, H, I, J² according to the 2008 Classification of Economic Activities (CEA) are allowed to introduce STWAs for six months at the most and receive government subsidy from the State Budget for each employee transferred to STWA leading to a reduction of his working hours by a maximum 50 %, on a monthly basis. Each employee whose salary falls as a result of the new organisation of the production process is entitled to receive a relatively modest partial compensation for loss of earnings of up to BGN 120 (EUR 61), equalling half of the minimum wage for the country, in addition to his reduced monthly salary, thus receiving

² According to 2008 NSI statistical data the potential target group of the measure amounts to 1.652 million employees or 49% of the total number of employed in the country.

altogether between 59 and 81 % of the pre-STWA amount (see Table 1 below). The scheme corresponds to the first level of partial activity compensation in France, offering a flat rate allowance specified as a percentage of the daily gross salary for an employee earning the legal minimum wage, which overall is not described as generous. Eligible employers under Decree No 44 should have introduced STWAs for at least two months and for 5 % of their staff. The duration of the period for provision of financial support was originally set to a maximum of three, but was extended to four consecutive months annually with the 2010 amendments of Decree No 44. The financial resources for the implementation of the described measure come from the active employment policy resources allocated in the State Budget, and amount to EUR 3.453 million for 2009 and EUR 1.534 million for 2010.

Table 1: Average monthly salaries of employees under labour contract in 2009 by economic activities

2008 CEA code and name of economic activity	Average monthly salary	STWA remuneration, incl. allowance	Reduction
B. Mining and quarrying	474	298	63 %
C. Manufacturing	264	193	73 %
D. Electricity, gas, steam and air conditioning supply	670	396	59 %
E. Water supply, sewerage, waste management and remediation activities	299	211	70 %
F. Construction	279	201	72 %
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	236	179	76 %
H. Transportation and storage	335	229	68 %
I. Accommodation and food service activities	195	159	81 %
J. Information and communication	486	305	63 %

Source: National Statistical Institute and author's own calculations

Two application rounds, for receiving STWAs allowances under Decree No 44, were run up to the end of September 2009, allowing 531 employers and 19 485 employees (or 1.21 % of the total number of workers in the private sector) to take advantage of the measure, receiving allowances amounting to EUR 2.962 million. Although the target set in the 2009 National Employment Action Plan of 18 759 employees was surpassed before the end of the year, the percentage of employees participating in STWAs was more than twice as low as the figure registered in France for the whole of 2009. Nevertheless, the implementation of the measure in Bulgaria supported employers in their efforts to retain their core staff, while some of them exited the programme early after receiving new orders and restoring their operational activities. After the conclusion of the measure's implementation, 12 820 workers kept their jobs. For the first quarter of 2010 another 6 382 workers (with a target of 6 250 set in the 2010 Action Plan) in 251 companies were approved under Decree No 44 while 6 188 of them actually received STWA allowances amounting to EUR 1.219 million.

Given the pressure exerted on Bulgaria by the European Commission to bring down the budget deficit and reduce Government expenses, the effective absorption of the financial resources under the ESF Operational Programme Human Resources Development 2007 – 2013 (OPHRD) becomes crucial for tackling the negative effects of the economic downturn. In this respect, the Adaptability Programme within the OPHRD allows workers occupied in companies operating in the above-mentioned sub-sectors, who were transferred to STWAs and have not received allowances under Government Decree No 44, to apply for and after

approval by the Regional Labour Office receive the opportunity to participate in training to acquire new or increase existing vocational qualification during the time not engaged with work activities. These individuals will receive additional resources in the form of vouchers for vocational qualification for the period of STWA, as well as a monthly allowance up to a maximum of BGN 176 (EUR 90) for the period of training, which cannot exceed six months. Trainees will also be granted resources for transportation from and to their work place in cases where the training is conducted elsewhere. Workers and employers are not required to provide co-financing. The total budget of the Programme is EUR 46 million for the whole four-year period of its implementation 2009 – 2012, roughly half of which is allocated to STWA allowances³.

The aim of the proposed measure is to reduce mass dismissals by employers and resignation by workers who, due to economic reasons, cannot earn their full salary. Employers will be able to retain their staff who they will need again once the economy recovers and market demand improves. The implementation of the Adaptability Programme within OPHRD will create conditions for turning the integration of STWAs and training into an effective measure for tackling unemployment growth and investing in more productive participation of the workforce on the labour market. This operation falls within the basic priorities of 2009 and 2010 labour market policy, namely to ensure stable employment through encouraging STWAs and lifelong learning. The programme builds upon the anti-crisis measures, implemented under Decree No 44 expanding its scope in the context of the targets laid down in the Lisbon Strategy and OPHRD.

The implementation and achievement indicators specified in the terms of reference of the Adaptability Programme are related to the number of trainees, individuals who have received money for transport, number of workers acquiring higher vocational qualifications and share of workers who have kept their job upon conclusion of the measures – the reference values of the indicators are provided in the table below. The actual application procedure for employees in STWAs under the Adaptability Programme started in early February 2010 and it is still too early to assess the actual results of its implementation.

Table 2: Indicators laid down in OPHRD Adaptability Programme

<i>Implementation indicators</i>	
Number of workers included in training courses for acquiring new or increasing the level of existing vocational qualification	42 000
Number of workers who have used financial resources for transportation to their working place	8 400
<i>Achievement indicators</i>	
Number of workers who have acquired new or increased the level of existing vocational qualification	33 600
Share of workers who have kept their job upon conclusion of the encouragement measures	80 %

Source: Terms of Reference: OPHRD, Adaptability Procedure, Budget Line BG051PO001-2.1.12

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

The long-lasting partial activity scheme announced by the French Government in February 2009 is a key success factor which has very limited transferability and can hardly be applied in Bulgaria. Although the measure has wide coverage both in terms of sectors and employees, with a generous amount of compensation and has helped many companies to successfully tackle the economic crisis and retain their core staff, the fact that this success has been achieved at a relatively high cost to the state and the tax payer makes it

³ Author's own estimations based on indicators laid down in Adaptability Programme.

practically inapplicable in the context of Bulgaria's current economic reality. Given that the Government has declared its firm determination to reduce public expenses and bring down the budget deficit from 3.9 % in 2009 to 2.5% in 2011, as a result of European Commission recommendations, the introduction of more generous STWAs for the future seems a very unlikely scenario.

Making training available to more people in France, including unemployed, vulnerable workers, etc., through the active involvement of social partners in the process of vocational training is a success factor which can be relatively easily applied in Bulgaria – a process which already started in the middle of 2009 with the activation of the work of the National Advisory Council on Vocational Qualification of the Labour Force (NACVQLF), chaired by the Deputy Minister of Labour and Social Policy. It is anticipated that the National Lifelong Learning Strategy, elaborated by the Bulgarian Government for the period 2008 – 2013 envisaging activation of social partners' participation in the lifelong learning process, as one of its priorities, will play a crucial role in this respect.

The proactive approaches to skills needs in France proving crucial for identifying the priority training needs at enterprise, sector or territorial level is also a critical factor, which can be successfully transferred and applied in Bulgaria. This actually started also in 2009 with the adoption by NACVQLF of a mechanism for ensuring quality and control over the provision of adult training and proposals for joint efforts of education and training institutions, on the one hand, and social partners, on the other, in the long term. The Advisory Council will play a key role in public discussion on the issues of adult training, having long-term effect on the labour market such as the creation and operation of a national system for skill needs examination and anticipation, which is critical in the context of economic downturn.

The creation of a Social Investment Fund (FISO) which aims to coordinate the actions of the government and the social partners on employment and vocational training during the crisis in France, and is considered a great policy innovation with regard to collective governance, is a success factor which can also be transferred and applied in Bulgaria. Here, however, certain efforts should be made with respect to the more active involvement of social partners, especially in the vocational training process in order to make possible the introduction of collective governance of resources allocated to overcoming the negative effects of economic downturn on employment and skill levels.

4 QUESTIONS

1. What is the current percentage of the minimum daily gross salary for France which a worker occupied in partial activity is entitled to receive in the form of a flat-rate allowance?
2. Is there a requirement for the minimum percentage of employees in partial activity occupied in a particular company, in order that the employer is eligible to receive the special flat-rate allowance from the Government?
3. What is the strategic policy statement (or document) outlining the priority measures and instruments for tackling the negative effect of economic downturn on employment by means of partial activity schemes and their integration with vocational training?
4. Is there a target laid down in national policy statements with respect to employees in Government-supported partial activity schemes, measured in absolute numbers or full-time equivalents for 2009, and if yes, was this target reached?

ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> • During 2010, the decline in GDP in Bulgaria has slowed down compared to the previous year, with the service sector currently suffering most from the economic crisis in terms of GVA reduction. • Due to the crisis in 2009, the upward trend in employment –which had started in 2002 - was interrupted. • Unlike the public sector, the private sector is experiencing a slowdown in employment reduction in 2010. • The sub-sectors of manufacturing and construction are, thus far, those sectors most severely affected by the crisis in terms of employment decrease. • Young people between 25 and 34 years of age and workers with secondary vocational education are those most affected by reduced activity of enterprises.
Assessment of the policy measure
<ul style="list-style-type: none"> • Government Decree No 44 of 27 February 2009 grants employers operating in the sectors of industry and services the opportunity to receive flat-rate STWA subsidies. • Each employee whose salary falls, as a result of the new organisation of the production process, receives altogether between 59 and 81 % of the pre-STWA amount. • Until the end of September 2009, 531 employers and 19 485 employees (or 1.21 % of the total number of workers in the private sector) took advantage of Decree No 44. • The Adaptability Programme within the ESF Operational Programme Human Resources Development is another labour cost adjustment opportunity which is somewhat more generous for employees, offering them vocational training.
Assessment of success factors and transferability
<ul style="list-style-type: none"> • The long-lasting partial activity scheme announced by the French Government in February 2009 is a key success factor which has very limited transferability in Bulgaria. • Making training available to more people in France through the active involvement of social partners in the process of vocational training can be relatively easily applied in Bulgaria. • The proactive approach to skills needs in France is also a critical factor, which can be successfully transferred and applied in Bulgaria. • The creation of a Social Investment Fund (FISO) for coordinating the actions of the government and social partners during the economic crisis in France is a transferable success factor.

Questions

- What is the current percentage of the minimum daily gross salary for France which a worker occupied in partial activity is entitled to receive in the form of a flat-rate allowance?
- Is there a requirement for the minimum percentage of employees in partial activity in order that the employer is eligible to receive the special flat-rate allowance from the Government?
- Which is the strategic policy document that prioritises partial activity schemes?
- Is there a target on employees participating in State-supported partial activity schemes for 2009?