



# **European Employment Observatory**

## **EEO Review: Self-employment, 2010**

### **Bulgaria**

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## 1. Introduction: General context of self-employment in Bulgaria

Self-employment is relatively popular in Bulgaria. In the economic crisis year of 2009, the self-employed numbered about one million persons, or about 27 % of all employed (according to the National Financial Accounts (NFA))<sup>1</sup>. According to labour force survey (LFS) data their number was 406 100 in the same year or 12.5 % of the employed - that includes employers (3.5 %), free-lance self-employed (8 %) and unpaid family workers (1 %)<sup>1</sup>. Regardless of the source chosen to obtain information about the self-employed<sup>2</sup>, the studies prove that their number keeps low elasticity (whatever the stage of the economic cycle) and maintains a supporting function<sup>3</sup> in respect of overall employment. So far, during the crisis year of 2009 the number of the self-employed was reduced by only 0.7 % in comparison with 2008, whereas this reduction is 3.74 % in the case of all employed.

The high relative shares of the self-employed in Bulgaria put it in the same group as Greece, Romania, Poland and Italy which also show high rates of self-employment. The structure of the self-employed in Bulgaria also follows the general EU trends. The most frequent case of a self-employed person is a man, aged between 35 and 54, working in agriculture, trade, services or transport. Women and young adults seem to be attracted to this type of employment to a lesser extent. At the same time, the group of self-employed as household assistants (housekeepers) predominantly comprises women having lower than secondary level of education.

Switching to self-employment in Bulgaria takes place in the middle of one's professional career and with the advancement of age; it provides an alternative to regular employment. It is characteristic for the country that the self-employed retire after the age of 65, i.e. later in comparison with the general retirement age, thus stimulating prolonged employment.

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<sup>1</sup> Source: NSI.

<sup>2</sup> The disparity between the two assessments results from the specific features of the methodology of their calculation. Data on Employment and Hours worked in the Bulgarian National Financial Accounts (NFA) are calculated in terms of persons combining data from the 'Labour Force Survey' (LFS) on households and from the 'Employment and Earnings Survey' (EES) on enterprises, in order to carry into effect the NFA purposes according to the ESA'95. Because of the informal character of a large part of agricultural activity a big share of the employed are not included in the EES and LFS. This imposes the use of another source of information namely, the "Farm Structure Survey" (FSS) which becomes the main source of information for self-employed in Agriculture for the NFA. The differences between the data in the LFS and in the FSS are a consequence of the different concepts used in terms of purpose; sampling design; reference period; definitions and questionnaires. According to the results of the comprehensive report on these issues for Bulgaria, it was concluded that the interviewers in LFS will have to follow, as strictly as possible, the current definition for employment in agriculture as main and second job (this was implemented in practice). Eventual changes in the core LFS definition and in the questionnaire, directed to the increase of quality of agricultural employment data will have to be made after the final decision of Eurostat about the definition of employment in agriculture to be laid down in the EU LFS Explanatory notes. For further details, see: Improved Measurement and Main Determinants of Employment in Agriculture, final report (Project leader: Bogdan Bogdanov, Demographic and Social Statistics Department, NSI), 2009.

<sup>3</sup> Loukanova P., Self-employment in Bulgaria, Economic Studies, 2010 (referred to be published in 2010); Pedersini Roberto and Lyuben Tomev, Bulgaria – the self-employed workers, 2009, <http://www.eurofound.europa.eu>

## **2. National labour market policies in favour of self-employment and their assessment**

### *2.1 Strategic policy directions.*

The significance of self-employment is confirmed in the two national strategies for employment already adopted, as well as in the annual plans for their implementation. The renewed second Strategy for the period 2008 – 2015 comprises a separate group of stimuli for entrepreneurship as well as for starting small and medium-sized businesses as an element of the actions for new job creation. The National Strategy for encouraging small and medium-sized businesses (2007 – 2013) sums up their development priorities as stimulating the spirit of entrepreneurship, improved access to financing, simplification of administrative procedures, achievement of more stable development, internationalisation of these businesses, stimulation of research activities and innovative development.

Self-employment is also considered as part of Bulgaria's path to improve flexicurity (2009-2011). Flexible contractual arrangements make legislative changes necessary to allow equal status for those employed in non-traditional forms of employment and the other employed. This is about qualitative job creation and about introducing stimuli for leaving the informal sector. Training for business and entrepreneurial skills, as well as for increasing the knowledge in respect of social security rights and the abiding by the taxation and social security laws, is provided within the training on key competences.

### *2.2. Policies implemented*

In compliance with the labour market policy being applied since 2001, the unemployed liable to unemployment benefits or social assistance payments, willing to start their own business, after submitting a project approved by the Labour Office, can receive all due benefits at the same time. Alongside this, additional grants are provided for employing a second member of the household, and for covering expenses for using consultancy or accompanying services. Unemployed persons can be given funds to cover expenses for starting their own economic activity as a micro-business in compliance with the law for small and medium-sized businesses as per a project approved by the territorial division of the Employment Agency.

The persons having received a credit on "Guarantee Fund for micro credits" can have training for acquiring a professional qualification. A separate group of incentives are given to entrepreneurs in agriculture by reimbursing them a part of the expenses for cultivating land, buying livestock, technical equipment, medication etc. and to provide a minimum labour remuneration to no more than two employed persons for a limited period during their employment. Modules for mastering business skills have been included within the framework of the programmes supporting business start-ups. Special attention is paid in the course of providing entrepreneurship training to young people, to women-returners in the labour market and, in general, to individuals from risk groups interested in self-employment.

The Operational Programme (OP) "Human Resources Development" co-funds training for starting a business for both unemployed and employed persons. The OP also funds a scheme offering consultancy services to entrepreneurs who start their own business.

Women-entrepreneurs have their own specific problems, although, according to the results of a recent survey, they are considered as equals to men in business<sup>4</sup>. The problems of the transition from motherhood to work are ever present and programmes to facilitate this transition are implemented in the Bulgarian labour market. For the time being, these programmes mainly target women employed on a full-time basis. Flexible jobs combining child rearing and non-typical employment are not yet widespread.

### *2.3. Assessments of the policies*

According to assessment of the net impact of labour market policies in 2007, the programmes and measures supporting business start-ups were deemed as having positive results by 26.8% of those interviewed. This score placed such measures third in terms of importance, after programmes directed to older unemployed and long-term unemployed persons. In addition, a positive attitude towards the self-employed was stimulated by the economic expansion in the period 2004 – 2008.

The observations of labour market measures so far, show that there is significance for self-employment when financial incentives are combined with services facilitating the registration of businesses and the first years of their development. The approach of providing a package of different kinds of assistance consolidated the trust in these measures after 2000. A good example in Bulgaria so far, that can be further improved in the future, has been the JOBS Programme (2000 – 2009) (see the example included in Annex). An important requirement for the near future is to increase the share of specialised training offered by labour offices (LOs) on entrepreneurship (in real, social, green, etc. economies). In addition, the subject of entrepreneurship should be included in secondary and higher education curricula. Due to the interest among persons in the medium and old age groups for self-employment, it is necessary to elaborate appropriate training that includes also distance-education formulas.

Until now, mediation on the labour market is mainly oriented towards the transition from unemployment to employee status. There is a real need to suggest specialised mediation to those unemployed and employees (registered as job-seekers) that want to start their own business.

## **3. Quality of self-employment jobs**

The qualitative aspects have not been studied extensively in Bulgaria. There are grounds, however, for outlining some positive preconditions already created as well as some problem areas.

### *3.1. Improving the business sustainability of the self-employed*

Most important, is access to preferential credit lines. According to a recent business survey, nearly all small businesses (95 % of the interviewed managers) rely mainly on external sources of funds. The sole-traders registered as VAT payers (regardless whether they hire workers or not) have similar problems to those of the micro and small businesses.

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<sup>4</sup> The conclusion was made on the basis of information from the survey “Women in Business” within the framework of the national report on small and medium enterprises in Bulgaria. See: Annual Report on SMEs in 2008, Ministry of Economy, Energy and Tourism in co-operation with CED, <http://www.mee.government.bg/>

Bank loans have a leading role and leasing continues to develop as an alternative<sup>5</sup>. In the years of the crisis, access to structural funds via project co-funded by the EU, acquires increasing importance. However, small businesses experience difficulties in co-financing, because of heavy bureaucratic procedures. There is a need for preferential treatment of small businesses and some steps have already been taken in that direction. A Holding Fund was established in 2010 together with a Risk Capital Fund for small and medium enterprises, in the context of the JEREMIE programme<sup>6</sup>. The technological modernization of small and medium businesses and their innovative development is a priority of the Operational Programme “Competitiveness”. The allocation of funds for operations that have immediate importance for self-employment in agriculture and for providing services for the population in the agricultural areas has started in 2010. These operations are part of the common programme for the development of rural areas (2007 – 2013). All these useful initiatives will provide certain results, but they had to prove better than their fore-runners through more creative and efficient administration.

The success of the free-lance professions presupposes the availability of sufficiently liberal general legislative provisions. According to a survey of only four of these professions (auditors, architects, chemists and engineers), it turns out that the regulations in Bulgaria are stricter than the EU average<sup>7</sup>. The survey outlines the need to remove the barriers to entering these professions, but provided that a high quality of the preparation and professionalism is observed and that international certificates are acknowledged; that fixed prices are cancelled; dropping the obligation to be a member of a professional association as a non-conditional necessity for exercising a free-lance profession; and removing all limitations for advertising free-lance professions.

A large part of free-lance professions are in the field of scientific and research activities, culture, art and other creativity spheres. In this respect, the effective legal protection of intellectual property acquires decisive significance for their success. The already introduced legal protection of patents and utility models<sup>8</sup> has particular importance for craftsmen, inventors and individually owned companies. An important relief is that the application charges for inventions or useful models are 50 % lower if the applicants are inventors, micro or small firms<sup>9</sup>. Also, the application of rights on trade marks in Bulgaria includes an administrative-punitive procedure through the patent authorities. This procedure is far less expensive and shorter in comparison with the court procedures and it is affordable even for the self-employed in their struggle with disloyal competition.

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<sup>5</sup> Annual Report on SMEs in 2008, Ministry of Economy, Energy and Tourism in co-operation with CED, <http://www.mee.government.bg/>

<sup>6</sup> The JEREMIE Programme envisages the application of the specific instrument of financial engineering in Bulgaria that is already well utilized by the European Commission in the distribution of the structural funds. It has been agreed upon on the basis of the agreement between the Bulgarian Government and the European Investment Fund. The Agreement has been ratified by virtue of a law passed by the Parliament during 2010.

<sup>7</sup> Effects from the regulation of selected free-lance professions in Bulgaria. Institute for market economy, September 2009. [www.ime.bg](http://www.ime.bg)

<sup>8</sup> The protection is organized under the Law on Patents and Utility Model Registration (State Gazette No. 64/2006).

<sup>9</sup> According to a tariff table about tariffs (and taxes) collected by the Patent authorities in Bulgaria, (State Gazette No. 114/1999).

### *3.2. Avenues for more security of the self-employed in the framework of the flexicurity agenda (labour law and social security)*

The Bulgarian Flexicurity Path includes the approval of new laws on distance working and teleworking, working at home etc. to be completed by the end of 2010. The final elaboration of that legislation was lengthy, but did take into account the lessons from other countries.

In Bulgaria, the coverage of the social security system is increasing on the basis of the mandatory labour contract registration, alleviated rates of social security contributions and active controlling and preventive activities by public administration. The Social Insurance Code (SIC) provides preferential conditions for self-insured persons. The legislator allows them to select an insurance income basis lower than the projected common level. These levels are fixed in advance of the financial year. In addition to this, the self-insured are obliged to contribute only for protection against general illness, old age and death, whereas the employed must be insured against all insurance risks<sup>10</sup>. In compliance with SIC, the self-insured can choose additional risks and a higher insurance income basis. Practice proves, though, that the self-insured select the minimum possible conditions for social security. The real income is not declared and in this way, part of the self-employed activity moves into the informal sector. This problem is not new in the Bulgarian economy. Thus, common ways to tackle the grey economy will have to be combined with other interventions for people to correctly insure themselves. In addition, it is necessary to broaden the information campaigns on the negative consequences resulting from evading social security contributions. The improvement of the quality of the public services could also encourage the correct behavior of the self-employed on the basis of reciprocity.

### *3.3. Institutional representation of the self-employed*

For the time being, the institutions representing the small business are few and they have problems in implementing the functions and aims for which they were created. This relates to the professional associations, the organizations for collective control of copyright, other organizations (unions) of self-employed which have a role in collective bargaining<sup>11</sup>. In addition, the obligatory membership of a professional association as a precondition for exercising a free-lance profession is widely criticized, as already mentioned earlier. There is a pressing need to stimulate new types of institutional representation for the small business in Bulgaria. These organisations could play an active role in: protecting labour conditions; disseminating information; representing their members in domestic and international networks; and advertising self-employment initiatives. Another important function would be their involvement in the social dialogue process and in the discussions on amendments to labour legislation.

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<sup>10</sup> The self-employed can be insured as per their preference against the remaining risks. The obligatory insurance does not mean that non-payment of social security is a criminal activity in Bulgaria

<sup>11</sup> There are two examples for such organizations taking part in collective bargaining: the Union of craftsmen in Bulgaria and the Union of home workers.

## Conclusions

Self-employment is important for maintaining a certain level of employment in Bulgaria in period of crisis. There is enough evidence to conclude that in periods of economic expansion, self-employment could be a purposeful strategy for choosing flexible and sufficiently safe employment which allowed income and career promotion. However, while the business environment encourages the establishment of new small businesses, it is not conducive to the further development of businesses once they are established. The recent economic crisis has added arguments about the need to apply policies that have to stabilise the position of the self-employed and other small companies. The flexicurity agenda and the integrated approach could contribute to that purpose and have to be more broadly utilised. In addition, there is a need for constructive changes in the business and legal environment for self-employment and small business development and for consolidating their institutional representation.

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## **Annex 1 – Good Practice Example**

### **Project “Job Opportunities through Business Support” (JOBS), 2000 – 2009**

(NOTE: The information was provided by Mrs. Tashka Gabrovska, Manager of the Project)

The Project was a common initiative of the Ministry of Labour and Social Policies and the UNDP in Sofia. The aim was to encourage employment in Bulgaria by assisting the development of micro and medium enterprises in small agricultural municipalities with high unemployment rates. One of the approaches implied was to stimulate self-employment and small business development. Thus the Project was directed towards creating new-self-employed people, some representatives of those at the margins of the labour market after being trained, and towards those developing further their activities as agricultural producers, craftsmen, freelancers etc. All beneficiaries received direct services for facilitating the initial stages of their business development via a network of business centres and business incubators. The network was organized for the purposes of that project and as one of its components. The package of services included consultations, office and informational services, vocational training in small businesses, drafting a business plan and organizing marketing surveys; leasing equipment to micro and mini companies, access to the Internet etc. The business centres and business incubators were registered as NGOs and succeeded to unify key local authorities, institutions and experts. From 2004 to 2009 the Project opened up grant schemes to new-comers in the business that was realized by the Ministry of Economy, energy and tourism. The applicants had to present vital business ideas and a plan for being competitive on the internal market of goods and services.