



## **Joint Assessment of Employment Priorities in Bulgaria**

In accordance with the provisions of the Accession Partnership, the Ministry of Labour and Social Policy of the Republic of Bulgaria has prepared, with the Directorate General for Employment and Social Affairs of the European Commission, a Joint Assessment of Bulgaria's short-term employment and labour market policy priorities. This document presents an agreed set of employment and labour market objectives necessary to advance the country's labour market transformation, to make progress in adapting the employment system so as to be able to implement the Employment Strategy and to prepare it for accession to the European Union. Progress in the implementation of these policies will be assessed regularly.

29 October 2002

*(Signed)*

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## Introduction

In accordance with the provisions of the Accession Partnership, the European Commission - Employment and Social Affairs DG - and the Government of Bulgaria are carrying out an Employment Policy Review. The objective of this review is to examine the extent to which Bulgaria has made progress in adapting its employment system so as to be able to implement the European Employment Strategy.

The review aims to provide information, for the use of Bulgaria and the Commission, on the following issues:

- Are the labour market structures that are already in place appropriate for participation in the Single market?
- Are the labour market and employment policy institutions sufficiently developed to allow an early implementation of the employment strategy in line with the Employment Title of the Treaty?
- Is the overall system in Bulgaria moving towards meaningful participation in the EU employment co-ordination process?
- What are the priorities for human resources development strategy as a background for preparatory work for European Social Fund (ESF) or ESF type action planning and programming?

The starting point in the Employment Policy Review is to agree on a Joint Assessment Paper, whose focus is on the fundamental challenges in the field of employment. These challenges consist, first, in recognising that labour markets should reflect the needs of a dynamic market economy as part of a single market, in particular whether labour is mobile, adaptable and skilled. The second challenge is to have policies and appropriate institutions that support the development of a flexible labour market. This includes the need to promote a forward-looking approach to industrial restructuring to adapt to knowledge-based economies and to face up to the impact of demographic change.

The principal tasks of the exercise are summarised under four sections. Section 1 provides a brief description of the economic performance. Section 2 examines the overall labour market situation and the progress made in labour market transformation. Section 3 identifies major challenges and Section 4 draws together the overall conclusions from the review.

## 1 Economic Situation

Bulgaria had a population of 7,970,000 inhabitants in 2001. At 7,110 € (PPS), its GDP per capita is 31% of the EU15 average and among the lowest of the Candidate Countries.

In the first half of the decade following the fall of the Communist regime, the reform process was slow and uneven. Only after the country suffered from a deep economic crisis resulting in hyperinflation in 1997, did economic policy start to be systematically geared towards macroeconomic stability and structural reforms. Under an IMF programme, a Currency Board Arrangement was established that rapidly brought inflation under control, fiscal policy was tightened, and privatisation and liberalisation progressed considerably. In February 2002, the IMF approved a two-year stand-by credit prior to which the Bulgarian Minister of Finance and the Governor of the Bulgarian National Bank had submitted a “Memorandum on Economic Policies of the Government and the Bulgarian National Bank” which specifies an ambitious economic policy programme. It is based on the Currency Board Arrangement at least until accession to the EU, a cautious and flexible fiscal policy aiming at a balanced budget over the medium-term and an acceleration of structural reforms to create a fully functioning and competitive market economy.

These reforms are clearly paying off. In spite of crises in neighbouring countries and unfavourable global conditions, real GDP growth was 5.4% in 2000, 4.0% in 2001 and is expected to remain at a level of between 4% and 5% in the coming years. In 2001, the three broad economic sectors of agriculture, industry and services had shares in gross value added of 14%, 28% and 58% respectively.

Domestic demand continues to be the main contributor to GDP growth. Investment increased by about 20% in real terms in 2001 and – since starting from a low investment-to-GDP ratio - can be expected to continue to grow at high – rates, albeit lower than at present. The continuation of structural reforms and the reduction of the tax burden, which the government is committed to, is creating an attractive climate for investors and triggering substantial inflows of foreign direct investment. In addition, the financial sector is in the process of consolidation and of improving conditions for investment by gradually lowering interest rates and raising financial intermediation. Private consumption can be expected to continue growing as the result of tax cuts and rising real income. Public expenditure should increase at a slower pace than GDP as a result of the government’s plans to reduce its share in GDP.

Inflation (CPI) has fallen from above 10% in 2000, which was mainly due to the increased world market prices of commodities (especially energy), to 7.4% on average and 4.8% at the end of 2001 year-on-year. However, inflation is unlikely to decline to a rate below 7.5% on average in 2002, primarily because of the one-off effects of the adjustment of administered prices and of indirect taxes. Increasing competition on product markets and tight fiscal and income policies should allow inflation to decline in subsequent years.

Public finances improved further in 2001 and turned out better than initially planned. While the original budget for 2001 foresaw a deficit of 1.5% of GDP, higher than anticipated tax revenues and extremely restrained public expenditure in the fourth quarter of the year to counter the adverse external developments contributed to a deficit below 1 % of GDP. For 2002, the budget envisages 1 percentage point of GDP reduction in both revenue and expenditure, and a deficit of 0.8% of GDP. The

government is committed to achieving a balanced budget over the medium term by gradually reducing the deficit to bring the public debt to a level of below 70% of GDP. The medium-term fiscal policy strategy is to compensate for tax cuts by broadening the tax base and to bring non-interest expenditure to below 35 % of GDP by rationalising expenditure while strengthening social expenditure and public investment.

Net exports had a negative contribution to growth in 2001. The slowdown in the EU, which is the destination of more than half of Bulgaria's exports, and the crises in Turkey and Macedonia meant a weakening of the external environment, which was only partly offset by the resilient Greek economy and the further normalisation in other neighbouring countries. The combination of slowing export demand and a continuous strong import demand resulted in a growing deficit of the trade balance of 11.6% of GDP and a current account deficit of 6.5% of GDP in 2001, the difference being a consequence of high net exports of services, in particular tourism. In contrast to previous years, the current account deficit in 2001 was higher than the foreign direct investment inflows of about 5% of GDP. Following the improvement in external conditions and an improved competitiveness as a result of economic reforms, both trade deficit and current account deficit can be expected to improve gradually over the next years.

Macro-economic stabilisation was the major achievement over the last years. Privatisation with the exception of public utilities and regulatory reform has advanced well. Nevertheless, the Bulgarian economy needs further reforms. In particular, the banking system needs to develop further, the judiciary system needs to be enhanced and the business climate shows shortcomings. In spite of progress in consolidation of the financial sector, financial intermediation in Bulgaria is still rather low and limits the ability of banks to transform savings into investment – a key function in market economies. The judiciary system is not yet equipped to deal effectively with a market economy. The enforcement of contracts is slow and erratic. The resolution of bankruptcy cases is especially time-consuming, which leaves productive resources unused and which makes banks and other potential creditors reluctant to lend. The huge bureaucratic obstacles that need to be overcome to establish and operate an enterprise, have been substantially reduced in recent years, but remain high.

This on-going process of economic restructuring, in order to increase productivity and competitiveness, unavoidably leads to a large-scale destruction of jobs, which is not sufficiently matched by the creation of new jobs.

## 2 Situation in the Labour Market

### 2.1 Population and labour force

Bulgaria's population has been continuously declining since 1989, with a fall of 8% between 1989 and 2000. According to Census data<sup>1</sup>, total population went down by a further 2.2% down to 7.97 million in 2001. The working age population (aged 15-64) has been declining by nearly 350,000 (or 6%) since 1989 and stood at 5.56 million in 2000. The number of children under 15 decreased by 561,000 (or 30%). The demographic decline is forecasted to last over the next decade with an estimated further fall of 7.6% for the total population, of 5% for the working age population while the number of children under 15 would decrease by more than half by 2012.

The demographic decline is largely accounted for by the negative natural growth rate but in the early 1990s Bulgaria also experienced migration outflows towards bordering countries, in particular Turkey<sup>2</sup>. Migrations outflows amounted to 650,000 people from 1989 until the mid-1990s, decreasing from 215,000 in 1989 to 54,000 in 1995. In addition, there were important internal migrations (during the 1990s, the North-Central and North-East regions were the most affected by migratory outflows towards other regions). Two regions, the South-West - which includes the capital city and its area - and the South-Central concentrate 52% of the working age population. According to the 2001 Census, 70% of the total population are in urban areas.

The participation rate for those aged 15-64 was 66.5% at the time of the first LFS in 1993, down from the high levels from the pre-transition period. After a continuous decline until 2000, down to 60.1%, it started to rise again in 2001 but at 61.9%, was well below the EU average of 69.2%. The size of the labour force contracted from 3.76 million in 1993 to 3.35 million in 2001.

Until 2000, the decline in participation was of the same order for men (from 71.2% in 1993 to 64.8% in 2000) and women (from 61.9% to 55.5%)<sup>3</sup>. In 2001 female participation increased substantially (up to 58.0%) while men's activity rate continued to decline (to 64.0%). Both participation rate are below EU averages (78.1% for male, 60.2% for female in 2001). The drop in the activity rate concerned all age groups except the 55-64 for which it was 29% in 2001, 3.8 points higher than in 1993. In the 25-54 age group, the participation rate went down from nearly 88% in 1993 to 82% in 2001 (84.2% for men and 79.2% for women). The decline was particularly sharp for the younger age group 15-24 (from 43.0% in 1993 to 31.3% in 2001) and for young women, in particular (from 43.2% to 30.4% in 2001). Available studies<sup>4</sup> suggest that this reflects less an increased participation in education than an important phenomenon of discouraged workers (in the mid-1990s, 40% of the young unemployed withdrew from the labour force compared with 20% in the prime-age group. In December 2000, young people represented 26% of the total number of discouraged workers).

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<sup>1</sup> Population on 1<sup>st</sup> March

<sup>2</sup> Background Study

<sup>3</sup> In the case of women, available studies suggest that massive withdrawals from the labour market already took place in the early years of the transition

<sup>4</sup> *"Targeting Youth Unemployment Policy in Bulgaria"*, N.O'Higgins et alii, Economic and Business Review for Central and South-Eastern Europe, Vol. 3, Nr 2 June 2001; *"From Transition to EU Accession – The Bulgarian Labor Market during the 1990s"*, P. Garibaldi et alii, World Bank Technical Paper N° 494, May 2001

The average educational levels in the labour force are relatively low: in 2001, according to the LFS, only 23.5% had post-secondary education<sup>5</sup>, 55.4% had secondary education and 21.3% primary or lower levels of education. Of those with secondary education, 70% have a secondary vocational and technical education. However, among the prime age groups, vocational education is likely to correspond to skills and occupations which are no longer in demand. Participation in initial education does not show visible improvements in that respect: enrolment rates in higher and semi-higher education appear extremely low by international standards, a substantial share of young people does not continue in secondary education and a significant proportion does not even complete basic education.

## **2.2 Employment developments**

### *Overall trend*

Employment showed a dramatic decline at the beginning of the transition period (between 1990 and 1993, total employment decreased by 875,000 or 21.4%). After a short period of stabilisation between 1993 and 1996 it declined again (by a further 345,600 or 10.5% between 1996 and 2001). Since 1990, employment went down by 28.2% representing a total loss of 1.2 million.

Employment appeared to be highly responsive to output variations in the early 1990s (1990-1993) when overall employment went down by 9.6% while real GDP fell by 8.6%. During the crisis of the mid 1990s (between 1995 and 1997) employment decreased by only 2.6%, while GDP dropped by 16.5%. The economic recovery that followed was not sufficient to have a positive impact on employment. Despite a GDP growth of between 2.3% to 5.4% between 1998 and 2001, employment continued to decline by a further 9%.

### *Employment rate*

After a considerable decrease at the beginning of the transition period (from an estimated 87.3% in 1989<sup>6</sup> to 52% in 1993), and a small increase at 54% in the mid-1990s, the employment rate (15-64 age group) has again been declining since 1998. At 47.7% in 2001, it is below its 1993 level and some 16 points below the EU average of 64%. The male employment rate stood at 52.4% in 2001, well below the EU average of 73%. The female employment rate was down to 46.3% in 2000, after a particularly sharp drop in the early 1990s (from 87.6% in 1989 to 48.2% in 1993) but the decline stopped in 2001. At 47.1% in 2001 it remains below the male rate and the EU average (54.9%).

The decline of the employment rate between 1993 and 2001 concerned all age groups except the 55-64 for which the employment rate remained fairly stable over the period. At 23.9% in 2001, it is however well below the EU average (38.6%), in particular for women (14.7% in Bulgaria compared with 28.9% in the EU). The employment rate is also well below the EU average for men aged 25-54 (68.4% compared with 87.3% in the EU) while it is just under the EU average for women in the same age group (65% in Bulgaria, 66.9% in the EU).

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<sup>5</sup> Post-secondary education includes higher and semi-higher education

<sup>6</sup> Background Study - table 3.2

## 2.3 Structural changes in employment

### *Employment by sector*

Employment in industry has been declining continuously since the beginning of the transition period, although at a slower pace since the mid 1990s. Industrial employment fell by 42% between 1990 and 1996 and by a further 24% between 1996 and 2001. At 812,963 in 2001, it was less than half its 1990 level.

After a large decline at the very beginning of the transition period, which can be attributed to the uncertainties of the privatisation process, employment in agriculture renewed growth until the late 1990s (by 9% between 1990 and 1998). Since then it has been on a downward trend again (-6% between 1998 and 2001). The combined effect results in a net increase of agricultural employment of 3.5% between 1990 and 2001.

Employment in services decreased by 6% between 1990 and 1996. Despite a short period of growth at the end of the 1990s (+4% between 1997 and 1999), in 1999, overall services employment remained below its 1990 level (1.35 million compared with 1.5 million). Since then it has fallen by a further 3.3%. Over the decade, employment in services has decreased by 10%.

The restructuring of the economy, in particular towards the services has not yet resulted in a substantial reallocation of jobs between the three main sectors. The share of industry in total employment went down from nearly 45% in 1990 to 27.6% in 2001, while the share of agriculture increased from 18% to 28% and that of services from around 37% to 44.6%. The contribution of agriculture to the overall employment of the working age population has remained fairly stable since the mid-1990s, at around 14%, while that of industry went down from 19% to 15% in 2000. Over the same period, the total contribution of services declined from 25% to 24% and from 24% to 23% for services outside the public administration.

There are two major matters of concern. First, the importance of agriculture whose share in employment is 6.5 times higher than in the EU (about 4% in the EU). Second, the low contribution of services to employment with a share in total employment only two thirds of that in the EU (69%). Bulgaria, unlike most European countries, has not yet succeeded in developing substantially services and job creation in this sector has obviously not reached the critical size to enable it to compensate for the dramatic job destruction in the industry.

### *Employment in the public and private sectors*

The decline of public employment has been continuous but fairly irregular. After a substantial decline in the early years of transition (by 40% between 1990 and 1993), the pace of decrease slowed down in the mid-1990s (public employment decreased by 25% between 1993 and 1996) and has since, accelerated again (-54.7% between 1996 and 2001). The contraction of public employment was extremely pronounced in 1997 (- 18%) when the privatisation process really started and in 2000 (public employment was down by 20% its level in 1999, the strongest annual decrease over the whole decade) following the measures taken to speed-up the process of restructuring. In 2001, public employment was just about a fifth of its level in 1990.

Although overall employment was falling, private employment grew sharply at the beginning of the transition period albeit from a low starting point - in absolute terms, private employment nearly quadrupled from 241,600 in 1990 to 912,200 in 1993.

Thereafter, the growth of private employment continued although at a considerably slower pace.

Following the development of a new private sector and the recent acceleration of the privatisation process, the share of private employment overall rose from around 6% in 1990 to 68% in 2001. Employment is entirely private in agriculture (97.5% in 2000) while the share of private employment is around 78% in construction and 77% in the rest of industry. Apart from a few sectors like trade-repair, hotel-restaurants and financial activities, privatisation appears to progress much slower in services, where private employment represented just 54 %<sup>7</sup> of total employment in 2001.

After a slow start, the privatisation process has gained momentum in recent years and seems to be on the right track. The banking crisis in 1996-1997 clearly had a negative impact for the emerging private sector but the situation has stabilised since. As shown in recent studies<sup>8</sup>, the new private sector is quite dynamic with a high level of business creation (83,138 in 2000, 30% more than in 1997) and turnover (around 21%). However, new companies still account for a modest share of total employment (38%). This appears mainly due to insufficient creation of small businesses (their number increased from 173,000 in 1996 to 219,000 in 2000) which in Bulgaria play a major part in the economic expansion and are the driving force for job creation (in 2000, the job creation rate was 27% in micro firms and 10% in small firms compared to 2% in large firms)<sup>9</sup>. All this is the sign of serious weaknesses in the business environment one of which is the high administrative burden as evidenced in the World Bank study. "The legal framework is inconsistent, which creates scope for arbitrary decision making and abuse of power. Registrations and licensing procedures are more difficult and lengthy than in other countries. For example, as many as seven different permits are needed to start a new firm in Bulgaria, compared with two in the UK or three in Estonia or Poland. In addition, the number of business activities that require a permit increased from 42 in 1995 to 100 in 2000". Several evaluations also point to the lack of credit facilities to start businesses<sup>10</sup>.

#### *Employment by occupations*

In 2001, around 8.5% of those employed had managerial jobs and about 26.5% were working in professional and technical occupations (military included). Skilled and semi-skilled manual occupations accounted for about 28% of the employed, skilled agricultural jobs for about 6%. Unqualified occupations accounted for about 9.6% of the employed, clerical sales and service occupations for one fifth.

#### *Self-employment*

From the total employed in the 15-64 age group in 2001, 85 % are employees, 13% self-employed<sup>11</sup> and 1.5% unpaid family workers; 27% of the self-employed are themselves employers. The majority of the self-employed and employers are employed in the services sector (47.6% and 69.4% respectively)

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<sup>7</sup> Service sector excluding public administration (NACE L)

<sup>8</sup> "1998-99 Economic Review – Bulgaria, OECD; "Why is unemployment so high in Bulgaria", J. Rutkowski, Update on Poverty in Bulgaria, World Bank, draft report, May 2002

<sup>9</sup> J. Rutkowski, op. cit.

<sup>10</sup> SCR, An evaluation of Phare-financed programmes, Bulgaria, final report 2000, quoted by the Ecodes consortium in their ex-ante evaluation of the Bulgarian NEDP, April 2001

<sup>11</sup> Considering the total of self-employed and employers



### *Part-time/full-time employment*

Only 3% of the employed (15-64) worked part-time in 2001. The difference with the EU is particularly marked for women (3.5% in Bulgaria, 33.4% in the EU).

### *Regional differences*

Two regions<sup>12</sup> - the South-West and the South-Central regions - account for more than half of the working age population (52.7%) and of all employed aged 15-64 (55.0%) (2001). The South-West region, whose development and activity is driven by the capital city Sofia and its area (71 % of total employment of the region and 21% of total employment) is also the region having the highest level of employment in the service sector (57% of total employment in 2000). Other regions having an important share of employment in services are the North-East (43% of total employment in 2000) where it is concentrated in tourism on the coastal area and the South East. In the remaining three regions, between 35% and 40% of all those employed aged 15-64 are working in the services sector. Agriculture remains the main sector of employment in only one region, the North-West.

The dominance of the South-West region is reflected in regional variations in employment rates. At 54.8% (2001), the employment rate is well above the national average of 49.7% in the South-West region. It is at or close to the national average in the South-Central and North-Central regions. It is below the national average level in the three remaining regions, in particular in the North-West (42.4%).

### *Hidden employment*

Bulgaria still has a sizeable informal sector estimated to account for 20% of the GDP in 2000 and to employ a significant share of the workforce mainly in precarious and low productivity jobs, without employment protection<sup>13</sup>.

## **2.4 Unemployment**

There are two complementary sources of data on unemployment: the administrative data on unemployed registered with the Public Employment Services and the Labour Force Survey, which started in 1993 and uses the international definition of unemployment set by the ILO.

### *Overall trends*

Unemployment peaked in 1993 when, according to the LFS there were 814,600 unemployed, representing an unemployment rate of 21.4%<sup>14</sup>. The unemployment rate then started to decrease and was down to 14% for the period 1996-1998. Since then, the contraction of the labour force has slowed down and came to a halt in 2001 while unemployment has been on the rise again (by 34% between 1998 and 2001 when the number of unemployed was 664,000). The unemployment rate reached 19.6% in 2001, showing a particularly strong increase over the previous year (of nearly 3 percentage points).

### *Structural features of unemployment*

Except for in 1993 and 1995, the female unemployment rate has always be similar to or slightly below the male rate. In 2001 the male unemployment rate increased more

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<sup>12</sup> Regions refer here to the six planning regions

<sup>13</sup> J. Rutkowski, op. cit., estimates from Nenovsky and Hristov. Other estimates amount to 35%. Estimates mentioned in the background studies were between 20% and 36% of the GDP in the mid-1990s

<sup>14</sup> Based on the trends of registered unemployment as there are no LFS data prior to 1993.

sharply (by 3 percentage points up to 20.9%) than the female rate (by 2 percentage points to 19.8%) mainly because of a strong increase in female participation. Both, unemployment rates, and the male rate in particular, were substantially higher than the EU averages (6.6% for men, 8.9% for women).

Since 1993, the unemployment rate of the 15-24 age group has always been about twice as high as the unemployment rate for the 25-54 cohort. In 2001, it stood at 39.5%. The situation is similar for young men and women compared to adults.

The unemployment rate for the older age group (55-64) has been rising since the end of the 1990s and at 17.2% in 2001 was comparable to its level in 1993.

Long-term unemployment has been steadily rising in recent years. In 2001, according to the LFS, 62.7% of the unemployed aged 15-64 (or 12.4% of the labour force of the same age group) had been unemployed for one year or more. The very long-term unemployed (more than two years) represented more than two thirds of the long-term unemployed. The share of long-term unemployed among the total unemployed is about the same for men and for women; in 2001, the long-term unemployment rate was 12.9% for men and 11.7% for women. Long-term unemployment is also high among young unemployed (50% of the young unemployed in December 2001).

Unemployment disproportionately affects persons with lower levels of education and blue-collar workers in all age groups. In 2001, people with upper-secondary education had an unemployment rate of 8.8% well below the 19.2% overall rate for the 15-64 (and the 18.8% and 32% for those with secondary education and with primary and lower education respectively. Almost 50% of the long-term unemployed and 70% of the young long-term unemployed have educational attainments at primary education or below. The exit rate from unemployment is 17% for workers with primary education compared with 26-28% for those with secondary education<sup>15</sup>

### *Regional features*

Bulgaria shows sizeable regional differences in unemployment. In 2001, only the South-West had an unemployment rate for the 15-64 age group well below the national average (14.6% compared to 20%). It was just under or at the average in the South Central (18.7%) and North-Central (20%) regions while the South-East, North-East and in particular the North-West regions had unemployment rates between 23.8% and 29.7%. The regional unemployment gap appears to have widened during the last few years.

### *Labour mobility*

The geographical mobility of the labour force is low. According to existing studies<sup>16</sup>, migrations for a change of jobs decreased during the 1990s (32% of the total migrations in 1994, 29% in 1999).

## **2.5 Ethnic minorities**

There are two important ethnic minorities in Bulgaria. Turkish Bulgarian account for around 8% of the total population while estimates of the size of the Roma minority vary from 4% to 10%<sup>17</sup>.

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<sup>15</sup> J. Rutkowski, op.cit.

<sup>16</sup> "Labour Market Flexibility and Employment Security – Bulgaria", I Beleva, V Tzanov, ILO Employment Paper 2001/30.

<sup>17</sup> Based on the official figure of 288,000 quoted in OECD "Thematic Review of National Policies for education – Bulgaria", March 2002, their share would be around 4% of the total population

According to data from the Census 1992, the educational levels of the active population 18-60 were dramatically lower in both groups, and for the Roma in particular, than for ethnic Bulgarians. The share of the active population having only primary education was only 8% for the ethnic Bulgarians but 16% for the ethnic Turks and 37% for the Roma. Only 8% of the Roma had secondary education compared with 25% for the Turkish Bulgarians and 54% for the ethnic Bulgarians. Only 1% to 2% of the Turkish and Roma active population had higher education.

Systematic data on relative labour-market outcomes for these groups are not available. However, it appears from various sources that both groups, and the Roma in particular, are significantly disadvantaged. According to the background study, unemployment and in particular long-term unemployment is widespread among the Roma population and Bulgarians Muslims. A large number of Roma were laid-off in the early 1990s and in the Roma community, the unemployed are estimated to represent around 80% of the population of active age. Only around 10% of the Roma have continued to practise their traditional crafts and 8.5% own farming land.

## 2.6 Wages

The decline in real wages was very sharp in the first years of the transition. They started to rise again in 1992 but renewed with negative growth thereafter. During the crisis and hyperinflation period of 1996-1997, real wages lost about a third of their value. In 1997, real wages reached around 40% of their 1989 level. The decline in real wages concerned all sectors. It was particularly strong in construction and in services except for the communication and transport sectors. In these two sectors, as in industry, real wages in 1997 were 60% their level in 1991. Since then, real wages have been recovering but, in 2001, their level was still some 10% below their pre-crisis level. At the end of 2001, the average gross wage was 316 BGN in the public sector and 245 BGN in the private sector<sup>18</sup>.

In recent years, at macro level, on average, wage increases appear to have been in line with the development of productivity that had recovered its level from before the 1997 crisis by 2001.

Wages have remained lower in the private sector than in the public sector in all branches, including in services. In December 2001, the only exceptions the in services were education (by 34% higher in the private sector), financial intermediation (by 4%) and health and social work (by 1.7%). The highest gaps were in transport-communication where wages in the private sector were 37 % lower than in the public sector and trade-repair (around 34 % lower in the private than in the public sector) and the lowest in real estate (8.4%). It stood at 13.5% in hotels and restaurants. In manufacturing industry wages were 34% lower in the private sector, 18% in the energy sector and 25% in the construction. They were also lower in the mining industry (by 20%).

The fall in real wages throughout the 1990s went together with increasing differences in average wages across sectors. According to the Background Study, there was also a substantial increase in wages differentiation by regions and occupations during the decade. Available research suggest that returns to education have increased over time,

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estimated by the March 2001 Census. However, other sources estimate their number between 700,000 and 800,000, equivalent to 9-10% of the total population.

<sup>18</sup> *Statistical Journal, Republic of Bulgaria*, Vol.2, Feb. 2002

at least in the public sector. However, differences across industries dominate the picture and "the existence of substantial industry rents probably reduces the incentives created by educational premia as one's earnings depends to a greater degree on the industry of employment than on educational attainments"<sup>19</sup>.

There are indications of discriminatory trends in the wage formation system. According to available research, in 1997, women earned on average 28% less than men and Roma earned more than 20% less than ethnic Bulgarians with similar observable characteristics.

## **2.7 Labour market institutions**

The Council of Ministers of the Republic of Bulgaria regulates the government employment policy.

The Ministry of Labour and Social Policy has overall responsibility for developing, co-ordinating and implementing the government policy in the field of employment, including training for the unemployed and employed. A main principle is the partnership with institutions and non-governmental organisations in the development and implementation of the employment policy

The Employment Promotion Act of January 2002 makes provision for an Advisory Board for Manpower's Vocational Training. The Board, to be established under the Ministry of Labour and Social Policy (MLSP) but chaired jointly by the MLSP and the Ministry of Education and Sciences will be in charge of co-ordinating vocational training needs, policy development in the field of training for unemployed and employed persons and social partners' strategies in the field of adults' education.

The Public Employment Service (Employment Agency) is the main implementing body for labour market policies and programmes. The PES was created in 1989 and developed and up-graded continuously with the technical assistance of EU Member-States. Until 2002, its functions included the administration of the Vocational Training and Unemployment Fund that collected the contributions to unemployment insurance and funded both passive and active labour market measures. Since January 2002, the Employment Promotion Act established an independent framework for the funding of active policy from the State budget and transformed the PES into an executive agency and budgetary unit of the Ministry of Labour and Social Policy, in charge of implementing the government employment policy.

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<sup>19</sup> *"Bulgaria – Poverty during the Transition"*, World Bank Report N°18411, June 1999

### **3 Identification of Challenges on the Labour Market**

#### **3.1 Strategic issues**

The process of economic transition has been irregular and was marked by a severe financial crisis and hyperinflation in 1996-97. The establishment of a currency board in 1997 has enabled Bulgaria to progress towards macroeconomic stability and renew output growth since then. The economic recovery has not yet lead to substantial employment growth. After peaking at 21% in 1993, the unemployment rate declined and stabilised at around 14% until the end of the 1990s but has been increasing since to reach 17% in 2000 and nearly 20% in September 2001.

Some of the main issues facing employment policy, based on the analysis in preceding sections, are:

- The declining activity rate combined with the negative demographic evolution has resulted in a contraction of the labour force (by 11.4% since 1993 down to 3.33 million in 2000). Population forecasts suggest that at the present level of participation, the labour force would further decline by 4.5% by 2010. Bulgaria has an ageing population with the population of over-55s representing nearly 28% of the total population.
- Although down from its peak in 1993, the unemployment rate has remained high and has been increasing since the end of the 1990s to reach 17% in 2000 and nearly 20% in 2001. Among the principal structural features of unemployment are: substantial long-term unemployment (affecting some 13% of the labour force in 2001); particularly high unemployment and long-term unemployment among the less educated; and high youth unemployment and wide regional variations.
- The employment rate is on a downward trend, and at 47.7% in 2000 is below its level in 1993 and some 16 percentage points below the EU average. The female employment rate is 47%, the male rate 52.4%. Both are below the EU average (by 20 percentage points for men and by nearly 8 percentage points for women).
- The restructuring of the economy has led to a strong decline in industrial employment but has not resulted in a sufficiently high increase in job creation in services while employment in agriculture has risen somewhat. Overall, industry accounts for 15%, agriculture for 14% and services for 24% of the employed working age population.
- The growth of employment in the private sector has slowed down in recent years. The new private sector in particular, has not yet reached a size sufficient to generate a sustainable growth of employment and compensate for the job losses in the public sector. There is an insufficient development of small enterprises which are the main source of job growth indicating serious weaknesses in the business environment.
- The skills level and structure of the labour force is a concern in an immediate and medium-term perspective. The average educational levels appear relatively low; the qualifications held by many workers do not meet the requirements of the new jobs; the participation rate of young people in the education system is very low at tertiary level, a substantial share do not continue beyond basic education.

- Wage developments have been driven by attempts to combining increasing the incomes of major groups of the population and inflation control. In recent years, they seem to be in line with productivity growth at a macro level but still do not sufficiently reflect productivity differentials by skills, occupations and regions. They do not, therefore, provide appropriate signals for skills acquisition or for regional and occupational mobility.

The remainder of this section discusses the principal policy fields that can have an impact on labour-market performance. Employment policy here is seen as widely defined – encompassing human resources policies, wages policy, the system of taxes and benefits, and the public employment service and its active labour market programmes. The discussion also deals with a number of “horizontal” aspects of policy – regional issues, equality of opportunity, and Bulgaria’s preparations for the use of European Social Fund support for employment policy.

## **3.2 Human resources development**

### **3.2.1 Initial education and training**

#### *Current situation*

School education is compulsory up to the age of 16. Basic education comprises two four-year stages - primary or "junior" education and pre-secondary or "middle" education. Secondary education comprises general education, profile oriented education (specialised curricula – e.g. humanities or sciences) and vocational education. General secondary education comprises one single stage of four years (grades 9 to 12). There are state matriculation exams at the end of grade 12. Successful completion entitles pupils to continue in post-secondary education.

General secondary education is provided either by comprehensive schools or by profile-oriented schools and lasts four or five years. Vocational education is delivered by technical and professional schools. Vocational education in technical schools includes an intensive training in foreign language. Professional schools provide vocational education over three years in general, for simple manual occupations. Vocational education exists also at post-secondary level, in vocational colleges and lasts two years.

After successful completion of secondary education or of technical schools and passing of entrance examinations, students can continue their education without restriction regarding the choice of post-secondary education institution. Post-secondary institutions include 33 universities, eight high schools and colleges (there are nine independent colleges in addition to those existing in all higher education institutions).

The number of students in higher education nearly doubled during the first half of the 1990s (from 127,000 in 1988/89 to 248,570 in 1995/96)<sup>20</sup> but has been fairly stable since.

The reform of higher education at the beginning of the transition period (Academic Autonomy Act 1990) lead to an uncontrolled expansion of higher education provision with 100 new faculties and five new universities being created and the number of programmes increasing from 150 to 490. Regulatory measures have been taken

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<sup>20</sup> *"Thematic Review of National Policies for Education – Bulgaria"*, OECD, CCNM/DEELSA/ED(2001)4, March 2002

(replacement of the Autonomy Act by the Higher Education Act in 1995, amendments in 1999) to regain control of the development of higher education. The Act in particular codifies in details the approval of the new units or institutions and of higher education programmes. Measures have also been taken to control the quality of higher education. The National Evaluation and Accreditation Agency, in charge of quality assurance and accreditation for universities was created in 1996 and started to work in 1997. Accreditation is a necessary condition for state recognition and financial support. At present all except one of the 50 higher education institutions have been accredited.

The budget for education represented 3.6% of GDP in 1999, compared with 5.5% in the EU. The budget for vocational education and training represented 1.25% of GDP.

### *Issues and policies*

While there is nearly full enrolment in the first stage of basic education (96% of the 6-10-year olds), enrolment drops to 81 % for the second stage (10-14-year olds) and to 63% in secondary education (14-16-year olds)<sup>21</sup>. Enrolment is low in higher education. The share of secondary education graduates continuing in tertiary education is estimated at 60% but students in universities and equivalent only represent 23,2% of the corresponding age groups<sup>22</sup> and in vocational colleges 2,3%. Drop-out rates (estimated at 6-7% for the compulsory stage of education<sup>23</sup>) do not provide an accurate measurement of the problem. Enrolment rates indicate that around 20% of the children do not complete their basic education and nearly 40% do not continue in secondary education.

Families' poor social and material situation is the main reason for failure to enrol and absence from school. Roma children are particularly disadvantaged in this respect (according to estimates in the mid-1990s, half of those of compulsory schooling age had never been to school). Out of 100 Roma pupils in the first grade of basic education, only five have a chance to complete secondary education.

According to available studies, imbalances in the school provision may partially explain why participation is so low in secondary education. Most rural villages do not have schools providing secondary education; the lack of transport facilities or their cost could be a serious obstacle for many children. A further factor could be the devaluing of comprehensive schools in favour of gymnasiums or profile-oriented schools which are more selective and may discourage average pupils. The rationalisation of the general school network in response to the declining number of children may have aggravated the problem.

Vocational training must be adapted to the needs of the labour market. Youth unemployment is high and reflects the depressed situation of the labour market but it tends to be higher for young people having vocational education than for those having secondary general education. Due to restructuring and financial difficulties, the traditional links between VET schools and enterprises were broken. There is no longer a direct transition from school to work and companies do not any longer ensure the practical training. Curricula tailored to companies' needs are no longer appropriate.

A number of measures are being taken to address these problems.

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<sup>21</sup> Data for the school year 1999-2000

<sup>22</sup> Data from the Ministry of Education and OECD, op.cit

<sup>23</sup> Ibid.

Steps have been taken to improve education provision and prevent school drop-out among children of ethnic minorities, in particular the Roma children. A unit for cultural integration, including experts for the minority groups was established at the MoES. It should, in particular, develop a strategy building on the experience gained through NGOs projects. Bulgarian remains the language of instruction but provision has been made (Public Education Act of 1999) to teach pupils their mother tongue at school. In practice, however, this applies only to Turkish due to the lack of teachers for the various Roma languages.

About 100 segregated schools for Roma children inherited from the settlement policy in the 1950s are still operating. The infrastructure is often in poor condition with overcrowded classes. Despite the alignment of curricula to the national standards in 1992, education provided in Roma schools is of lower quality and level. Most Roma children do not master Bulgarian and their educational attainment and chances remain extremely low. Formally, Roma children can enrol in general schools (General Education Act) but this is not easily accepted<sup>24</sup> and they also encounter difficulties due to their insufficient level. Pilot projects for the re-allocation of Roma children in general schools are underway.

Roma tutors were introduced in the schools having a high proportion of Roma pupils. Their main tasks are to facilitate mutual understanding and to support Roma pupils, in particular in learning Bulgarian and developing communication skills. A major effort in informing and explaining is considered as necessary to reverse negative attitudes.

The reform of vocational schools is expected to contribute to a better balance between ethnic groups in basic vocational schooling but on the whole, the provision of vocational education and training for the Roma remains problematic.

Ensuring education for all children is a policy priority stated in the national programme for the children of Bulgaria adopted in April 2002. These actions are welcome but the problem of school failure and drop-out appears wider. Preventive schemes exist, generally supported by NGOs, as well as second-chance education pilot projects funded by the EU through its "A school for Everyone" programme. However, these schemes remain patchy and their long-term sustainability is uncertain. At present, children who are repeatedly absent from school are usually expelled or relocated in another school which generally results in them dropping-out completely. This procedure needs to be reviewed.

Under the Vocational Education and Training Act of July 1999 responsibility for the VET system was decentralised from the central state (MoES) to the municipalities and to the schools. The objective is to allow for maximum responsiveness of VET to the local labour market needs.

The network of general schools was rationalised to adapt to the decline of younger age groups. A similar process is now under way for the vocational school network. The objectives are to adapt the provision of VET both to the demographic situation and to the new needs of the labour market. The rationalisation will imply the closure of vocational schools that train people for occupations that are in decline and the merging of schools to ensure a sufficient number of pupils. The process has started in February 2002 with the establishment of the procedures at municipal level and is expected to be completed for the school year 2003/2004. The revision of vocational

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<sup>24</sup> *"Study of the Education situation of Ethnic minorities in Bulgaria"* O. Marushiakova, V. Popov, quoted in OECD, op. cit.



curricula has also started recently. The objective is to replace the present specialities inherited from the past, which are no longer relevant to the present needs of the economy, with broader "vocational areas" representing a common framework for various vocations and enabling a modular approach.

A strategy for higher education was initiated in 1999. Some of its elements have been implemented, such as the introduction of tuition fees of variable amounts depending on the speciality and the level of study<sup>25</sup>. This strategy also envisaged an involvement of social partners in educational programmes and standards, the funding of higher education institutions on demand-driven priorities, a unified examination entrance, the reorganisation of the 194 specialities into 20 broader areas, students' loans and a revision of the grant system to widen the attribution criteria, which until now has been based on academic merit.

While having a higher education clearly is an advantage with the employment rate of highly skilled individuals more than twice that of the low-skilled, some tertiary graduates encounter difficulties in finding a job. This appears partly linked to the lack of recognition by employers of non university higher education but also to the adequacy of higher education curricula and the attractiveness and quality of post-secondary vocational education, which should be explored and enriched with a view to better adapt to the structural changes.

#### *Assessment*

***Bulgaria should undertake an in-depth review to identify the key factors for school failure, irregular attendance and non-enrolment in order to take appropriate action.***

***There is a need to ensure equal access to education. Bulgaria needs to strengthen efforts to improve substantially the provision of education for the minority groups and develop the related strategy rapidly. There might be a need to review possible inadequacies in the territorial provision of general education.***

***The rationalisation of the vocational schools network should be closely monitored to avoid generating additional practical difficulties and aggravating the attendance problems. The revision of the vocational curricula should be completed and implemented as quickly as possible, including the re-training of teachers. The new curricula ought to allow for a sufficient adaptability to the long-term needs of the economy given that the restructuring is still in full swing.***

***While it is important to ensure a link with the local needs, an overly narrow approach should be avoided. The implementation of the decentralisation should include a clear definition of responsibilities, consistency in the allocation of resources and appropriate empowerment mechanisms, including the training of municipal and school staff for their new tasks.***

***Bulgaria should assess whether its higher education provision is adapted to its needs in the medium-term perspective. There is a need to review the adequacy and the stage of implementation of the 1999 strategy and the balance between the various specialities in the light of future developments in the economy and the labour market. In the context of the present debate on participation, there seems to be a need to examine targets for participation in higher education in the light of the skills needs of an economy undergoing restructuring.***

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<sup>25</sup> for example, it is 150 BGN per semester for a student at bachelor level and 400 BGN for doctorates.

***Overall, educational reforms as outlined above will clearly require a major shift of resources.***

### **3.2.2. Continuing training**

#### *Current status*

Adults' education and training is provided by a wide range of training institutions, including schools, and the vocational schools, in particular. There is no official data on the number of training providers. The Employment Agency organises training for the unemployed but can also organise it for employees.

According to the CVTS2<sup>26</sup>, in 1999, about 13% of all employees and 46% of the total staff of those enterprises that provided training participated in CVT courses. The participation rate was higher for men than for women (33% and 20%). On the whole, only 28% of the enterprises provided continuing training. The number of hours of training was 35 hours per participant and four per employee. This is low compared to most EU countries, particularly given that Bulgaria is undergoing a major and continuous restructuring process.

The PES has organised vocational training for the unemployed since it was established. Training measures include skills up-grading, re-training to a new speciality or occupation and initial vocational training. In 2001, the PES organised 741 courses for the unemployed, the majority (58%) with a duration of between one and three months. In addition, several active programmes include a training component (for example, Literacy-Qualification-Employment programme, Beautiful Bulgaria, Business Support programmes).

The training is sub-contracted to training organisations selected after a tendering procedure. The training must correspond to one of the occupations in demand on the regional labour market, the list of which is endorsed by the PES managing Board. The PES takes over the training costs up to 200 BGN per person. It is also the basis for the tenders submitted by the training organisations.

Training providers must be licensed by the National Agency for Vocational Education and Training (NAVET) to tender. The NAVET, operating since 2000, has developed an accreditation system that applies to all VET institutions. It is also responsible for drafting standards for the assessment of VET and for the national examinations, for the co-ordination of strategies for vocational education and training and for developing research in the field.

The unemployed participating in training receive a training allocation the amount of which is set each year in the National Action Plan for Employment.

Until now, funding for the training organised by the PES (for unemployed or employed) came from the Vocational and Unemployment Fund. From 2002 onwards, it is funded, like the whole active policy, from the state budget.

#### *Issues and policy*

Training for the employees is insufficiently developed. Although 70% of the collective agreements contain a training clause, enterprises do not consider employee training to be a priority. This can be accounted for by several factors: the overall poor financial situation of enterprises and lack of funds to allocate to training; the absence of incentive mechanisms for employers; the fact that employers fail to see training as

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<sup>26</sup> *Survey of Continuing Vocational Training*, Eurostat

an investment and a factor for competitiveness and lack the skills to identify their training needs; the availability of an important supply of qualified labour on the job market (according to the CVTS2, 71% of those enterprises not providing training at the time of the survey considered that they could find people with the skills needed on the job market).

Bulgaria has started developing a national strategy for Continuing Vocational Training. A concept paper has been prepared and an inter-ministerial working group set-up.

The government expects that the reduction of taxes and social contributions foreseen in the 2001 budget will have an indirect positive impact on companies' investment, and on training investment, in particular,. There are no measures foreseen to provide more direct incentives.

As discussed in section 3.4.2, the marginal place of training appears mainly explained by the priority given to employment measures in active programmes in a context of limited overall resources for active policy. In the mid-1990s, access to training became limited to those unemployed having a "job guarantee", that is a written application from employers ready to recruit them for at least nine months after the completion of their training. The Employment Promotion Act confirms the abolition of this restriction which in practice had been abandoned in 1999. Training for the unemployed has a marginal place within active measures.

Unemployed people with the lowest educational levels benefit least from training. In 1999<sup>27</sup>, the share of unemployed having basic education or lower among the total number of unemployed having completed some sort of training was 14% compared with 21% for those with higher education and 48% for those with secondary vocational education. This tends to confirm the conclusions of several studies on the existence of a creaming effect and points to inadequacies both in the diagnosis and selection by the PES and in the training provision. It also contributes to the extremely high unemployment rate of the low-skilled in Bulgaria (almost 35% in 2001).

Efforts are made to ensure the quality of institutions that organise training financed by the PES. A system of registration at the PES already existed but training providers (and institutions providing career guidance) must now be licensed by the National Agency for Vocational Education and Training (NAVET).

### *Assessment*

***At the moment, both the intensity of and the participation in training are extremely low for the unemployed and the employed. There is an urgent need to make enterprises aware of the importance of training and to develop appropriate incentives. The inequality of access to training for the unemployed has to be addressed with high priority.***

***The intention to develop a strategy for continuing training is welcome and is a most urgent task in a country undergoing swift restructuring. To be meaningful, such a strategy should be developed in close co-operation with the social partners. Fundamental problems such as employers' attitudes towards training, the lack of funding and incentives for employers and workers need to be addressed within this strategy.***

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<sup>27</sup> "National Observatory Country Report, Bulgaria 2000", European Training Foundation

### 3.3 Wages, taxes and benefits

It is important that wage developments should respond to the economic situation in the country, and be favourable to increased employment and reducing unemployment. There are two broad aspects to this issue. At the macro-economic level, it is important that overall wage developments should reflect economy-wide productivity increases and thus support aggregate employment growth. At a more structural level, it is important that labour costs for lower-skilled workers should not discourage recruitment into moderately-paid employment, while at the same time the net wages offered to such workers should provide incentives for unemployed or inactive people to seek and take up work.

Three features of the labour market can be seen as potential influences on whether wage developments are "employment-friendly" – the overall process of wage-formation, the impact of taxation on labour income, and the design of income maintenance systems for the unemployed.

#### 3.3.1 Wage formation

Wage setting both in the private and state-owned sector takes place in the framework of the Tripartite Co-operation. Tripartite co-operation councils exist at national, industry and local (municipal) levels. The last amendments to the Labour Code in 2001 make provision for bargaining at the administrative district level.

Wage determination in the budgetary sector is made by Council of Ministers' regulations. Adjustments are made at least once a year but can be more frequent. In 2001, two adjustments were planned but the budget did not allow for the second which was due in October. In 2002, the second adjustment (a rise of 5%) took place in July. Part of the civil servants' wages is individualised on the basis of merit. The increase only applies to the basic component of the wage determined by the position, grade and administration. A slightly different mechanism exists for the agents of public administration who are not civil servants<sup>28</sup>.

Available studies suggest that the wage development in state-owned companies remained fairly uncontrolled, despite the efforts made by the government after the crisis of 1996-97 to link wage increases to the financial situation of the companies. Until very recently, wage setting was more guided by anticipation of inflation than by consideration of productivity trends. In 2002, however, the intention is to introduce productivity as a criterion. Specific conditions currently apply to the remaining 60 or so monopolies within the framework of the IMF agreement. Wage increases are subject to strict conditions such as profit during the previous year, absence of state subsidy, debts duly paid.

Wage setting still displays a number of features inherited from the past such as the practice of bonuses, which can represent 25 to 30% of the basic wages or the definition of sectors and grouping of occupations<sup>29</sup>.

The minimum wage is adjusted by a government resolution after consultation with the social partners through the national Tripartite Commission. Following the agreement with the IMF in 2002, the minimum wage should be corrected with the growth rate of the average salary in the public sector for the last reported six months over the

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<sup>28</sup> The status of civil servant was introduced in 2000

<sup>29</sup> *"Real wage Rigidity and the Monetary Regime Choice"*, N. Nenovski, D. Koleva, Bulgarian National Bank, DP/18/2001

previous six months. The ratio between the minimum and the average wage had decreased from 54% in 1991 to 27% in 1997. Since then it increased continuously and was 35% after the last adjustment of the minimum wage in 2001 (by 17.6%, from 85 BGN to 100 BGN).

#### *Issues*

Against a background of weak social dialogue in the private sector and in SMEs in particular, private employers tend to copy the wage behaviour of the big state-owned enterprises that are themselves constrained by centralised rules for wage adjustment. Therefore, development of wages in the private sector have hardly been related to productivity and economic performance either. Overall, this has also impeded wage bargaining in improving the functioning of the labour market with implications for employment. Indeed, functioning labour markets would require more decentralised wage bargaining in the public sector and the promotion of autonomous social dialogue at both sectoral and enterprises level. This situation is recognised as unsatisfactory and bi-partite wage bargaining is to be introduced progressively (see section 3.7).

The government has mainly considered the minimum wage within the perspective of an income policy. On the other hand, for employers it has become a tool to alleviate tax and social contributions payments. Official statistics on the average level of wages in the private sector do not reflect the actual situation and the effective development of wages in Bulgaria remains unclear. The recent substantial increase in the minimum wage is seen by the government as a possible incentive to reduce this practice but it is unlikely to have much effect if wage developments continue to be as erratic.

#### *Assessment*

***Tri-partite wage negotiations should progressively be replaced by bi-partite negotiations while ensuring that wage bargaining takes place at appropriate levels.***

***Social partners and the government need to review the wage setting mechanisms so that they adequately reflect productivity, skills and regional differentials. The reform of the wage system should ensure that wage developments continue to be employment friendly while contributing to macroeconomic stability.***

### **3.3.2 Taxes and social contributions**

High levels of taxation on labour (including the impact of social contributions) have a negative impact on job creation and can depress demand for labour in the formal economy while also encouraging the growth of the black economy. The overall impact of taxes and contributions can be summarised in terms of the *tax wedge*.<sup>30</sup>

The tax rates for personal income tax are 18%, 24%, 28% and 29% depending on the taxation scale band. The minimum monthly taxable income was increased from 100 to 110 BGN in 2002, a level that is 10 BGN higher than the national minimum wage.

The social insurance system provides benefits, subsidies and pensions that cover permanent or temporary invalidity, maternity, unemployment, old age and death. The main total contribution rate is 42.7% (corresponding to workers' category 3<sup>31</sup>), of

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<sup>30</sup> Calculated as the sum of income tax plus employer's and employee's social contributions, as a percentage of total labour cost (the gross wage plus the employer's social contribution).

<sup>31</sup> There are three categories corresponding to different retirement regimes. The conditions were changed by the new pension law from 2000 but workers from the first and second categories (for example, miners) remain entitled to retire before the normal pension age. Category 3 is the main category (94% of the workers with an official labour contract according to NSSI data). The total

which 32.2% are paid by the employer and 10.5% by the employee; 4% of the contribution goes to the unemployment fund, 6% to the health fund. This basic rate applies up to a ceiling of 850 BGN. This way, above this amount, both employer's and employee's contributions rates decrease progressively. For the self-employed, total social security contributions are 29% or 32% of the gross income depending on the risks insured and these rates exclude the contribution for health fund.

The tax-wedge can be estimated at 47% for the high wages and at 43% for the average wage. It remains high for the low wages (41% for a worker paid the minimum wage according to available studies<sup>32</sup>).

#### *Issues and Policies*

Payroll contributions are high and are the result of a growing financial burden of social security insurance related to the unfavourable dependency ratio. The erosion of the tax revenue due to declining employment is aggravated by high levels of tax evasion or non-payment<sup>33</sup>.

Overall payroll contributions went up from 35% in 1990 to 47.5% in 1999. Since the mid-1990s, new mandatory contributions were introduced while the contribution rates to unemployment insurance and to social security were progressively cut, with the last reduction in 2001 when the overall contribution rate (including social insurance contributions, health and unemployment contributions) decreased to 42,7%. The contribution rate for the self-employed was also cut by 3 points in 2001.

The government's objective is to reduce the social contributions further and progressively to achieve a 50/50 split between employers' and employees' share by 2007. The 80/20 ratio was changed as intended to 75/25 in 2002 but the overall contribution rate was left unchanged.

Steps were also taken in 2002 to reduce the overall tax burden on businesses. The corporate tax rate was reduced from 20% to 15% in January 2002. The compound tax rate including municipal taxes was also decreased from 28% to 23,5%.

Measures are envisaged to improve compliance with tax payment.

#### *Assessment*

***Given the level of economic development, the tax wedge and the tax-burden on labour are high. This represents a major barrier to the creation of jobs, in particular at relatively low wages and a disincentive for the unemployed or inactive to take up such jobs.***

***Moreover, high social contributions and tax-wedge encourage the development of employment in the informal sector. In addition to the effective implementation of the measures taken to reduce corporate taxes, Bulgaria should give priority to a review of its payroll taxes, including the tax-system for the self-employed.***

***Enforcing compliance with tax payment is clearly a pre-condition for reducing the tax burden in the medium-term.***

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rate of contribution is 52.7% for the second category and 57.7% for the first category (with employer's contributions of 42.2% and 47.2% respectively).

<sup>32</sup> J. Rutkowski, op. cit.

<sup>33</sup> According to estimates for mid-1996, unpaid or not totally paid social security contributions concerned 1.17 million employees, 40% of total employment, World Bank Report, op. cit.

### 3.3.3 Income support for the unemployed

#### *Current situation*

Unemployed registered at local labour offices are entitled to unemployment benefits if they have worked for at least nine months during the last 15 months (six months during the previous year in the case of seasonal workers) and are willing to accept a job or a training offered by the PES. Unemployment benefit is paid without a waiting period, on a monthly basis, for a period varying from four to 12 months, depending on the person's previous employment record. The maximum duration of 12 months corresponds to 25 years of service.

The basic benefit amount is 60% of the average gross earnings during the last nine months of employment insured by social insurance and is subjected to a minimum and a maximum set annually, corresponding to 70 BGN and 130 BGN respectively in 2002. The amount of benefit is defined proportionately for shorter working hours and in this case, can be less than the defined minimum. The unemployment benefit is not subject to personal income tax.

For the unemployed who have already been entitled to unemployment benefits during the previous three years, the benefit is limited to four months at the minimum level. People who were dismissed for disciplinary reasons or who voluntarily quit their job are entitled to the minimum unemployment benefit for maximum four months. Unemployed people who take-up a part-time job paying less than the minimum wage for at least five days a month continue to receive 50% of their unemployment benefit.

The average monthly benefit paid to recipients can be estimated at 80 BGN (end 2001). In December 2001, only 15% of the unemployed received the maximum benefit, 20% had a benefit under the maximum but above the minimum wage, 17% a benefit over the minimum but below the minimum wage and 47.2% the minimum benefit<sup>34</sup>.

Social assistance is means-tested and comprises a monthly cash benefit as well as a range of in-kind benefits (free goods or services, access to care system etc), occasional or emergency (one time lump sum) cash assistance.

Eligibility is determined on the basis of the Guaranteed Minimum Income (GMI) adjusted to the household size and the situation of its members (age, health etc)<sup>35</sup>. Currently, the GMI is set at 40 BGN. The amount of the monthly benefit is the difference between the adjusted GMI and the actual income of the family during the previous month for which only 70% of the work-related income is taken into account. In addition, during the winter season, eligible households receive an electricity allowance (flat amount of 37.35 BGN currently) and a heating allowance (according to the adjusted GMI).

Only the unemployed who have been registered for six months at the labour office can apply for the general social assistance. In addition, they are obliged to participate for at least five days a month in municipal temporary work programmes for activities of general interest (social services, waste collection, maintenance of public infrastructure

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<sup>34</sup> The minimum and maximum were then set as a % of the minimum wage (85% and 140%). Data for the first quarter of 2002 also relate to these brackets. Proportions are of the same order: 17% at maximum, 15% in both intermediary categories and 45% at minimum.

<sup>35</sup> Children up to 16 are taken into account to calculate the overall household coefficient; different coefficients apply according to the number of children, the number at school, the presence of handicapped children.

etc) without payment<sup>36</sup>. If there are dependent children in the household, social assistance can still be granted to unemployed people who do not meet these requirements.

#### *Issues and policies*

The coverage of unemployed by unemployment benefits is low and it has decreased in the recent years from 31% in 1997 to 20% in 2001. There is no clear information on the coverage of unemployed by income support from social assistance. Households including one unemployed member represented nearly 70% of the total number of households that received social assistance in 2001<sup>37</sup>. It is likely that a substantial share of the unemployed who are not or no longer entitled to unemployment benefit, in particular the long-term unemployed, receive social assistance.

The unemployment benefit system has been modified several times since the early 1990s. Successive reforms have resulted in a tightening of requirements regarding previous employment spell (raised from six to nine months and the reference period from 12 to 15 months) and an increased duration (from six to 12 months). The long-term unemployed are not eligible for unemployment benefits, nor are young people looking for their first job. Together, they represent approximately half of the registered unemployed. The restrictive conditions for those who have experienced recurrent unemployment spells with entitlements to benefits is another factor that may contribute to the low coverage rate.

One of the concerns of the Bulgarian authorities is the lack of control of recipients' eligibility for unemployment benefits. Measures were taken within the framework of the recent reforms of social insurance and active policy. Following the last reforms of social insurance and of active policy, the administration and control of unemployment insurance and of unemployment benefits are being transferred from the PES to the National Security Institute (NSSI). The new system will allow for a direct link between the administrative data related to the individual's and employers' situation regarding social security insurance (collected by the NSSI) and those related to the situation of the unemployed. Nevertheless, accurate flows of information between the registration and follow-up data from the PES and those from the NSSI remain a crucial condition for the efficiency of the whole system. The implementation has just started and is expected to be completed by the end of 2003.

According to research<sup>38</sup> carried-out at the end of the 1990s, the income provided by unemployment and social assistance benefits was low compared with the average wage but high relative to the minimum wage. Both the minimum and the average unemployment benefits were very close to the earnings provided by a job paid at the minimum wage. They represented 85% and 96% of the minimum wage respectively for a single person and 94.5% for a family with two children. The monthly social assistance income represented between 80% and 93% of the minimum wage for families with two and three children. Benefit incomes were higher than the minimum wage for lone parents (108% for social assistance, 101% and 111% for the minimum and average unemployment benefits respectively).

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<sup>36</sup> A household where unemployed adults do not meet the requirements can be granted social assistance on the basis of the number and situation of children (at school or not).

<sup>37</sup> Based on figures provided by Bulgaria: 243,430 "cases" 166,988 "cases" including one unemployed.

<sup>38</sup> "Labour market and Social Policy in Bulgaria", OECD, CCNM/DEELSA(98)64



Since the last reform, in Spring 2002, the minimum and maximum amounts are no longer linked to the minimum wage but set annually on the basis of the Social security budget act. The amounts fixed for 2002 represent a decrease of 17.6% for the minimum benefit and of 7% for the maximum compared to their level at the end of 2001, nevertheless, they are now very close to the national minimum wage of 100 BGN. The reform also abolished the additional non-means tested allowance for the long-term unemployed which was equivalent to 60% of the minimum wage and was granted for three months to those still unemployed six months after the expiration of their unemployment benefit. According to available studies<sup>39</sup>, this allowance partly duplicated social assistance.

Social assistance (in cash and in-kind) is funded by the state and the municipal budget. For years now, municipalities have been facing acute financing difficulties. As a consequence they were often not in a position to address effectively all those in need of social assistance, to ensure full-payment of the benefits or to pay them on time.

Means-tested systems for social assistance are complex systems (at present, there are 43 different coefficients to determine the differentiated income), requiring sophisticated information and control capacity. They also generate high administrative costs. The situation of recipients must be controlled every month by the local social assistance offices. In the case of the unemployed, this control requires an accurate flow of information between the PES and the social assistance offices.

Since the beginning of the transition, social assistance has been used mainly to respond to increasing poverty. At 1.3% of GDP, the amount redistributed as social assistance is considered by the Bulgarian authorities as having reached a critical threshold.

The most disadvantaged unemployed, in particular the Roma, do not qualify for unemployment benefits. According to available studies, there are also obstacles to access to income support from the social assistance for the Roma.

Those concerns should be reflected in the revisions of the present system of social assistance currently examined by an inter-ministerial working group. The transformation of social benefits into "employment benefits" for those able to work is envisaged together with the overall improvement of quality, targeting and delivery of social assistance in general.

### ***Assessment***

***A well designed unemployment benefit system is important to facilitate economic restructuring, to provide income support to the unemployed and to maintain their link to the labour market. The present system of unemployment benefit does not ensure a sufficient coverage of the unemployed, and of the most disadvantaged groups in particular. The new organisation of unemployment benefits should be used to better control and avoid irregularities. The new system will need to ensure a strong link between benefit administration and the PES with a view to promoting active job search and training.***

***At the same time, the benefit system, in particular social assistance, might create disincentives to take up a job or to work in the formal sector. The social assistance system seems to encourage a passive approach rather than an active search for***

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<sup>39</sup> OECD, op. cit.

*work. The intended revision of the social assistance system should pay special attention to this issue and to how the two benefit systems interact. The linkage to active measures offering employment opportunities or training needs to be reviewed.*

### **3.4 The Public Employment Service and active labour market programmes**

#### **3.4.1 The Public Employment Service**

An effective public employment service is an important instrument of employment policy, particularly in a period of economic transition and re-structuring. The PES has a critical role as a broker between the supply and demand sides of the labour market – supporting and encouraging mobility and flexibility, by helping people find jobs and identify and acquire the skills, attitudes and other attributes that are required in new and developing parts of the economy.

##### *Current situation*

Apart from the central administration in Sofia, the Employment Agency comprises nine regional directions - with a territorial range of two to four administrative districts - 121 local labour offices (one out of four covers one municipality, the rest between six and 10 municipalities each) and 145 local branches. In addition, there are around 30 desks established on an ad-hoc basis, in localities hit by mass-dismissals following companies restructuring. The PES has also two specialised units: the Centre for information and publishing and the Labour Office “Work for Students”.

The head office has the overall responsibility for the implementation of the employment policy and is in charge of the overall management, co-ordination and control of the PES. Regional directorates are mainly administrative units co-ordinating the activities of local labour offices. Local labour offices implement the employment policies at their level and provide services to the job seekers<sup>40</sup>: registration, job brokerage, information and counselling, support to job search (including Job Clubs), organisation of training (for the unemployed and the employed see section 3.2.2) and until 31. December 2003, administration and payment of unemployment benefits.

In April 2002, the Employment Agency had a total staff of 3400, of which 196 work in the central and specialised administration, 164 in the regional services and 3040 (89%) in the local offices, representing an overall ratio of one local staff member for about 214 unemployed<sup>41</sup>. Of the total staff in the 115 local labour offices, it is estimated that 56% are in direct contact with the unemployed<sup>42</sup> and 23% in charge of administering unemployment benefits, the remainder being involved in administration, legal services and running the information system. The overall qualification level is quite high with around 60% of the PES staff having higher education.

Like the whole public administration, the Employment Agency has cut its staff by 10% in 2002. This was combined with the restructuring of the PES functions brought by the last reforms. The cuts mainly concerned the staff involved in the benefits administration which should be transferred to the NSSI structures. By October 2002

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<sup>40</sup> There are between 60 and 70 private employment agencies licensed by the MLSP and providing job broking, counselling and guidance

<sup>41</sup> Calculated on the total local offices staff and for the registered unemployed in the 1<sup>st</sup> October 2002

<sup>42</sup> Calculated on the basis of the following distribution: 350 accountants, 35 legal advisors, 145 in IT services, 890 in administration of benefits (1,420 in total) out of 3,257.

the intended decrease of the PES regional staff to 164 and the local staff to 3016 has already been accomplished.

Since 1997, all territorial units are covered by a uniform information system and have a local information network. The information system encompasses –job seekers' registration, calculation and administration of unemployment benefits, services and active measures offered, job-brooking- as well as the job vacancies notified to the PES. The number of computers varies according to the size of the local office; at present, on average, there are two computers for three people. Since 1999, all the local agencies have been connected to the Internet. However, general access exists only in the biggest agencies (around 10 at present); in other cases, only one computer is connected and access is limited to the person in charge of the local network. Since 2000, the PES has also developed its own website which provides general information on the Employment Agency and on the job vacancies registered in the local offices. The website can be used directly by employers to announce their vacancies and by job seekers to present themselves.

### *Issues and policies*

The PES has been developed and up-graded continuously with the technical assistance of EU Member-States. The reform of the social insurance system (see section 3.3) and the new framework for labour market policy (Employment Promotion Act 2002) will imply a number of changes in the Employment Agency's functions and organisation.

The last reform (under the Employment Promotion Act) provides a framework which should enable the Employment Agency, and the local offices in particular, to focus more on the activation of the unemployed. The implementation will require appropriate resources, staffing and capacity and it is not clear at the moment whether these conditions are in place. It is worth remembering that only about half of the PES staff is in direct contact with the unemployed – no comparable figure is available regarding the staff in contact with employers. Activation requires early contact with the job seekers and the provision of services, support and active measures adapted to individuals' needs as well as the regular follow-up of their situation throughout their spell of unemployment. To be an active and efficient player on the local labour market, the PES also needs to establish regular contacts with enterprises.

Reforms focus on administrative re-organisation and less on the approach to job seekers and employers. A change of culture of the PES, from a widely administrative approach to a client-oriented approach for both the unemployed and the employers, in particular at local level, is considered necessary but there is no clear indication of the means, in particular training actions, envisaged to achieve this ambition.

The next step in the development of the information system should be the creation of a national PES data base. This is considered as a crucial condition to allow for linking up with other administrative sources, in particular, for the control of unemployment benefits and for the overall monitoring of the employment policy and support of decision-making. Also it would facilitate future connection to EURES, which may require a more functional web interface to be developed. However, until now, a lack of resources has prevented its development.

### *Assessment*

***The recent reform in the funding and position of the Employment Agency represents a first step towards the provision of a modern employment service able to contribute to a more active employment policy. The implementation of the PES***

*reform should be carefully monitored. There is a need to ensure appropriate financial and staff resources, in particular to the local labour offices partly through a reallocation of staff from administrative tasks to services to the clients – the job seekers and enterprises.*

*There is a need to develop and implement an approach enabling to address the unemployed as early as possible with support and active measures adapted to their individual situation and needs.*

*The general recognition of the need for a fundamental culture changes towards promoting a dynamic labour market needs to be followed up with concrete actions including retraining the staff, in particular those at the local level.*

### **3.4.2. Active labour market programmes**

#### *Current situation*

The legal framework for active programmes is the Employment Promotion Act, which came into force in January 2002 and the main operational document, the annual National Action Plan for Employment which serves as a basis for the allocation of the ALMP budget.

Expenditure on active labour market programmes represented 100.7 million BGN in 2001 or 0.35% of GDP in current prices. Actual expenditure was by approximately 15% below the amount needed to finance the programmes presented in the National Employment Plan for 2001. According to the budget adopted for 2002, active labour market expenditures will raise by 5.6% up to 106.3 million BGN, leaving their share in GDP stable at 0.35%.

The shift from passive to active spending observed since the beginning of the transition period came to a halt in the last years. After a considerable increase from 7% in 1991 to 31.2% in 1998, the share of expenditures for active policy went down to 23.6% in 2001.

Bulgaria has numerous active programmes varying in scope, targeting and importance. The main types of measures used in active programmes are recruitment subsidies<sup>43</sup>, temporary jobs schemes<sup>44</sup>, support for self-employment, as well as training and retraining measures, support for job search (including 37 job clubs) and for mobility.

On average over the period 1998-2001, temporary work schemes represented nearly half of the expenditures, subsidises to employment 36%, support for self-employment 14% and training less than 1%. Temporary work schemes and subsidised employment were also the principal measures in terms of participants (around 46% and 40% of the total number of participants respectively) while self-employment accounted for 11% and training for 3%. In 2001, the total number of participants (excluding job clubs) was estimated at around 107,000, equivalent to 16% of the registered unemployed.

Temporary employment schemes allow municipalities or enterprises, funded from the local budget, to recruit unemployed for a maximum of five months. The Employment

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<sup>43</sup> Employment associations are considered here as subsidised employment.

<sup>44</sup> National programme for temporary employment, Programme for temporary employment in winter, "Beautiful Bulgaria", special temporary employment scheme for regions with high unemployment, Programme for opening jobs to overcome forest fire damage.

Agency pays the wages up to a maximum threshold set annually (100 BGN<sup>45</sup> for 2002) and the employers' corresponding mandatory social contributions.

Recruitment subsidies are used in particular for the following target groups<sup>46</sup>: long-term unemployed; unemployed recruited on a part-time contract; young unemployed under 29; and particularly disadvantaged groups. The wage subsidy paid by the Employment Agency is the same as for temporary employment schemes. It is paid in general for 12 months maximum<sup>47</sup>. If the work contract continues, an additional subsidy corresponding only to the social contributions<sup>48</sup> is paid for a maximum of nine months.

Job associations<sup>49</sup> started in 1997 with the main purpose of creating alternative temporary employment (up to 24 months) to workers being laid-off following company restructurings and to re-train them for new occupations. The associations are created for five years and include the local authorities, municipal and private companies, financial institutions and social partners. The state budget funds 70% of the resources. They operate mainly in community work (such as road construction or maintenance, waste collection, maintenance of public equipment etc) contracted by the municipalities. Wages and social contributions (for the unemployed recruited) are paid to the association by the Employment Agency. At present there are 37 job associations and four new ones are expected to be created in 2002. All are located in municipalities affected by restructuring and that have high unemployment.

Encouraging unemployed to become self-employed mainly consists of financial support. Counselling and training can be provided as well depending on individuals' needs. Once their business plan have been approved by the local employment agency, the unemployed people receive their unemployment benefits as a lump-sum payment. Most of the activities thus supported are in agriculture (45%) and trade (21%).

Mobility grants are a marginal measure (708 beneficiaries in 2001). They apply to commuters and unemployed hired for at least six months in a different place and cover relocation and travel costs (including those related to the recruitment interview).

### *Issues and policies*

A number of problems can be identified in relation to the current active programmes.

Both the level of spending in active programmes and the level of participation remain modest given the scale of Bulgaria's unemployment problem and the future restructuring challenges.

The provision of active measures is heavily concentrated on temporary employment measures. The Bulgarian authorities are aware that temporary work schemes do not contribute to the longer-term employability of the participants and that a great majority return to unemployment at the end of their work contract.

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<sup>45</sup> While this amount is equal to the minimum wage, there is no longer any formal link to it.

<sup>46</sup> They are also granted to micro-enterprises for the first five unemployed recruited; in this case, only the social contributions (on the basis of the maximum subsidised wage) are refunded for maximum 12 months and the work contract must be of 24 months minimum.

<sup>47</sup> The duration can be extended up to 18 or 24 months in specific cases.

<sup>48</sup> Social contributions continue to be refunded on the basis of the maximum wage paid by the Employment Agency

<sup>49</sup> Inspired by the German "Beschäftigungsgesellschaften"

Training measures have only a marginal place while unemployment and long-term unemployment is heavily concentrated on the low qualified. Moreover, most of those falling into unemployment due to enterprises restructuring are likely to have qualifications that are inadequate for the needs of the labour market. Finally, available research suggests the existence of strong "creaming" effects for training and retraining programmes<sup>50</sup>.

According to available research<sup>51</sup>, the participation of young unemployed in active programmes, in particular training programmes has been decreasing in the recent years.

These problems will be partially addressed by the recent reform of active policy brought by the Employment Promotion Act.

The funding mechanism in place until now could not ensure sufficient resources for the active policy. Until 2001, the main source of funding for active programmes was the Professional Training and Unemployment Fund, which also funded passive measures (see section 3.3). A combination of rising unemployment and limited and irregular collection of social contributions had a direct impact on the Fund's resources and priority was given to the payment of unemployment benefits. In 2001, this resulted in insufficient resources to finance the NAPE. Following the Employment Promotion Act, from 2002 onwards, active policy is entirely funded by the state budget which should provide a more sustainable funding basis.

Nevertheless, overall budgetary constraints remain a serious obstacle to an appropriate allocation of resources to Bulgaria's active policy. Although the amount budgeted for active programmes in 2002 increased and should enable to finance the totality of the NAPE, this would correspond to 108,400 participants, barely more than in 2001.

Bulgaria has always given priority in its active programmes to employment measures, in particular to temporary work schemes. In the context of a depressed economy and labour market which has prevailed since the beginning of the transition these measures were the most immediate way to bring the jobless back to work. This context seems to account largely for the positive evaluation of subsidised employment in Bulgaria<sup>52</sup>, while ALMP evaluations generally reach far less favourable conclusions. Employment measures remain the priority in the policy orientations in 2002 but an effort has been made in the allocation of resources, to achieve a better balance between programmes supporting temporary employment and incentives to employment in the open labour market. The resources allocated to temporary job schemes in 2002 have been reduced to 26% of the total budget for active programmes, while those for subsidised employment and support to self-employment have been raised to 44% and 25% respectively. The number of participants in temporary work scheme should decrease and represent only 23% of the total number of unemployed addressed by active programmes.

Following the evaluation of impact<sup>53</sup> recently carried out for the MLSP, by The Netherlands Economic Institute, efforts are being made to target temporary work schemes at the most disadvantaged jobless, in particular the Roma for whom they are

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<sup>50</sup> OECD, op. cit.

<sup>51</sup> O'Higgins and alii, op. cit.; *"Evaluation of the Net Impact of Active labour Market Programmes in Bulgaria"*, K. Walsh et alii, NEI and Bulgaria's Ministry of Labour and Social Policy, Jan. 2001

<sup>52</sup> Ibid.

<sup>53</sup> K. Walsh et alii, op. cit.

nearly the only type of accessible employment. Temporary work schemes are considered to be well adapted to seasonal activities requiring low-skilled manual labour which are still important in Bulgaria. However, available research suggests<sup>54</sup> that in the case of Bulgaria, temporary work schemes function more as an income support, in particular for long-term unemployed and discouraged workers than as an activation measure. The duration of employment does not qualify for unemployment benefits if participants remain unemployed at the end of the scheme.

The new Employment Promotion Act makes two changes to the employment incentives. The first is the removal of the reference to the minimum wage which had been set by the previous reform (Unemployment Protection and Promotion Act of 1997) as the maximum threshold refunded. The second is an increase in the duration of the subsidy (from three to 12 months for the recruitment of long-term unemployed, from six to 12 months in the case of young unemployed).

The share of training measures in total active expenditure has continuously decreased from 8% in 1993 down to less than 1% in 1998-2001. Given this extremely low level, the amount allocated in 2002 represents a considerable increase (from 652,300 to 5,177,000 BGN). The number of people addressed by training measures should accordingly be eight times higher than in the recent years. By formally removing the "job guarantee" as a condition to benefit from training, the Employment Promotion Act provides a more flexible framework to address the unemployed with training needs.

The framework programme for the integration of the Roma adopted in 1999, includes measures to improve their qualifications. According to available information, its implementation remains patchy due to lack of resources,.

#### **Assessment**

***Given the constraints on resources and the overall employment situation, it appears difficult at the moment to reshape substantially the provision of active programmes.***

***In Bulgaria's present context, ensuring that existing programmes contribute effectively to a more active employment strategy will require a careful targeting.***

***The use of temporary work schemes needs to be carefully monitored to ensure that they remain targeted at the groups for which they are effective. Further evaluation to identify possible substitution effects of subsidised employment should be undertaken rapidly.***

***A substantial effort is needed to provide more training in order to enhance the employability of the unemployed. This will require an increase in resources. There may also be a need to review the programmes including a training component to ensure that it is effectively implemented and efficient.***

***More attention ought to be paid to the labour market needs of the most disadvantaged groups, in particular the Roma population.***

***Bulgaria should continue to review the efficiency of its programmes, taking full stock of existing evaluations. Monitoring of the implementation and evaluation of active programmes needs to become current practice within the relevant administration and involve all levels, in particular the local labour offices. The conditions for this include a training effort towards the staff concerned.***

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<sup>54</sup> OECD, op. cit.

*All this should help the most efficient allocation of resources within the present budgetary constraints and use of the new funding framework.*

### **3.5 Regional aspects of employment policy**

As shown in section 2, there are substantial regional differences in employment performances. Regions also differ in their sectoral employment structure and in their vulnerability to future employment shocks resulting from ongoing restructuring.

Since the 1995 Administrative Territorial Organisation Act, Bulgaria has been divided in 28 administrative districts<sup>55</sup>. In addition, following the Regional Development Act of 1999, six planning regions which are the basis for designing, implementing and monitoring regional development policy were created in 2000<sup>56</sup>.

Regional policy is fairly recent in Bulgaria. The Regional Development Act from 1999 is the first comprehensive legal framework for regional development. Legal provision for regional employment plans was made in 1998. Thereafter the MLSP endorsed guidelines for their preparation (structure and size) which were submitted to the regional PES and territorial administrations. Regional Employment Councils established following the Regional Development Act (1999) at district or at municipality levels are involved in the elaboration and implementation of the plans. The Councils include representatives from local partners, in particular social partners. Between 1999 and 2001, Councils were created in all the 28 districts and 22 regional employment programmes were developed and submitted to the MLSP.

The Employment Promotion Act builds on the practice of the Regional Employment Councils and transform them into permanent or temporary Employment Committees at the Regional Development District Councils. The territorial units of the Employment Agency and the social partners' organisation continue to be represented on the Committees as well as local authorities (district and municipalities) and non-profit entities working in the area of employment and training. The new Committees remain in charge of preparing the regional employment programmes and of organising the implementation of short- and medium-term programmes for employment development. By ensuring inter-institutional relations at horizontal level, this structure is considered as more appropriate to ensure consistency between active policy and the overall regional development policy. The intention is to use the regional employment programmes as a basis to prepare the HRD component of the regional development plans and the Regional Operational Programme

#### ***Assessment***

*The establishment of regional and local structures for employment policy development and implementation is a basis for addressing the regional labour market unbalances. Bulgaria should examine appropriate policy instruments including regional development strategies, promoting labour mobility and human resources development while ensuring a better balanced provision of active programmes across the territory.*

### **3.6 Equal opportunities policies**

The employment rate of women is low and below that of men. The gender gap in participation is much higher in rural areas (46.7% for men compared to 34.2% for

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<sup>55</sup> Replacing the previous nine districts.

<sup>56</sup> Council of Ministers' Decree N° 145 of 27 July 2000



women in 2001) than in urban areas (activity rates are 58.4% and 51.1% respectively). This indicates that women in rural areas are more likely to withdraw from the labour market and available research suggests that this risk is particularly high among low educated women having had a first spell of unemployment<sup>57</sup>.

At sectoral level, women tend to be concentrated in education and health care which account for 22% of total female employment but only for 6% of men's. In terms of occupations, women are more likely to work in professional and technical occupations (32% of all employed women compared to 19% for men) but are under-represented in senior management jobs (6% compared with 11% for men). As seen in section 2, there is evidence of a significant gender pay gap.

### *Issues and policies*

Both the Family Code and the Labour Code guarantee equal opportunity between men and women. The last amendments to the Labour Code in 2001 introduced the notion of "indirect discrimination" but not for the self-employed. They also introduced the principle of equal pay for equal work and made provision for protecting women's jobs during pregnancy and maternity leave.

Training and employment measures have been developed to improve women's participation in the labour market. Unemployed mothers with children under the age of three are one of the target groups for subsidised employment defined by the new Employment Promotion Act. Women represented 42% of the total number of participants in active measures organised by the Employment Agency in 2000 compared with 37% in 1999 and 39% in 1998. They are however still under-represented compared with their share in the registered unemployed (between 52% and 54%).

Since 2000<sup>58</sup>, the MLSP has been given the responsibility for developing, co-ordinating and implementing the equal opportunities policy. Both the NAPEs of 2001 and 2002 include a range of programmes and projects to be implemented under the Equal opportunities between men and women Pillar. However, due to the rejection of the draft Equal Opportunities Act by the Parliament none of them has started yet.

Equality of treatment between men and women will be part of the new draft Bill on prevention of discrimination to be prepared by the end of July 2002. Some of the mechanisms foreseen in the Equal Opportunities Act might be maintained in the new Act, however there is no precise information at the moment on the content of the draft Bill and on the way it will address labour market and employment-related issues. If it is adopted in 2002, implementation should start in 2003.

Actions undertaken to raise awareness on gender issues include a programme for "Gender education" which has been implemented in 43 schools as well as in the University of Plovdiv. Until now 70 teachers and counsellors have been trained within this programme. An interdisciplinary Master's programme "Gender studies" has been elaborated and will start at the New Bulgarian University in September 2002.

### *Assessment*

***Bulgaria should investigate further the gender gaps in the labour market, in particular, gender pay gaps in order to better identify how men and women can be***

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<sup>57</sup> J. Rutkowski, op. cit.

<sup>58</sup> Council of Ministers' Decree of January 1999

*encouraged to participate in employment and contribute fully to economic and social development.*

*Efforts in terms of activation should be pursued and more emphasis given to policies enabling to concile work and family life. There is a need to ensure that measures are implemented across the whole territory.*

### **3.7 Involvement of social partners in employment policy**

The legal regulation of the representative employees' and employers' organisations was for the first time set within the amendments of the Labour Code, enforced in 1993. On this basis, by 1997, seven trade-unions and four employers' organisations had been recognised as representative. Since 1999, only two trade-unions<sup>59</sup> are recognised as representative at national level.

The main national forum is the National Council for Tripartite Co-operation. The dialogue at this level concerns labour relations, social insurance and living standards.

Tripartism is the underlying principle of the legal framework for employment policy and vocational education and training policy. Various tripartite councils operating at national level, were established, modified or abolished by the successive laws in the recent years (UPEPA in 1998, Vocational Education and Training Act in 1999, EPA in 2002). The last reform (EPA) makes provision for the creation of several tripartite bodies at national and regional levels. The National Board for Employment Promotion under the MLSP has been operational since January 2002. Its responsibilities include advising on the design and implementation of employment policy - including the National Employment Action Plan, the follow-up of the labour market situation and of the efficiency of active programmes, submitting proposals to the MLSP on labour market measures and legal acts and issuing opinions on all legal acts or agreements in the field of employment policy. At regional levels, social partners will participate in the new Employment Commissions to be set-up under the Regional Development Councils (see section 3.5).

The EPA maintains the tripartite representation on the Board of the Employment Agency. It also foresees the creation of Co-operation Councils - at the PES regional level - in charge of monitoring and supervising the implementation of the employment policy. Social partners will be represented as well as the Employment Agency (regional directions), the local authorities and the regional structure of the MoES.

Social partners are represented on the management board of the National Agency for Vocational Education and Training (NAVET). They will also be in the Advisory Board for Manpower's Vocational Training foreseen by the EPA.

Tripartite councils exist at sector/branch level. The government intends to introduce the possibility of extending collective agreements signed by all representative employees' and employers' organisations to all enterprises in their respective sector/branch. This is seen as an important step towards the development of an autonomous bipartite dialogue enabling the state to withdraw from the detailed regulation of labour relations.

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<sup>59</sup> CITUB and CL "Podkrepa", Council of Ministers' Decree of January 1999

### *Assessment*

*Bipartite dialogue is weak and the government recognises the needs to strengthen it in particular, through improving the framework for collective bargaining.*

*The involvement of social partners in employment policy is being enhanced through tripartite supervisory structures for the PES and the vocational training system. This should contribute to the quality and effectiveness of overall employment policies.*

*Bi-partite dialogue should contribute to improving the adaptability of firms and their workforce in the face of rapid structural changes in the economy.*

### **3.8 Preparation for the implementation of The European Social Fund**

The MLSP should become the Implementing Agency for the Phare pre-accession Fund in the field of HRD in 2003. An evaluation of the MLSP capacity in that respect has started in conjunction with the preparation of a twinning project aimed at establishing a functioning institutional system to prepare and implement ESF-type interventions.

In April 2001, the MLSP created a new directorate in charge of pre-accession funds, international programmes and projects (PFIPP). Steps have been taken to ensure the necessary training of the staff of this Directorate as well as other partners involved in ESF-type projects. According to the Institutional Building Plan envisaged under the Steel and Mining Area Employment project (SMAEP, funded by Phare), the directorate's training needs have been assessed and a strategy is under preparation. The project "Preparation for future ESF projects and programmes" envisages to prepare capacity assessment of the beneficiaries – MLSP, MES and EA, to manage and implement projects and programmes, financed from the EU. The project started in September 2002, for a duration of 18 months and a total budget of 1,413,000 Euro. The process of institution building includes the establishment of the proper organisational structure and procedural system for ESF-type measures as well as instruction in techniques that facilitate ESF implementation.

Several MLSP training projects directed at the local administration, PES and social partners are ongoing. More than 300 people received Project Cycle Management training with practical preparation of projects (ESOCTA project). Through the SMAEP project 390 participants from central and local administration, social partners and key local bodies were trained. The Training Institute for European Structural Funds at the New Bulgarian University was created under a special preparatory programme funded by Phare and is currently being set-up. It is on the state of formation and gathering the necessary funds for its activities.

The SMAEP project is being used as a pilot to elaborate grant schemes. Two further PHARE projects addressing the MLSP capacity and institutional building are envisaged in 2003.

### *Assessment*

*Bulgaria has taken steps to develop an appropriate institutional framework for the implementation of ESF support and should continue to strengthen its institutional and administrative capacities for effective management of the pre-accession and ESF support.*

*The relevant priorities identified in the JAP together with other relevant policy documents should be reflected in the elaboration and implementation of human resource development policies in the context of PHARE pre-accession programming. They should also support the gradual transformation of pre-accession programming into preparing the Community Support Framework and the Operational Programmes for Structural Funds interventions at national and regional levels. This process will require operational co-ordination between different Ministries as well as effective monitoring mechanisms.*

#### **4. Conclusions**

Bulgaria has achieved a high level of macroeconomic stability. The market is sufficiently developed to allow for a better allocation of resources. Progress made in structural reforms, especially regarding privatisation, restructuring of the financial sector and procedures for market entry provide a microeconomic basis for sustained growth. However, further efforts, in particular to strengthen the efficiency of the administrative and judicial systems are needed to improve the flexibility of markets.

Strengthening the ability of the economy to create jobs, in the private sector, in the expanding branches of manufacturing and in particular, in services is a crucial challenge for Bulgaria. Measures to improve the business environment and support to enterprise creation in the formal sector will be essential in that respect. High taxes inhibit job creation in the formal private sector and the tax-benefit systems needs to encourage more the take-up of jobs within the formal economy.

Increasing and adapting education and training levels is a major issue to ensure that the present and future labour force can re-allocate from the declining to the growing sectors, to avoid skills and regional mismatches and respond to the adaptability required by ongoing restructuring. The PES and active labour market policies will also have a crucial role to play for the following reasons: Bulgaria experiences a persisting high unemployment. Moreover, the labour market displays a number of structural features: high long-term unemployment, high youth unemployment, very high unemployment among those with lower levels of education and skills, wide regional variations in unemployment, dramatically high unemployment among the Roma minority. Employment rates are low and continuing restructuring will lead to further reallocation of labour.

This JAP has identified a number of priority areas where progress is still needed and where ongoing monitoring should be carried out in the context of the Employment Policy Review:

- Identify and address the key factors for school failure, irregular attendance and non-enrolment; accelerate efforts to improve the provision of education for the minority groups and review possible obstacles to ensure equal access to education. Complete as quickly as possible the reform of vocational education and monitor implementation to ensure that the provision is adapted to the future needs of the economy given that restructuring is still in full swing. Assess whether higher education provision is adapted to its needs in a medium-term perspective in terms of strategy, infrastructure and curricula and targets for participation.
- Urgently develop a strategy for continuing training in close co-operation with the social partners as well as appropriate incentives for the training of those

employed. The inequality of access to training for the unemployed has to be addressed with high priority.

- Review together with the social partners, the wage setting system to strengthen its ability to guide skill formation, mobility and reallocation of labour and ensure that wage developments are employment-friendly.
- Examine how to reduce the tax-wedge in order to increase incentives for job creation and take-up. Pursue efforts to reduce the overall tax burden on labour and carry-out targeted reforms of the tax systems, especially with respect to low-wage labour and improve compliance with the payment of taxes.
- Review the benefit systems, in particular social assistance, and their interaction in order to increase incentives for the unemployed and inactive to take-up a job in the formal sector and to encourage an active attitude.
- Develop a stronger and more efficient activation approach through the systematic and active engagement of the PES, monitor the implementation of the new framework for active policy. This will require a transformation of the working culture and methods of the PES as well as appropriate financial and staff resources.
- Urgently increase the provision, resources and targeting of training measures. Improve the provision and targeting of active programmes, continue to rebalance it between temporary work schemes and sustainable employment, better address young unemployed and disadvantaged groups. Develop a monitoring and evaluation culture.
- Develop a comprehensive strategy to better ensure the integration of ethnic minority groups, in particular Roma on the labour market.
- Develop policies to address gender gaps in the labour market, in particular on pay as well as policies enabling to reconcile work and family life and ensure that the legal framework provides appropriate mechanisms to promote equal opportunities between men and women.
- Social partners have important contributions to employment policy and labour market adaptability. While tri-partite co-operation has a role to play, bi-partite dialogue needs to develop.
- Pursue efforts to strengthen capacity building and develop an appropriate institutional framework for the implementation of the ESF support.

The Commission and the Bulgarian Government intend that the preparation of this Joint Assessment will form the first stage in the process of Employment Policy Review. Further co-operation will concentrate on joint monitoring of progress in addressing the priorities identified above, based on regular implementation reports.