



# **Mutual Learning Programme**

DG Employment, Social Affairs and Inclusion

## **Peer Country Comments Paper - Bulgaria**

### **The challenges of Employment Policy Reforms in a small and centralised country**

#### **Peer Review on 'Strategies for Employment Policy reform. Implementation challenges in decentralised countries'**

**Madrid (Spain), 5-6 October 2015**

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## 1 Labour market situation in the peer country

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

### 1.1 Recent labour market developments

After 2011, the situation on labour market has improved (table 1). However, recent job creation does not compensate for the loss of 379.3 thousand jobs across the period 2008-2014 (by 63.2 thousands per year<sup>1</sup>).

A common problem for Bulgaria, Spain and most of the EU countries is the high number of long-term unemployed and very-long term unemployed (for more than two years) and/or inactive youth<sup>2</sup>. In 2014 the relative share of long-term unemployed (12+ months) in Bulgaria was 60.5% of the total and only very long-term (24+ months) was 38.3%, compared to 51.7% and 35.6% in 2008. The share of the young people not in employment, education or training (NEET) is high compared to other EU countries. Recent data shows an increasing number of unemployed over 55 years old<sup>3</sup> and importance of their problems in transition to retirement.

Table 1. Main labour market indicators (in %)

	Q2/2015	Change y.o.y.	2014	Change y.o.y.
Employment rate (15 - 64)	62.4	1.4	63.9	1.8
Employment rate (15 - 29)	39.8	1.5	42.1	1.5
Unemployment rate (15 - 64)	10.0	-1.5	12.5	-1.6
Unemployment rate (15 - 29)	13.9	-2.9	18.1	-4.2
Long-term unemployment rate	6.2	-0.4	7.7	-0.4

Source: National Statistical Institute.

Specific feature of Bulgarian labour market is the recent demographic trends observed, that lead to a strong reduction in the workforce, as well as intensive ageing. Due to economic developments, no new regional employment centres in Bulgaria were set up in the period 2000 - 2008 (Iankova, N. 2010) and in years of crisis<sup>4</sup>. In this context, working on the activation of the unemployed and inactive is crucial. The implementation of regional programmes and the regionalisation of the employment policies have the potential to contribute to this activation. This has been reflected in recent strategic documents and taken into account in amendments of labour legislation.

### 1.2 The institutional context

Bulgaria is divided into 6 NUT-2 regions; 28 NUT-3 regions, or districts (including the metropolitan capital district Sofia) and 264 municipalities at local level. The

<sup>1</sup> Source: National labour force survey. National statistical institute (NSI).

<sup>2</sup> Source: NSI.

<sup>3</sup> In 2014, those aged 55+ accounted for 18.4% of the unemployed and the young people between 15-24 years accounted for 12.4%.

Source: NSI.

<sup>4</sup> According to author's calculations, the standard deviation (STDEV) of the labour force at NUT-3 level was 101.8 in 2002; 109.6 in 2005; 122.4 and 126.5 in 2008 and in 2014 (NSI data). It seems that heterogeneity between regions is increasing.

decentralisation in Bulgaria still suffers from some persistent problems, including the low financial capacity of the district and municipal budgets.

The active labour market policies (ALMPs) at regional and local level in Bulgaria are applied by the district and local administrations in cooperation with the territorial units of the Employment Agency (EA).

The Employment Agency (EA) has a three level hierarchic structure:

- National headquarter
- 9 Directorates "Regional Employment Services" (RES) covering one or more districts
- 98 directorates "Labour Offices" (LO) at local level

During the recent economic crisis the labour administration demonstrated good coordination in its work and the three-level hierarchic structure has been preserved.

ALMPs include employment programmes and measures listed in the Employment Promotion Act (EPA) and services for employment (mediation, job fairs etc.). Some specialised programmes with only regional importance are also applied.

ALMP are funded by the State Budget and from European and other donor funds. Involvement of employers and their organisations, trade unions, municipal or district budgets is still very low.

Tripartite units at EA, RES and LO take part in policy development, planning, monitoring and assessment. These are Commissions to the RES and Councils to the LO. A Council on Employment and a Committee for the selection and evaluation of projects and programs works with EA. These committees, commissions and councils may include not only representatives of social partners and labour administration, but also such of NGOs and other civil organisations. The members of these units are not paid for the work there.



## **2 Assessment of the policy measure**

The activation of the unemployed and those at the edge of the labour market is a key objective for existing policies, strategies and other documents on labour issues in Bulgaria. The main instruments applied for activation include the programmes and measures for subsidised employment and training. The measures concern subsidies for new jobs creation, whereas programmes are oriented towards hiring on existing work places. Main importance has traditionally be given to programmes; in 2014, for example, the funds for measures amounted to only 12% of the total subsidies paid<sup>5</sup>. This is one of the specific feature of Bulgarian labour market policies in comparison with Spain and other EU countries.

### **2.1. The activation in recent strategic documents**

National Development Programme (2020)

Activation is not directly addressed in the Bulgarian Development Programme, but the prevention of exclusion the labour market and poverty is addressed in priority 2.1)<sup>6</sup>.

National employment strategy 2013-2020

An updated Employment Strategy for Bulgaria (2013-2020) has been adopted for the new European Semester. The targets on employment of Bulgaria within Europe 2020 are included, as main objectives in this Strategy. They will be achieved by implementing measures for improving the labour force quality, activation of unemployed, expansion and modernisation of the support for job seekers.

Another group of measures in this Strategy concerns strengthening the regionalisation in implementation of these policies and improvement of RES performance. The latter is planned to be achieved by:

- improving the coordination between stakeholders and their active participation in policy evaluation;
- intensifying the synergy between the regional programmes and the priorities of the respective district development strategy and/or municipal development plans;
- implementing larger variety of activities in the field of tourism, protection; and preservation of the environment and the cultural heritage.

An important task that was included in the Strategy is to improve the capacity of district Employment Commissions to design regional employment programmes for rural areas. Implementation of the measures has been already launched, as some initiatives are introduced below.

The Strategy includes plans for monitoring and control of its implementation. The administrative statistics of EA provides monthly information about all programmes and measures applied, whereas the NSI provides quarterly and annually collected data on the base of the Labour Survey studies. The list of indicators use for monitoring does not differ significantly from those of the indicators provided from EA and NSI. These indicators will be used for assessing the outputs of the ALMPs applied. Assessment of impacts will be based on ex-ante and ex-post evaluations, the letter based on counterfactual analysis.

### **National programmes and measures for subsidised employment**

The target groups for national programmes and measures for subsidised employment are the unemployed at risk. Some of the measures stimulate hiring in industries such as tourism, agriculture, spa-treatment, work in theatres, public administration etc. The

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<sup>5</sup> Source: EA. -

<sup>6</sup> National Reform Programme: Bulgaria 2020  
<http://www.eufunds.bg/en/page/873>

national programmes are executed at the regional level, following predefined rules. The programmes are in accordance to the annual plan and strategies for district or for municipal socio-economic development. The regional importance of these programmes and measures is dependent on the regional distribution of risk groups and economic activities.

Measures are oriented towards the needs of the regional labour markets, by application of an administrative procedure by RES and finalised at EA. Three criteria with different weight are used to allocate funds for measures (table 2) on the territory of the country. Until recently, the needs of the employers in each respective district were considered as the most important criteria for receiving funding. After amendments in legislation (July 2015), supporting groups of unemployed at risk become a key priority. The unemployment rate is also considered, as a final result of the policies applied.

Table 2. Criteria for allocation of the funds by regions (Directorates-Regional Employment Services) and their weights

Criterion	Weight before	Weight now
Relative share of stated needs (demanded new job openings) in the region of a RES/LO in the total stated needs in the country/RES region.	50	25
- Relative share of registered unemployed from the target group in the region of a RES/LO in the total number of unemployed from the target group for the country/region of RES/LO	25	50
Average monthly amount of funds paid from the state budget per person under the respective programme in the previous year for the region of the RES	25	dropped out
Unemployment rate, respectively for the RES/LO (average data for the 12 months preceding the month of distribution of the funds)	-	25

### Regional programmes for subsidised employment

Regional training programmes for subsidised employment are small programmes at municipal or district level. They may include vocational training and employment in safeguarding of public order and municipal property (schools, kindergartens), environmental activities, support for development of tourism, archaeological excavations; preservation of cultural monuments and other activities of public benefit.

Employers under such programmes are municipalities or companies (most often municipal enterprises) which receive a subsidy for hiring unemployed for a period of up to six months. They sign a standard contract with the labour office for receiving the respective funding. These programs are designed by the labour offices, reviewed by RES and approved for financing in the annual national employment plan by the National Council for Employment Promotion at EA.

The number of regional programmes has increased significantly: in 2008 only 18 programmes combining training and employment were implemented; in 2012 their number increased to 168, and in 2014 and 2015 they are respectively 256 and 285<sup>7</sup>. For 2015, 11% of the total budget for ALMPs is planned to be spent on such programmes. Unfortunately, most are public work programmes and do not offer opportunities for professional qualification. In this regard, the Employment Strategy until 2020 envisages diversification of the activities of regional programmes.

<sup>7</sup> Source: EA.

With a view to improve the capacity of the district level Employment Commissions that will be needed, draft amendments to legislation are being finalised<sup>8</sup>. According to the amendments, each Employment Commission at RES shall be entitled to approve only one regional programme per district. These Commissions shall define target groups; types of activities; duration of the regional programme for employment and training as well as the distribution of activities among the municipalities within the district. The Commissions shall approve the plan for financing of the activities, taking into account the district-level strategic priorities in social and economic development. The suggestion for common regional employment policy will be sent to national Commission at the EA. However, according to the new rules it will only be responsible for validating regional employment programme; suggested programmes will have to be included in the national plan for employment for the next year.

Concerning funding, the distribution of state budget funds for employment is flexible since 2009. Three months after the beginning of each financial year, all unspent funds from some regions and / or programs and measures may be re-allocated to other regions and / or programs.

### **Adult training**

During the crisis, adult training initiatives were underutilised. With the purpose to achieve efficiency of used resources, funds for training of unemployed were allocated mainly to programmes that contain a training component and subsidised employment. Priority was given to support unemployed from some disadvantaged groups. The European Social Fund (ESF) not only compensated for the shortage of state funding, but also provided for certain innovative initiatives. One of them was the implementation of vouchers for training of the employed and unemployed. Workers and employers do not co-finance this initiative.

In September 2015, pilot projects of dual training of unemployed will be implemented, as well as dual education in secondary vocational schools. It will be realised through the establishment of partnerships between vocational schools, or vocational training centres, and one or several enterprises. The trainings will be planned by LOs for a period no more than 36 months. Funding will be made available to cover the training costs, as well as the salaries and insurance contributions of trainees and mentors.

In addition, the Employment Promotion Act will be amended in a way to provide for training of unemployed only in course(s) on topics that have been included in their individual action plans (i.e. plans for transition to employment done together with the mediator at LO). This provision corresponds to the 'training account' practice applied in Spain. This is an important change that could make adult training more targeted to specific regional labour market needs.

### **Reforms to improve effectiveness of employment services**

An evaluation of the effects of the main groups of programmes and measures is performed periodically and the counterfactual analyses are applied. An administrative structure within the EA conducts monthly, quarterly and annual analyses. The results achieved are used in the process of policies' development.

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<sup>8</sup> The amendments are at the stage of discussions in the Parliament after they have been approved by the Council of Ministers.

### **3 Assessment of the success factors and transferability**

Only some aspects of the Spanish experience in activation and regionalization of ALMPs could be applied in Bulgarian practice. The reasons for this include the different governance structures and the different structure of subsidised employment as main instrument in activation. The regional employment programmes are programmes for subsidised employment in Spain focus on existing (unfilled) vacancies. In contrast, subsidies for new jobs creation are of a main importance in Bulgaria. I

However, there is room to conclude that the Spanish experience of ALMPs organization and reform is valuable for Bulgaria. Its principles and first lessons are important for further development of ALMPs in Bulgaria. The reform is presented as a sequence of activities, which is useful for a potential replication in Bulgaria.

#### **Performance-based management and payment by results**

The principle of 'payment by results' could be applied further in Bulgaria. A serious threat, however, is the widespread administrative practice to plan low target values of the indicators, for the purpose of achieving the goals easily. In this context, one of the prerequisite is to design and apply a well-structured monitoring system, as in Spain. Bulgaria has already planned a monitoring system with general indicators in the Employment Strategy 2013-2020, but as it is still not applied in practice, there is room to change and improve the system.

The renewed activation policies in Bulgaria can only have limited mitigation impact on the observed heterogeneity across regions. The problems should be researched and addressed through the introduction of additional indicators (such as integrated indexes of socio-economic development of districts and municipalities).

#### **Sharing of good practice**

The MLSP has developed an infrastructure for training of employees and unemployed that may be used for sharing of good practices. Such 'sharing' could be included as certain modules in some training courses.

#### **Common services for activation**

It seems that there is a need of applying the Spanish experience for "setting common services for activation" in Bulgaria. The Employment Promotion Act and the Rules for its enforcement list in detail the types and content of mediation services for activation and transition to employment, as well as, the rights and obligations of unemployed in receiving these services. Unemployed registered in the labour offices are profiled into three groups, and then special individual plans for their transition to employment are developed. The implementation of the individual employment plans, however, depends on a range of factors such as the funding availability; changing attitudes of the unemployed; the economic situation in the region; the labour demand; the poverty rate of local population; the opportunities for professional and geographic mobility. A set of 'common services for activation' should provide the unemployed with assistance that cannot be reduced for financial or other reasons. In this context, the improved quality of the mediation and other services provided is of main importance.

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## **4 Questions**

- Has an agreement been reached about the specific protocols which must be followed in the different types of activation? Is it possible to give a specific example of such protocol?
- Can you give examples of the different instruments that Spanish regions can use to reach the objectives of the Annual Employment Plan and SEA?
- In Bulgaria, as in Spain, social partners are responsible for the training of adults. Which approach is used to encourage a more active participation of employers?

## 5 Annex 1: Summary table

### Labour market situation in the Peer Country

- After 2011, the labour market situation improved in terms of employment and unemployment rates, but the need to activate the (very) long-term unemployed, remains.
- The active labour market policies (ALMPs) at regional and local level in Bulgaria are applied by the district and local administrations in cooperation with the territorial units of the Employment Agency (EA).
- Tripartite units at EA, Regional employment service (RES) and labour offices (LOs) take part in the policy development, planning, monitoring and short-term assessment.
- Active labour market policies are funded by the State Budget and from European and other donor funds. Involvement of employer organisations and employers, trade unions, municipal or district budgets is still very low.

### Assessment of the policy measure

- The national programmes and measures for subsidised employment are executed on regional level following predefined rules, and in accordance with the annual plan and strategies for district or municipal development.
- Regional programmes for subsidised employment are small programmes at municipal or district level for training and employment in activities of public interest. The number of regional programmes has increased since 2008.
- The distribution of state budget funds for employment is flexible and allows unspent state funds to be re-allocated.
- In the period of the crisis, adult training initiatives were underutilised. Workers and employers did not co-finance these initiatives. In 2015 pilot projects of dual training of unemployed will be implemented.

### Assessment of success factors and transferability

- As the new monitoring system is still not applied in practice, there is some room to change and improve it on the basis of Spanish experience.
- The Ministry of Labour and Social Policies has developed an infrastructure for training of employees and adult training that may be used for sharing of good practices.
- There is a need of applying the Spanish experience for "setting common services for activation" in Bulgaria.

### Questions

- Has an agreement been reached about the specific protocols which must be followed in the different types of activation? Is it possible to give a specific example of such protocol?
- Can you give examples of the different instruments that Spanish regions can use to reach the objectives of the Annual Employment Plan and SEA?
- In Bulgaria, as in Spain, social partners are responsible for the training of adults. Which approach is used to encourage a more active participation of employers?



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