

# Employment policies under budget austerity in times of crisis

## Abstract

The labour market in Bulgaria is strongly influenced by fundamental factors such as the demographic crisis, the disparity between labour force supply and demand and the expanding grey economy. The changing economic situation also has a negative impact. Along with an increasing unemployment rate, it should be noted that the quality of unemployment is also changing: an increasing relative share of long-term unemployed people; of people accumulating several vulnerability risks; and low labour market competitiveness in general. Meanwhile, passive labour market measures are being implemented in an unstable fiscal environment, causing a growing deficit in the Unemployment Fund. The expectations are that, due to its serious structural weaknesses, the recovery of the labour market in Bulgaria will be slower than the recovery of the economy and will mainly depend on the will of the government to stimulate the process by making changes to its social, economic and structural policies.

**Keywords:** labour market, economic crisis, unemployment, tax policy, pensions reform, education policy, active labour market measures, economic and social council, discrimination, welfare, entrepreneurial start-ups

## Labour market situation

The labour market situation in the past six years has been influenced by several factors, some of which are fundamental and some situational. The rule is that the fundamental factors have a long-term impact whereas it is situational ones that are producing the medium-term and short-term effects.

### Fundamental factors

The demographic crisis started in the late 1980s but has become especially serious in the transition period. Contributing factors have been a sharply increased flow of emigration, mostly among well-educated and highly-qualified young people; as well as the delayed processes of the transformation and restructuring of the national economy, which have had a negative effect on the living standards of the population and, therefore, on its reproductive patterns. This has had a lasting influence on the quantitative and qualitative characteristics of the workforce entering the labour market.

The disparity between labour demand and supply is growing. This makes the Bulgarian labour market structurally weak, with high relative shares of discouraged workers, long-term unemployed people and contingents which are accumulating several vulnerability factors. This is resulting in low competitiveness and adaptability of the

labour force to the changing labour market. These phenomena are also brought about by shortcomings related to the reform of the education system. On the one hand, a relatively high early drop-out rate from schooling is being sustained; and, on the other, there is a structural mismatch between demanded and supplied professions and practical skills.

Despite all the mantras and interventions which have been aimed at the reduction of the grey economy, and grey employment in particular, they have remained the most sustainable labour market segment for the past twenty years. This fact reinforces the indeterminate nature of the actual economic processes and makes it difficult for them to be measured using adequate statistical tools and indicators. The grey labour market does not only confer a competitive advantage when compared to official labour markets (whether primary and secondary) but it is, to a great extent, also integrated in the regular markets and, depending on the economic situation, is able to absorb or divert workforce groups both from and to them.

### *Situational factors*

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

Internal investment activity is a situational factor influenced by both the cyclical nature of the economy and the business environment. Long before the global financial crisis affected Bulgaria, there were clear internal indicators that the Bulgarian economy was 'overheating' (ESC/2/006/2009, p. 13). For a long period of time, gross fixed capital formation grew faster than GDP. What is more, the investments were not used to fund the technical, technological and organisational restructuring of the real sector, but were mostly directed towards the establishment of non-production sites. Thus, employment in the construction sector sky-rocketed, but the ensuing reversal was even sharper after the collapse of the property market. The unused opportunities for technological modernisation, however, left their mark – this is something that has definitely slowed the recovery of the labour market after the crisis.

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

### *Employment trends*

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

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

The data shown in Table 1 indicates that, between 2006 and 2008, the number of people employed aged 15 and above increased by 8.1 %, while those in the 15-64 and 20-64 age groups increased by 7.6 % and 7.7 %, respectively. This demonstrates that, in a period of growing workforce demand, shortages were filled not so much by young workers entering the labour market, but by employing people above working age. The relative increase among those employed in the 15-24 age group was 9 %, whereas in the over-64 age group it was 42 %. The total increase in the number of employed people for these two years amounted to 250 000 and the employment quotient grew by 4.5 percentage points. In fact, in the decade after 2000, this was the period when employment registered its highest increase. In parallel with an increasing employment rate, real GDP grew dynamically by 5.6 % per year and the increase in the mean wage reached record levels of 10.2 % in 2007 and 12.6 % in 2008.

**Table 1 – Number of employed people (000) and the employment quotient, 2006-2011**

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

*Source: National Statistical Institute: Labour Force Survey*

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

- in 2009, GDP dropped by 5.5 % with this sharp decline being compensated in the second quarter of 2010. After this time, annual statistical data has shown a consistent growth over five consecutive quarters, varying from 0.3 to 3.1 % annually
- real wages have continued to grow, albeit at a slower pace – in 2009, they increased by 8.7 % and, in 2010, by 3.7 %, but this was almost entirely due to the structural

transformations in employment (the laying-off of low-paid and low-skilled workers), a trend which was sustained in the first two quarters of 2011.

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

### *Sectoral and structural transformations in employment*

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

**Table 2 – Number of employed people (000) by economic activity, 2008-2011**

Economic activities	2008	2009	2010	2011 Q1	2011 Q2
<b>Total</b>	<b>3 360.7</b>	<b>3 253.6</b>	<b>3 052.8</b>	<b>2 890.7</b>	<b>2 934.1</b>
Agriculture, forestry and fishery	251.2	230.7	208.1	177.8	214.2
Mining industry	35.0	34.0	33.0	30.0	25.8
Manufacturing	769.7	713.9	637.4	591.8	587.6
Generation and distribution of electricity, heating and gas	42.1	41.2	42.7	45.1	44.9
Water supply, sewage services, waste collection	37.0	34.9	33.6	40.4	40.3
Construction	340.3	322.5	268.5	221.0	216.1
Trade, car and motorcycle repairs	530.0	527.9	531.1	528.8	523.4
Transport, storage and postage	189.5	187.6	177.3	172.7	173.6
Hospitality industry	168.8	168.7	159.7	151.9	160.9
Creation and dissemination of information and creative products, telecommunications	71.2	70.8	70.3	61.8	65.2
Financial and insurance services	57.0	61.5	52.7	46.8	51.5
Real estate services	14.1	13.1	10.1	7.5	9.9

Professional activities and research	83.9	87.7	84.8	84.3	80.2
Administrative and supporting activities	73.9	72.4	76.0	65.2	82.1
Government services	235.3	235.1	226.2	222.3	222.0
Education	205.6	191.2	184.4	192.6	193.1
Human medicine and social work	158.1	164.1	159.4	156.6	150.0
Culture, sports, entertainment	43.8	40.8	39.0	39.0	38.4
Other	54.1	55.4	58.4	55.2	54.9

Source: National Statistical Institute, Labour Force Survey

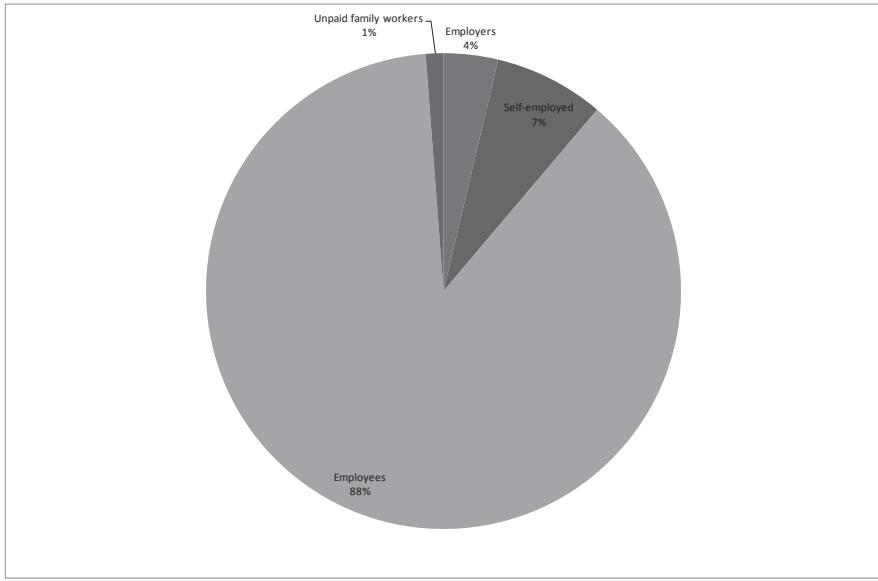
The data in Table 2 shows that the job cuts during the crisis were asymmetrical, with the manufacturing and construction sector accounting for about 72 % of the decline in employment while the decrease in the other economic sectors was significantly lower: there was even an increase of between 3 % and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

A breakdown by occupation and skill level reveals that the drop in employment is the highest for professions that do not require special qualifications (-35.6 %). This is a natural development – the first to be laid off in a crisis situation are low-skilled workers. The decline in the group of qualified manufacturing workers and machine workers is considerably lower (about -20 %), while employment among professionals has increased by more than 11 %.

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

Looking into the employment data set down in Figure 1 by gender and employment status reveals some specific details. The share of women in the employer group and among the self-employed is significantly lower compared to the share of men – only 30.7 % of employers and 37.9 % of self-employed people are women. In the group of employees, the relative share of women is almost equal to that of men (49.3 %), whereas in the group of unpaid family workers women predominate (60.2 %).

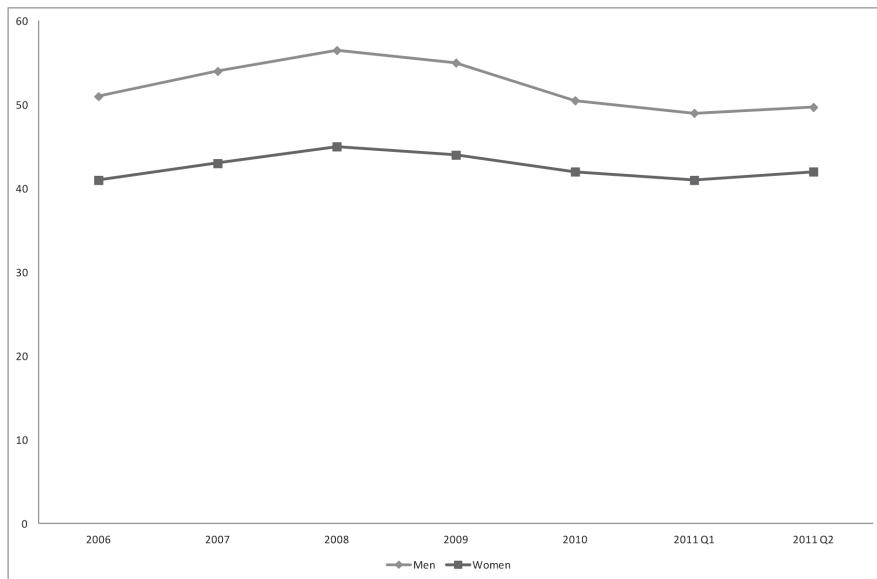
Figure 1 – Distribution of people employed, by employment status (2011, Q2)



Source: National Statistical Institute: Labour Force Survey

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

Figure 2 – Employment rates by gender for the period 2006- Q2 of 2011



### Unemployment trends

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

**Table 3 – Unemployed people aged 15 or above (000) and unemployment rates, 2006-2011**

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

Source: National Statistical Institute: Labour Force Survey

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

Firstly, the data in Table 3 show that, in the period of increased labour demand (2006-2008), the construction and industry sectors recruited mostly unemployed men, which is the reason why the male unemployment rate is lower than that of women. In the succeeding years, this ratio was reversed: the crisis effected rapid changes and the sharp decline in these two sectors of the national economy resulted in a large number of male workers losing their jobs. Unemployment among men during the 2009-2011 period is significantly higher than unemployment among women – by more than two percentage points.

Secondly, the problem of youth unemployment has once again come to the fore, following a period in which Bulgaria registered positive trends (in 2008, it dropped to 12.7 %). In the course of only two years, however, the unemployment rate in the 15-24 age group has doubled – and it was close to 30 % at the beginning of 2011. Undoubtedly, the crisis has been especially detrimental to young people, who are finding it harder to get a job after leaving high-school or graduating from university.

Thirdly, a comparison of the employment and unemployment data shows drastic quantitative discrepancies between the employment outflow and the unemployment inflow. In two and half years, employment has decreased by 426 000 people, while unemployment has increased by only 170 000. Notwithstanding the arbitrariness of such a quantitative comparison, it should be noted that the discrepancy is considerable (more than 2.5 times). There are dynamic processes taking place involving significant

transitions, both in terms of scope and frequency in labour force status and in the economic activity of the population.

Fourthly, there are several hypotheses that could explain such a phenomenon: that lower numbers of unemployed people register as such; increasing grey employment; higher emigration flow; and, last but not least, growing numbers of discouraged workers. All of these hypotheses find their justification in the results of a number of different surveys:

- according to data published by the Institute for Social and Trade Union Research (ISTUR), which is attached to CITUB, about 24 % of unemployed people do not register with Labour Offices, and for a number of reasons (Tomev *et al.* 2011: 81)
- in a situation of crisis, the informal economy expands rapidly. Some estimates show that it exceeds the current pessimistic forecasts of 35 % of GDP (Association of Industrial Capital in Bulgaria, p. 11)
- National Statistical Institute data on registered emigration shows that the average annual number of emigrants amounted to between two and three thousand people before 2009, compared to 2009 itself, when it sharply increased to 19 039, and 2010 when it reached 27 708 people (NSI: Population, website)
- the number of discouraged people grew from 149 900 in 2008 to 232 700 people in the second quarter of 2011 (NSI: Labour Market, website).

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

Sixthly, the qualitative characteristics of the contingent of unemployed people are deteriorating, which is a clear signal of the low competitiveness of the Bulgarian labour market. Approximately one-third of the unemployed have only an elementary or lower level of education. The unemployment rate for people with only elementary education is 19.6 %, while it is 43.1 % for people who have only primary education or lower (on 2010 data). Respectively, the employment rate of this group is extremely low – for people who have advanced no further than elementary education, it is 20.0 % while it is just 8.5 % for those with primary or lower education. This means in fact that the chance of people from such groups entering the primary labour market is slim.

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

Eighthly, there are not considerable regional disparities relating to unemployment rates (the variation is between 6.8 % in the south-west to 14.5 % in the north-east), but

the differentiation does increase at every lower level. At district level, the incidence of unemployment is lowest in Blagoevgrad (5.8 %), Sofia (6.6 %) and Stara Zagora (6.7 %); and highest in Shumen (28.8 %), Razgrad (22.6 %) and Smolyan (19.2 %). These asymmetric trends are bringing about the de-population of entire regions; massive permanent or labour emigration; and increased internal mobility resulting in the working population being concentrated in the capital and the big cities. This leads to a number of subsequent negative consequences (demographic, social and infrastructural).

### Employment policies and labour market institutions

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

#### *Fiscal and tax policies*

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

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

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

- Bulgaria has the lowest direct taxation in the EU: 10 % corporate tax and 10 % flat rate individual income tax (without exemptions)
- the direct/indirect tax ratio is 34.6 % in favour of indirect tax revenues, whereas in the EU this figure is only 4.7 %
- pension contributions were lowered by fifteen percentage points over the four years from 2006 to 2010 alone, and revenues cover less than one-half of pensions expenditure
- the Bulgarian pension system has been transformed from a social security system into a tax-funded system – a change that has had significant negative consequences
- Bulgaria continues to be the EU country with the lowest income: the mean wage was €330 (in 2010), while the minimum wage has been frozen at €123 for about three years, resulting in its net value being below the official poverty line
- the relative share of hired labour compensation in GDP (as a specific indicator of labour costs) has been 35-37 % in the past three years, and it remains one of the lowest in Europe
- over a period of only two years (2008-2010), the number of employed people dropped by 14.5 %, or by 357 100 jobs.

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

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

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

The consistent lowering of pension contributions has shifted the pensions system in the direction of performing extraneous tasks – stimulating competitiveness and combating the grey economy through the establishment of a 'favourable business environment'.

The first solidarity and pay-as-you-go pillar of the pensions system has been seen as a reserve to be used for reducing business costs and creating a more favourable foreign investment climate. The low level of social security has had a negative effect in two aspects – firstly, it has lowered the credibility of the solidarity social security pillar, which has directly resulted in under-payments and increased grey employment; and, secondly, it has served as a prerequisite for the creation of low-protected jobs and poor quality employment.

### *Education policy*

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

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

At the same time, however, the unified per-student cost standards in the 2009 budget for school education were reduced by 10 %. These amounts remained unchanged in 2010 and 2011 which, in practical terms, meant that wages in the school education system were frozen, while the chances of improving the school environment were postponed.

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

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

The introduction of education vouchers could be said to have facilitated progress in the vocational education system. The option of providing education vouchers to the unemployed and to employed people, in pursuit of a decision of the Monitoring Committee of the operational programme entitled ‘Human Resources Development’ (‘HRD’), has accelerated programme fund absorption. The Committee has also approved the allocation of BGN 100m for projects related to extracurricular activities, BGN 30m for developing remote education methods and BGN 8m for on-the-job internships for school students.

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

On the one hand, a lack of collaboration between employers and educational institutions is a contributory cause of the divergence between demanded and supplied skills and knowledge, and of the non-existent opportunities for on-the-job training and internships. On the other hand, most companies (especially small- and medium-sized firms) do not pay the necessary attention to employee skills, considering training and skill acquisition costs to be an additional burden on company budgets. The state cannot be relied upon to be the only driving force in the process, especially given that it is not flexible enough to respond to the dynamically changing circumstances.

## Active and passive labour market policies

The dynamic transformations in employment and in the main labour market parameters have necessitated the implementation of containment measures aimed both at addressing the consequences of unemployment and seeking to prevent further instances. The crisis has had serious ramifications in terms of active labour market measures.

### *Active labour market policies*

In 2008 and 2009, there was a marked diversification of active labour market policies (ALMP) in terms of the measures and programmes available. National funding was allocated for 66 programmes and measures in 2008; in the succeeding year, the number increased to 67.

Despite the fragmentation, the following measures and programmes were the largest in scope and funding:

### National programmes

- ‘From Benefits to Employment’
- ‘Assistants for People with Disabilities’
- ‘Restoring and Protecting the Bulgarian Forests’
- ‘In Support of Maternity’
- the ‘Beautiful Bulgaria’ Project.

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

- encouraging employers to create jobs and take on unemployed people with severe disabilities
- incentives for employers to take on unemployed persons with severe disabilities for temporary, seasonal or part-time work
- stimulating employers to take on unemployed women above 50 and men above 55
- encouraging employers to create jobs for attaining skills through internships and/or apprenticeships
- motivational training and professional skills training being made available through the Employment Agency.

The crisis and the deteriorating labour market situation in 2009 made it necessary to develop focused anti-crisis measures: the national programme ‘New Chance for Employment’ saw 3 000 new jobs created and additional sums being paid to workers and employees transferring to part-time jobs – BGN 120 per person for three months (the effect being 19 000 retained jobs).

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

- unemployed young people up to 29 years of age
- discharged people or workers transferred to part-time jobs due to the production squeeze
- people with disabilities
- inactive people who were willing to look for a job, including discouraged people

The scope of the national programme ‘From Social Benefits to Employment’ was seriously limited. At the same time, new large-scale projects – operations with a duration of several years – were funded by the European Social Fund within the operational programme ‘HRD’. The most important projects are as follows:

### ‘Development’ intervention

Professional occupational training for unemployed people aimed at ensuring their re-employment. The budget for grants under this measure is BGN 250m up to 2012, and provides for professional training for 65 000 unemployed people, and employment for 52 000 of them.

#### 'Back to Work' intervention

Training and employment for unemployed people in providing good quality child-care services for children aged one to three years. The effect will be double – parents can go back to work and unemployed people will re-engage in work. The total budget for grants within this measure is BGN 64m up to 2012, and 8 500 unemployed people will be trained (nurses and teachers will be preferred), with 8 000 of those being re-employed after training.

Intervention on 'Increasing the Employment of Young People through Sustainable Inclusion in the Bulgarian Labour Market'

Motivational and ICT and language training for young people aged 16 to 29, intended to increase their employability in vacant jobs. The total grant budget is BGN 15m and covers some 10 400 young people.

#### 'Adaptability' intervention

Increasing the skills of workers transferring to part-time jobs as a result of the financial and economic difficulties experienced by their employers through providing training for the attainment of professional qualifications. The target group is employees in the industry and services sectors who have been transferred to part-time working. The scheme will cover 42 000 people, 8 400 of whom will be entitled to transport benefits for travelling to and from their workplace to the training centre. The total budget amounts to BGN 90m up to 2012.

#### *Combination of active and passive labour market policies*

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

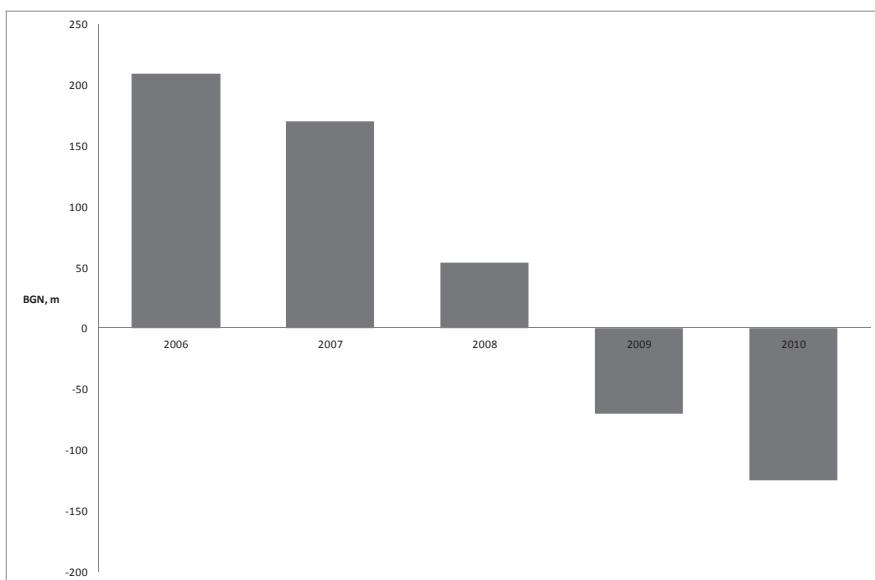
Some measures and programmes (including under operational programme 'HRD'), such as extending unemployment benefit entitlement to three months for people attending training and qualification courses, are a step in this direction. The main target group are young people up to 29 years of age. The condition is for them actively to be seeking a job and making conscious efforts to acquire knowledge and skills.

According to the provisions of the Social Security Code (SSC), the amount of unemployment cash benefit was set at 60 % of the average daily wage of the person concerned for the nine months preceding the period of unemployment, assuming they were insured, but not less than BGN 6 and not more than BGN 12 per day. This was a restriction which most seriously affected the highest-paid workers. In the case of those being laid-off, they were supposed to receive unemployment benefits which were three or four times lower than their wages. Amendments to the SSC were adopted which abolished the maximum threshold and increased the minimum to BGN 7.20. Furthermore, unemployment benefit was fixed at 60 % of the average daily contributory income for the preceding eighteen months. The amendments restored the fair principle

that the amount of unemployment benefit should depend on the amount of contributions paid.

We need to note, however, that these positive changes were effected in an unstable fiscal environment. In a time of economic growth and a low unemployment rate, unemployment contributions were set at 3 % and the fund registered annual surpluses. However, instead of continuing to accumulate funds as a buffer for potential negative trends on the labour market, the unemployment contribution was reduced to 1 % as of 1 October 2007. Problems occurred in 2009 when, in a situation of actual crisis, it turned out that the resources for passive labour market policies (PLMP) were insufficient. In this way, a decent surplus in 2006 was quickly reduced, becoming a deficit in just three years.

**Figure 3 – Surplus and deficit in the Unemployment Fund (2006-2010)**



Source: NSI (2011) *Statistical Reference Book Demographics, Economy and Social Security 1990-2010 Sofia*, p. 83.

#### *Financing of labour market measures*

Approximately equal amounts of budgetary funds were allocated for ALMP in the years of high economic growth: in 2007, BGN 173.1m and, in 2008, BGN 173m. In a nominally growing GDP, this meant that their relative share was decreasing (in 2007, it was 0.29 % of GDP and, in 2008, 0.25 %). Without paying much attention to the first warning signs of the coming financial and economic crisis, the plans of the former government, as outlined in NAPE 2009, included a national budgetary funding for ALMP measures amounting to BGN 190m.

The budget deficit forced the next government to take unpopular measures in the second half of 2009. Firstly, ALMP funds were reduced to 90 % of the initially approved BGN 190m for 2009. In August, the result of additional measures to limit non-interest expenditure and transfers from the 2009 Budget, a new reduction was made to ALMP in which Employment Agency funds allocated to ALMP measures were lowered to BGN 165.8m (see Table 4). This represents 0.24 % of GDP as a relative share. Furthermore, in a much-reduced 2010 Budget, the funds dedicated to ALMP in respect of NAPE 2010 (only BGN 65m) were just 0.09 % of GDP.

**Table 4 – Budget expenditure on active and passive labour market policies (fixed exchange rate: BGN 1 = €0.51129)**

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

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

At this time, the increase in unemployment required additional funds to be allocated to the financing of both active and passive labour market policies.

Given the diminishing budget resources, the most effective of the funds under operational programme ‘HRD’ 2007-2013 gained in significance with regard to overcoming the effects of the crisis. In 2009, BGN 8.1m of the funds were spent on ALMP, representing 5 % of the total programme budget, but in 2010 the amounts increased to BGN 34.1m (35 % of the total budget). Thus, a considerable restructuring of the funding sources for ALMP took place.

However, two facts that had a negative impact on ensuring the sufficient scope and financing of ALMP must be noted:

1. operational programme ‘HRD’ is only complementary to the active employment policy funded by the state budget. It is difficult to make up for the large reductions in state budget allocations (of only BGN 65m, and BGN 63.3m reported as being actually expended) using external financing. Most of the activities within the operational programme are aimed simply at providing training for unemployed and employed people, i.e. some measures that are specific to Bulgaria do not meet the eligibility requirements of European programmes and funds
2. the absorption rate of EU funds in Bulgaria is still quite low and, notwithstanding their growing share, the total funding for ALMP fell from BGN 163.9m in 2009 to BGN 97.4m in 2010. In a situation of increasing unemployment, this resulted

in significant changes to *the resources spent per unemployed person* indicator.<sup>1</sup> This fell from BGN 740 in 2008 to BGN 583 in 2009, reaching only BGN 277 in 2010 – this is below the 2003 level (MLSP, EA: 39).

The dynamic changes in unemployment levels and the number of unemployed people resulted in significant alterations to the amount of funds necessary for PLMP (Table 4). Their relative share, of 0.14 % of GDP, increased two-fold (to 0.35 %) in the first crisis year (2009) while they represented 0.44 % of GDP in 2010.

In 2008, those unemployed who are entitled to receive unemployment benefits represented 28.9 % of all unemployed people registered with labour offices, whereas in the crisis years of 2009 and 2010 their share rose respectively to 43 % and 39 % (see Table 5). In absolute numbers, the increase was two-fold. The average amount of unemployment benefit also rose rapidly. This development puts yet another social security system in Bulgaria under pressure (along with the pensions and healthcare systems) and makes it strongly dependent on budget transfers.

**Table 5 – Data on registered unemployment in Bulgaria**

Indicators	2008	2009	2010
Unemployed registered with labour offices (average number per year)	233 719	280 980	350 944
Unemployed entitled to receive unemployment benefit (average number per year)	67 473	121 034	136 755
Average amount of unemployment benefit (BGN)	136.55	143.97	192.26
Unemployment rate as registered in labour offices (mean percentage per year)	6.31	7.59	9.47

Source: Employment Agency and the National Social Security Institute

#### *Assessment of the effectiveness of ALMP*

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

The results of the research project *Assessing the Impact of the Employment Services as an Instrument to Achieve the Successful Integration of Vulnerable Groups into the Labour Market*, developed by the Ministry of Labour and Social Policy, in partnership with the National Statistical Institute and the Employment Agency, and funded by the European Commission, are quite interesting (Kotzeva, 2010).

An innovative approach was used to establish the net effect of the employment services (with a more than two-year time lag). NSI conducted 1 600 interviews in May 2010 with unemployed people who had registered in the last quarter of 2007. The survey revealed the following changes in their status:

- 1 The ratio of funds spent on active policies to the average number of registered unemployed people per year.

- 39 % of the unemployed respondents could not find any job after registration in labour offices and joined the group of long-term unemployed
- 61 % of the registered unemployed who used the employment services were able to find a job
- 87 % of those who re-engaged in work found jobs that were not created under employment programmes and measures, i.e. in the primary labour market
- 73 % of those who found jobs were still in the respective job at the time the survey was taken.

The following conclusions were made in the study, based on these results:

- individual employment services produce rapid re-employment for the unemployed. An individualised approach is especially successful among the group of higher educated and skilled people aged between thirty and fifty
- there is a group of long-term unemployed who register with labour offices in order to receive benefits and access to free services. More intensive motivation activities are needed for these people because they show no interest in using the available broker services
- the economic crisis has led to a deteriorating labour market and has also decreased the chances of vulnerable groups re-entering the market – among them lowly-educated people, Roma, people with disabilities and the long-term unemployed.

The results achieved in the implementation of labour market interventions under the operational programme 'HRD' have not yet produced a significant effect. On the one hand, the actual implementation of the activities has been delayed, with most of them now due to be completed in 2012. On the other hand, there are new operations planned, but they are not being effectively implemented. The result indicators should be reported only after the interventions have been fully implemented.

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

### **Assessment of programmes**

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

*Economic and Social Council of the Republic of Bulgaria*

For the period of its existence since 2003 the ESC has drafted, and adopted by consensus, 53 statements, analyses and resolutions on important issues, sectoral policies and domestic and international documents. In terms of the labour market and employment policies, the Council has drawn up two statements and four analyses, as well as ten other documents with a direct or indirect bearing on the labour sphere, dealing in a comprehensive manner with issues such as demographic problems; education reform; vocational training and education; the informal economy; reducing poverty and social exclusion; and the specific Bulgarian priorities related to the Lisbon Strategy, the National Reform Programme and the Europe 2020 Strategy.

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

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

The second group of measures refers to employment ‘flexicurity’ – adapting the national ‘flexicurity’ pathway; increasing the role of collective bargaining in the ‘flexicurity’ system; formulating a modern national industrial policy; and developing a national programme on ‘New Skills for New Jobs’.

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

Later on, following a proposal of the Council of Ministers, the ESC developed *An Analysis of the Programmes, Projects and Active Labour Market Policies laid down in the National Action Plan for Employment 2009, including OP 'HRD', the 'Beautiful Bulgaria' Project and the Social Investment Fund of Bulgaria*. This contained both an assessment of the policies as well as important recommendations for improvements (ESC/2/010/2009: 18-20).

The findings in the analysis demonstrated certain weaknesses in the existing practice of identifying measures and determining their scope which have led to: a lack of realistic planning which takes into account existing demand; and infeasible measures or a potential impact which is strongly over-estimated. Budget cuts have made it necessary to seek other sources of funding for the proposed anti-crisis measures.

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

The ESC recommends the reduction of those budget-funded training and skill activities which overlap the activities funded by the 'HRD' operational programme, with most of these being redirected for external funding. Special attention is paid to the need for people who have been dismissed or transferred to part-time jobs to be re-skilled and re-employed, or to improve their professional qualifications so as not to lose work habits and skills.

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

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

### *Equal opportunities*

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

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

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

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

**Table 6 – Mean annual salary by gender (BGN)**

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

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

The existing practice of drafting National Action Plans for Employment demonstrates that active labour market measures are strongly diversified and targeted at a number of vulnerable groups of unemployed people. This, to a large extent, ensures that vulnerable groups will be compensated. This goal, however, is not always attainable, especially if sustainable employment in the primary labour market is sought. Despite the incentives, employers are not inclined to hire people with disabilities, people suffering from mental disorders and addictions, or former prisoners. There are two key reasons for this: the lack of a supporting environment and the lack of appropriate complex services for such people. This is why the ESC has recommended that the existing measures and programmes in this respect be revised with a view to developing interventions which are not only adequate for these important target groups, but which also promote the establishment of a favourable environment in which the measures can be implemented (ESC/2/010/2009: 21).

#### Country specific / practical issues

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

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

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

The ambitious goals of the programme were revealed by the initial scale of implementation. In 2003-2004, more than 117 000 unemployed were included in the programme annually, which represented 80-85 % of all participants in Employment Agency programmes. 'From Benefits to Employment' was fully-funded by the state budget, with allocations for the period varying between BGN 129m and BGN 156m. Gradually, the programme was scaled down to include, in 2008-2009, about 50 000 participants,

with the budget allocation dropping to BGN 51-53m. This trend continued in 2010 but, with other programmes being redirected to receive external funding, ‘From Benefits to Employment’ remained the largest budget-funded programme. A total of 39 000 people have participated in the programme in the past year and more than BGN 27m has been spent on programme implementation. The main activities have been: maintenance and repair of playgrounds; construction works; landscaping; drain clearing; etc. For reasons that are easy to understand, the initial idea of providing social services was not put into practice.

In spite of this, ‘From Benefits to Employment’ has established itself during the last eight years as the most significant active measure providing employment to long-term unemployed people in the secondary labour market. Such supported employment is often debated and its effectiveness frequently questioned. It is undoubtedly useful, to the extent that it results in community work instead of the payment of benefits. On the other hand, however, this employment is temporary and does not change the status of the programme participants – they return to the same reality of being unemployed, low-skilled benefit recipients.

Without taking a categorical position in its analysis, the ESC has recommended that programme implementation continue, given the deepening crisis and the social effects of the programme. There is still a marked interest in it on the part of employers and municipalities, but (whether under the same title or not) it needs to be more regional in nature and adaptive to the specific needs of, and demand in, the respective region (ESC/2/10/2009: 20).

This ESC recommendation was taken into account and, in 2010, the eighty regional employment programmes aimed at resolving specific local issues started ensuring access to employment for vulnerable unemployed people. A total of 723 unemployed people per month participated in programmes throughout the year and another 1 288 people were included. The total amount of funds spent at regional level was BGN 2.54m (MLSP, EA: 51). Given the growing number of long-term unemployed and the increasing number of benefit recipients, it is evident that the programme will continue to be implemented in the years to come, with its central management being gradually transferred to the regional level.

Start-up opportunities for unemployed people are also questionable. A Microcredit Security Fund was established in 2001 by virtue of Council of Ministers Decree No. 123. A total of BGN 20m from the national budget was allocated to secure the micro-loans, with the objective of facilitating the access of small enterprises and start-ups to financial resources and to make better use of the available funds. The Ministry of Labour and Social Policy took part in the project through the branch offices of the Employment Agency. The experience accumulated by the Security Fund until 2009 showed that it is mostly expanding small enterprises offering new jobs that have used the Fund. The extent to which it has been used for start-ups is lower; while only individual unemployed people have been able to transition to self-employment using the services of the Fund.

Survey results which show the relative share of unemployed people willing to start their own business must not be ignored. According to data from a survey conducted by ISTUR, attached to the CITUB, there is a ‘hard core’ of 5.3 % and a periphery of about

15 % of people who are inclined to be self-employed, provided the environment is favourable (ILO, ISTUR: 7). There are difficulties, however, in translating these attitudes into practical action because no attention is paid to social funding, while the traditional loan-giving institutions place impossible conditions on start-ups. This represents an even bigger challenge for the unemployed. Their transition – from the group of unemployed to being self-employed, to using family workers or creating a small number of jobs in their own small business – requires special skills and capabilities on the one hand; and, on the other, the existence of adequate tools and mechanisms to make the transition easier.

The new programme ‘Support for Entrepreneurial Bulgarians’, funded by the European Social Fund, brings some hope in this respect. The total budget amounts to BGN 75m, with BGN 20m being allocated for training and BGN 5m for accounting and consulting services after the start of the business. At least 2 500 unemployed people will get a chance to start their own business and receive up to BGN 20 000 for this purpose by the end of 2013.

One eligibility condition is that applicants must have attained at least an elementary level of education and be registered with the labour offices. Approved applicants will receive special training in small- and medium-sized businesses and in business services. For this purpose they will be issued with a voucher and will have free choice of a training centre licensed by NAVET. They will also receive cash allowances for the duration of the training course. The amount is BGN 8 per day, with transport costs to the training venue being covered by the programme.

The next steps are: orientation to the development of business plans and use of consulting services; company registration; applying for financial aid from labour offices (up to BGN 20 000 depending on the project); and evaluation of the project by an evaluation committee (consisting of external experts) at the Employment Agency. In the case of approval, the amount will be paid in three instalments: 20 % in advance; interim transfers; and final payment.

The programme has clear advantages compared to previously existing interventions, because it is exclusively targeted at the unemployed, does not require them to secure a loan or their own funds and, in fact, provides financial support throughout the entire start-up cycle – training; consultancy services; start-up investment; and turnover capital. The scope of the programme is extremely extensive – from small stores, gyms, hair and cosmetic salons and service centres to micro-enterprises in the IT sector. Only activities related to agriculture, forestry, fishery and aquaculture are ineligible, because they are funded under other European programmes.

## Conclusions

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

Increasing a country’s competitiveness using dumping policies does not produce sustainable advantages and the state should focus its efforts on promoting fair competition between the economic players instead. When this mechanism works smoothly, and following the logic of the market, the factors contributing to the expanding grey

economy will be largely eliminated. These efforts are worth it because they will lead to the establishment of a normal economic environment and favourable conditions for economic growth; hence, better and more sustainable employment.

In a situation of the slowing down in the world economy, exports cannot be a solution to national economic recovery. Private investment and internal consumption should be stimulated, which will require an adequate credit policy and an active incomes policy. The negative trends do not only stem from the economic crisis, but from some key policies and approaches to exiting the crisis which are plainly wrong – turning strict fiscal discipline into a mantra; freezing salaries and pensions; and having insufficient loan resources for businesses.

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

It is especially important to increase investment in human capital with the state, employers, local authorities and regional communities sharing the burden without ruling out individual responsibility. A concrete tool for implementing a policy of continuing vocational training and lifelong learning could be the establishment of sectoral funds for improving the skills of the employed and setting up individual training accounts.

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

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

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