

EMPLOYMENT PAPER

2001/30

**Labour Market Flexibility and  
Employment Security**

**Bulgaria**

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**Employment Sector**

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## **Preface**

This paper on Bulgaria is the fourth in a series of five country reports evaluating labour market developments, reforms to legal and institutional frameworks in national labour markets, the role of social dialogue in employment protection, and the impact of labour market policy in transition countries. The other four countries analysed in the series are the Czech Republic, Estonia, Poland and the Russian Federation. These reports have been prepared within the project “Adjustment of labour markets to economic and structural change: Labour market flexibility, employment security and labour market policies”, conducted by the Labour Market Policy Team of the ILO’s Employment Strategy Department, with Alena Nesporova, Senior Labour Economist, coordinating the research on transition countries.

The authors show that unfavourable external economic conditions combined with the low speed of restructuring and privatization in Bulgaria have led to very high social costs, much higher than originally expected. They are manifested in sharp employment losses, large-scale unemployment, mounting social inequalities and widespread poverty. Amended labour legislation made mass lays-offs possible and relatively inexpensive for enterprises, while endeavouring to provide employment and income security for workers through severance pay, unemployment insurance and public assistance in re-employment.

However, in a situation of abundant labour supply and high economic instability many employers have preferred the even more flexible employment relations offered by the so-called civil contracts, which help them avoid almost all employment termination costs but provide poor protection for workers. Social dialogue at the national level, directed towards improvements in labour legislation in favour of higher employment security for workers, by restricting civil contracts and promoting job preservation in privatized enterprises, has been only partially successful. The authors argue that low labour demand and very limited funds to mitigate employment problems seriously reduce possibilities for labour market policy to compensate for these negative factors and to provide unemployed persons with effective assistance in re-employment and with reasonable income security.

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## **Introduction**

When the initial goals set in the early 1990s are compared with the outputs achieved up to 2000, the process of transition in Bulgaria has been much more difficult and longer than expected. The social price has been significantly high for the country as a whole. Hopes for an improvement in the standard of living have not been met and impoverishment and social inequality are on the rise. Moreover, the ongoing procedure in preparation for accession to the European Union means that Government efforts are concentrated on action for the short- and medium-term perspective, while important strategy considerations on long-term economic and social development goals and policies to achieve them are neglected.

Employment and social security are among the core problems of transition. Until now the sharp decline in employment, the high level of unemployment and the loss of a number of social rights and security that existed under the former regime, are components of the social price that the population has paid in recent years. Thus, the continuing transformation of employment and the social security system is mainly perceived by the population in terms of disadvantage rather than advantage. Transition to a market economy is still engendering social tension. With a view to easing this tension and taking a comprehensive look at what has happened in the past decade, this report analyses the state of the labour market and the dynamics of its basic parameters, as well as changes in the legal framework and the development of industrial relations in Bulgaria. Active labour market policies are evaluated and some recommendations are outlined that should be considered as necessary steps for increasing labour market flexibility.

### **Data sources and methodology**

Basic information for the analyses of labour market flexibility was collected from the National Statistical Institute (e.g. Labour Force Surveys) and the National Employment Office at the Ministry of Labour and Social Policy.

This report is also based on expert assessment and results from representative sociological surveys, in support of the background analysis.

A number of limitations resulting from lack of statistical data and breaks in the time-series were met with in the course of this study and these are enumerated below:

1. There are two sources of information presenting different kinds of information related to the labour market - LFS and registration data. There are differences in the numbers or rates of the indicators because the two sources collect data based on different methodology.
2. The branch structure of the labour force from 1997 to 1999 follows a new classification. Thus, there is a break in the time-series. Tables on employment for 1990-1996 follow the previous classification and from 1996 onwards are based on the new classification.
3. The occupational structure of the labour force in Bulgaria is not published, although the LFS do include a question related to the occupation of unemployed persons based on school diploma. From 2001 onwards, the occupations under ISCO 88 will be included with the national census.

4. Information related to the type of contracts is also limited, since the LFS collects data for the number of working hours, on the basis of which it publishes a table for full and part-time employment.

This report was prepared by a team headed by Iskra Beleva and Vasil Tzanov, and comprising:

Mina Atanassova, lawyer  
Rumiana Doneva, National Statistical Institute.

Parts of the report incorporate material obtained in useful consultations held with:

Rumiana Krалеva, Confederation of Independent Trade Union – Consultant  
Totio Mladenov, Confederation of Trade Union Podkrepa – Consultant  
Dickran Tebeyan, Bulgarian Economic Chamber.

The aim of this report is to present a detailed description of the pattern of transition in Bulgaria and to consider the past 10 years in regard to labour market flexibility and employment security with a view to improving the outlook for the future.

## 1. Labour market development trends in the 1990s

### 1.1 Quantitative and qualitative changes in employment

One specific feature of the Bulgarian pattern of transition is the markedly significant decline in employment. For the period 1989-1999 employment decreased by 1,555,000 people or 37.7 per cent. The aggregate employment for the period 1989-1999 is presented in Table 1.1 and shows that, up to 1999, the first decade of transition witnessed a decrease in employment of more than one-third.

**Table 1.1. Employment in Bulgaria, 1989-1999**

	1989	1993	1994	1995	1996	1997	1998	1999	1989-1999
Total employment (thousands)	4 366	2 994.6	2 868.7	3 031.5	3 085.4	3 030.1	2 920.7	2 811	-1 555
Annual change (%)	-	-31.5	-4.3	5.6	1.7	-1.8	-2.7	-1.7	-37.7

Source: 1989 – Data based on establishment census; LFS 1993 - September, LFS 1994 - October; LFS 1995 - October; LFS 1995 - November; LFS 1996 - November, 1997 - November; LFS 1998 - November, LFS 1999 - November.

Among the main factors causing this marked decrease is the reduction in GDP by almost one third (Table 1.2). The GDP decline reflects both internal and external unfavorable factors such as: reduced domestic demand; low level of investment; the slow speed of economic restructuring and privatization; and high inflation especially in 1991, 1994, 1996 and 1997. The external factors that influenced the reduction of GDP are connected with the

destroyed trade flows among former socialist countries, the Russian financial crisis, wars in the Gulf, Kosovo, and the Yugoslavian embargo, etc.

**Table 1.2. GDP and employment trends in Bulgaria, annual change, 1990-1999 (percentage)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1990-1999
Real GDP	-9.1	-11.7	-7.3	-1.5	1.8	2.9	-10.1	-6.9	3.5	2.4	-27.6
Employment*	-6.2	-13.0	-8.2	-16.0	-4.3	5.6	1.7	-1.8	-2.7	-1.7	-31.4

Note: \* 1990-1992 figures based on establishment census data; 1993-1999 based on LFS data.

Source: Statistical Yearbook, National Statistical Institute, Bulgarian National Bank, Annual Reports, various years.

## 1.2 The gender dimension of changes in employment

Based on the data presented in Table 1.3, the gender aspect of employment indicates that there is no significant difference between male and female employment dynamics. Women's employment decreased by 36.4 per cent for the period 1989-1999 and that of men by 35.0 per cent.

**Table 1.3. Employment in Bulgaria, according to sex, 1989-1999**

	1989	1993	1994	1995	1996	1997	1998	1999	1989-1999
Female employment (thousands)	2 059.0	1 395.6	1 336.3	1 421.8	1 448.4	1 413.9	1 367.2	1 311.0	-748.0
Annual change (%)	-	-32.3	-4.3	6.3	1.8	-2.4	-3.4	-4.2	-34.3
Male employment (thousands)	2 307.0	1 599.4	1 532.4	1 609.7	1 637.0	1 616.2	1 553.5	1 500.0	-807.0
Annual change (%)	-	-30.7	-4.2	5.0	1.6	-1.3	-3.9	-3.5	-35.0

Source: 1989 – establishment census data; and LFS data for 1993 - September, 1994 - October; 1995 - October; 1995 - November; 1996 – November, 1997 - November; 1998 - November, 1999 - November.

At the beginning of transition, women's employment decreased faster than men's, but in the last two years of the decade, there is an opposite trend caused by the aggregate decline in employment.

## 1.3 Changes in employment by age group

As shown in Table 1.4, 81.9 per cent of total employment in 1993 included people in the 25-54 year age group. In 1999, the figure was 84.4 per cent.

The share of youth employment (age group 15-24 years) was 9.3 per cent in 1993 and 8.4 per cent in 1999. Youth unemployment is a major problem in Bulgaria, since employers prefer to hire more experienced people even when the youth applying for some of these jobs are highly educated, possess computer skills and language education.

**Table 1.4. Employment in Bulgaria, according to age group, 1993-1999 (thousands)**

Age group	1993	1994	1995	1996	1997	1998	1999
Total	2 994.6	2 868.7	3 031.5	3 085.4	3 030.1	2 920.7	2811
15-24	280.3	263.6	260.2	258.9	248.0	252.1	237.7
25-54	2 452.3	2 394.3	2 546.7	2604	2 549.2	2 452.5	2 371.5
55 +	262.0	210.8	224.6	222.5	232.9	216.1	201.0

Source: LFS data for: 1993 - September, 1994 - October; 1995 - October; 1995 - November; 1996 - November, 1997 - November; 1998 - November, 1999 - November.

In 1993, the share of the over-55 year age group was 8.7 per cent, decreasing to 7.1 per cent in 1999. The age of retirement for women is 55.5 years and for men, 60.5 years. Should they not wish to retire – an option many people take up – they may remain in employment a further three years, during which time they cannot be dismissed, except in cases of mass lay-offs, and this is agreed on by both employer and employee. Thus, many workers of retirement age continue to be engaged, often without labour contracts. Governmental policy with regard to pensionable age includes raising it gradually to 63 years for men and 60 years for women. This would increase the revenue side of the Pension Fund and reduce the expenditure side.

#### 1.4 Sectoral distribution of employment

The sectoral and branch changes of employment indicated the restructuring of the economy. Table 1.5 presents the changes in the shares of the main sectors of the economy (industry, agriculture and services in total employment), and outlines the following trends:

- decrease in the share of industry in aggregate employment;
- increase in the share of agriculture;
- increase in the share of services.

**Table 1.5. Employment in Bulgaria, by sector, as a percentage of total employment, 1990-1998**

Employment	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
In industry	44.7	41.5	38.8	36.8	35.0	33.8	33.1	27.5	26.5	26.2
In agriculture	18.4	19.5	21.2	22.1	23.2	23.8	23.9	25.3	26.1	26.6
In services	36.7	38.8	39.9	41.0	41.8	42.3	42.9	47.0	47.3	47.1

Note: In 1997, the National Classification of Employment by Sectors was changed in 1997 to the NACE.

Source: National Bank of Bulgaria, Annual Report 1998, Statistical Reference Book, ISI, 1994, p .82, 2000, p. 46-47.

Table 1.6 presents the structure of employment in the three main sectors and their share in value added. It is worth mentioning that the increasing share in agricultural employment between 1997 and 1999 coincided with a sharply decreasing share of value added. A decline in industrial employment in 1999 compared to 1998 was accompanied by a deeper fall in value added. In services, employment slightly declined between 1998 and 1999 after a previous rapid growth, while value added continued increasing. Thus, the only sector where labour productivity recently increased was services.

**Table 1.6. Structure of employment and value added, three main sectors, 1997-1999 (percentage)**

Main sectors	1997	1998	1999
Aggregate employment	100.0	100.0	100.0
Industry	27.5	26.5	26.2
Agriculture	25.3	26.1	26.6
Services	42.9	47.3	47.1
Total value added	100.0	100.0	100.0
Industry	28.2	28.7	26.8
Agriculture	26.6	21.1	17.3
Services	45.2	50.2	55.9

Source: Statistical Reference Book, ISI, 1999 and 2000.

Table 1.7 presents employment by economic branch following a new industrial classification of the National Statistical Institute implemented in 1997. The data show that a net increase in employment during these four years was recorded only in agriculture and forestry, trade and public administration, while in all other branches employment decreased in absolute numbers.

**Table 1.7. Employment, by economic branch, according to NACE classification, 1996-1999 (thousands)**

Sector	1996	1997	1998	1999
Total	3 285	3 157	3 152	3 071
Agriculture, forestry	800	800	825	818
Mining and quarrying	64	60	55	47
Manufacturing	782	752	723	662
Electricity	57	58	57	57
Construction	166	139	129	123
Trade	321	310	337	337
Hotels	76	72	70	68
Transport	252	228	236	232
Financial mediation	42	39	37	35
Real estate	102	98	102	95
Public administration	73	78	80	91
Education	255	242	233	231
Health	187	177	167	165
Other community	103	98	95	102

Source: National Statistical Institute.

Table 1.8 presents the detailed branch classification under the former classification, KONS, valid until 1997. For the period 1990-1996 an increase in employment was recorded in only five branches: agriculture; communications; health; finance and administration. In the remainder, employment decreased and this decrease in some branches in some branches, such as industry and construction, was highly significant.

**Table 1.8. Employment by economic branch, according to KONS classification, 1990-1996 (thousands)**

	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
Employment total	4 096	3 564	3 273	3 221	3 241	3 282	3 285
Industry	1 498	1 229	1 067	979	943	922	912
Construction	337	253	204	209	192	187	177
Agriculture	735	679	676	698	738	769	771
Forestry	22	17	17	14	13	13	14
Transport	241	223	193	197	188	206	202
Communications	44	44	4 3	44	44	45	46
Trade	372	342	329	332	368	356	356
Housing	92	80	68	66	75	81	89
Science	91	67	52	36	30	27	25
Education	273	268	263	262	254	253	256
Culture	47	38	34	41	41	55	56
Health	221	207	204	200	195	196	200
Finance	24	27	35	37	44	51	52
Administration	54	50	52	67	75	76	77
Other branches	14	8	6	6	5	6	5

Source: National Statistical Yearbook, various years. The former national classification (KONS) was valid until 1997. The recent classification, NACE, follows EUROSTAT criteria.

Table 1.9 gives a more detailed picture of changes in employment by economic branch according to the new NACE classification introduced in 1997.

Employment declined in mining, and in almost all manufacturing branches except in clothing, and the manufacturing of coke, and electricity.

**Table 1.9. Employment according to specific economic branch, 1996-1998**

<b>Sector</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Total	3 285 877	3 157 435	3 152 554
Agriculture	768 455	768 745	795 792
Forestry	31 835	31 608	29 393
Mining of coal	37 684	34 609	33 079
Mining of metal ores	19 116	17 561	14 498
Other mining	8 195	8 370	7 876
Manufacture of foods, beverage and tobacco	128 818	121 652	123 970
Manufacture of textiles	48 193	46 829	41 509
Clothing	84 154	85 481	95 902
Manufacture of leather	29 042	30 239	24 897
Manufacture of wood	20 536	18 725	17 079
Manufacture of pulp, paper	30 655	28 463	27 922
Manufacture of coke, refined petroleum products	11 866	13 266	13 005
Manufacture of rubber	47 219	47 290	46 255
Manufacture of other non-metal mineral products	24 762	26 008	23 013
Manufacture of basic metals except casting of metals	39 294	38 947	36 589
Manufacture of metal products	164 883	155 934	144 315
Manufacture of electrical and optical equipment	56 784	50 198	46 927
Manufacture of transport equipment	25 990	24 354	22 395
Other manufacturing	28 079	25 943	24 054
Electricity	57 196	58 488	57 802
Construction	166 075	139 002	129 088
Trade	321 377	310 369	337 243
Hotels	76 455	72 136	70 545
Transport	205 902	182 642	191 053
Communications	46 174	45 589	45 628
Financial mediation	42 881	39 968	37 613
Real estate	10 058	9 640	9 199
Research and development	24 577	23 344	21 945
Other business activities	67 411	65 691	71 768
Public administration	73 211	78 899	80 723
Education	255 820	242 605	233 045
Health and social work	183 771	174 613	164 763
Veterinary activities	3 433	3 029	2 375
Activities of membership organizations	16 771	12 781	11 465
Sewage and refuse disposal	32 432	30 276	32 303
Cultural activities	43 550	44 887	41 286
Recreation and sporting activities	11 206	10 182	10 888

Source: National Statistical Institute, Statistical Yearbook, various years.

## 1.5 Changes in employment by enterprise size

Table 1.10 presents employment by size of enterprise, according to the National Statistical Institute classification. The general tendency is for a decrease in the average number of employees. In 1996, the average number of employees was 32.74, in 1997 it decreased to 27.54 and in 1995 dropped to 25.79 employees. Data for enterprises in terms of number of employees indicate that the number of small firms employing from 1 to 10 employees during 1996-1998 has increased, as well as their number of employees. However, if we look at the average number of employees, it has not changed – 2.85 in 1996, 2.71 in 1997 and 2.88 in 1999. The average number of employees in firms employing between 11 and 50 people has been decreasing (from 24.38 in 1996 to 24.02 in 1997 and 23.5 in 1999). The same trend applies to the average number of employees in firms employing between 51 and 100 employees

(from 71.37 in 1996 to 71.33 in 1998 and to 70.96 in 1999). The number of firms employing from 101 to 200 persons has decreased during the same period, while the average number of employees in this group of firms did not change significantly (140.62 employees in 1996, 140.98 in 1997 and 139.96 in 1999). The average number of employees in large firms (over 200 persons) decreased from 600.68 employees in 1996 to 596.75 in 1997 and to 570.51 persons in 1999. Meanwhile the number of these firms dropped from 2,038 in 1996 to 1,832 in 1999, due to the process of privatization and the restructuring of employment after the privatization process.

**Table 1.10. Employment, by size of enterprise, 1996-1998**

Number of employees	Number of firms -1996	Number of employees-1996	Number of firms -1997	Number of employees-1997	Number of firms -1998	Number of employees-1998
1 to 10	48 808	139 114	58 131	157 752	59 959	172 962
11 to 50	11 550	281 589	12 232	293 887	13 286	312 806
51 to 100	3 733	266 427	3 768	268 804	3 749	266 032
101 to 200	2 354	331 029	2 243	316 239	2 067	289 306
Over 200	2 038	1 224 193	1 874	1 118 328	1 832	1 045 185
Total	68 483	2 242 352	78 248	2 155 010	80 893	2 086 291

Source: National Statistical Institute, various years.

In terms of number of employees, Table 1.10 shows that the firms restructuring and those newly opening are mainly small and medium size enterprises (SMEs). From this point of view, the employment pattern may be considered as more flexible, since SME employment is easier to manage and restructure according to changes in production. On the other hand, SME employment is less socially protected by trade unions and weaker in the process of collective bargaining. A more detailed consideration of SME employment is provided in the following section.

## **1.6 Changes in employment by status in employment**

Analysis of the changes in employment by status in employment will be based on two sources of information. The first is LFS data on employers, self-employed persons, employees in the private and public sectors, and unpaid family workers. The second is based on National Statistical Institute data, in order to review changes in employment status by sector and branch. These two sources present different shares of private sector employment in total employment. According to NSI data in 1999 this share was 63.2 per cent; according to LFS figures for November 1999 the share of self-employed persons, employees in the private sector and unpaid family workers was 45.6 per cent of total employment. This report uses both sources of data for a more comprehensive analysis.

Table 1.11 provides the form of ownership in the public and private sectors according to LFS data.

**Table 1.11. Employment, by form of ownership in public and private sectors, 1993-1999**

Year	Total	Employers	Self-employed	Total employees	Percentage in the private sector	Percentage in the public sector	Unpaid family workers	Unknown
1993	100	9.8		88.7	11.3	77.4	1.4	0.1
1994	100	8.6		90.4	16.1	74.3	0.9	0.2
1995	100	9.9		88.9	17.9	71.0	1.0	0.2
1996	100	2.0	8.5	88.1	21.0	67.1	1.3	0.2
1997	100	2.0	9.7	86.0	24.7	61.3	1.9	0.2
1998	100	2.4	9.4	86.6	30.4	56.2	1.4	0.2
1999	100	2.5	9.2	86.7	35.2	51.5	1.2	0.4

Source: LFS 1993 - September, LFS 1994 - October; LFS 1995 - October; LFS 1995 - November; LFS 1996 - November, LFS 1997 - November; LFS 1998 - November, LFS 1999 - November.

### **Employers and self-employed**

Given that economic restructuring would suggest a stronger development of its new economic actors, the number of employers increased for the whole period analysed by only 0.05 per cent. Self-employment in 1999 was 9.2 per cent of total employment; after 1997 this share declined by 0.5 per cent. The share of employees decreased slightly from 1994 to 1997, when it reached 86.0 per cent of total employment and then slightly increased by 0.7 per cent in 1999.

The most significant changes in the structure of employment are related to the increasing share of employees employed in the private sector and the decreasing share of those employed in the public sector. Thus, in 1999 the share of employees in the private sector is 35.2 per cent, while that in the public sector decreased to 51.5 per cent.

The share of unpaid family workers remains relatively unchanged, representing about 1 per cent of the total employment.

Table 1.12 presents the dynamics of private sector employment, with the share of employment in the private sector comprising 63.2 per cent of total employment.

**Table 1.12. Employment in the private sector, 1990-1999 (thousands)**

Indicator	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total employment	4 097	3 564	3 274	3 222	3 242	3 282	3 285	3 198	3 152	3 072
Employment in private sector	250	277	611	912	1 167	1 348	1 332	1 681	1 922	1 943
Share in total employment	5.9	10.1	17.7	24.2	36.0	40.6	47.3	52.5	60.9	63.2

Source: Statistical Reference Book, National Statistical Institute, 1997, 1998 p. 38-39; 2000 p.46.

The development of private sector employment in Bulgaria has been rather modest and is not able to absorb enough unemployed people to reverse unemployment trends. The slow development of the private sector is a result of a number of factors, namely a sluggish process of privatization, low levels of both internal and external investment, an unfavourable macroeconomic environment; high inflation and the escalating impoverishment of the population. Nevertheless, the rapid expansion of the private sector in 1994 and 1995 contributed to a revival of moderate growth. The development of employment in the private sector reflects the specific features of the privatization processes taking place in Bulgaria, as mentioned earlier.

As Table 1.13 shows, the trade sector initially expanded most within the private sector. The quick turnover of capital and the need for minimum investment for initiating profit-making activities have been the contributing factors to channeling employment into this sector of the economy.

**Table 1.13. Private employment, by sector, as a percentage of total private employment, 1990-1999**

	1990	1991	1992	1993	1994	1995	1996	1997	1998*	1999
Private sector employment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	**100.0	100.0	100.0
Industry	7.4	8.6	6.8	8.4	9.9	10.8	11.0	25.2	23.5	28.6
Agriculture	66.3	47.6	54.6	50.9	49.6	48.3	49.2	43.1	41.2	40.4
Construction	5.2	6.5	5.2	7.6	6.9	7.0	6.8	5.6	4.7	4.3
Transport	3.6	4.6	2.8	4.1	3.6	5.4	5.1	4.7	3.8	4.8
Trade	9.3	23.9	24.6	20.5	21.7	19.4	19.4	16.5	16.2	16.3
Housing	3.3	2.9	1.5	1.5	1.8	1.7	1.7	0.3	***3.1	2.7
Education	0.2	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Culture	0.5	0.5	0.4	1.2	1.1	1.7	2.1	-	1.4	1.2
Health	0.2	0.4	0.3	0.5	0.7	0.7	0.7	0.2	0.1	0.1
Finance		0.6	0.3	0.7	1.0	1.4	1.2	0.7	0.6	0.7
Administration	1.5	1.0	0.8	1.2	1.3	0.7	0.4	-	****2.9	2.8
Other	1.2	0.8	0.0	0.6	0.4	0.5	0.3	-	0.9	0.9

Notes: \* Preliminary; \*\* 1997 reporting follows a NACE branch classification and some of the former sub-branches; \*\*\* Hotels and catering; \*\*\*\* Business services.

Source: Calculated on the basis of data from Statistical Reference Book 1995, NSI, p.63 and Annual National Bank Reports, various years.

It should be noted that the share of people employed in the private sector in industry has been growing, especially in 1998. This is due to a number of sales of major (in terms of employment figures) state enterprises. Yet employment in the private sector remains minor relative to the number of employees.

Most (94 per cent) private enterprises employ only 1 person, or 18.2 per cent of the total number of private sector employees. The predominant part of the private sector is represented by one-person enterprises that do not create sufficient labour demand.

### **SMEs and employment in Bulgaria**

The important role of SMEs in relation to employment is generally recognized. As far as Bulgaria is concerned, the part played by SMEs in total employment was increasing during the last three years of the 1990s but still is not able to cover the aggregate employment reduction. This conclusion is based on the report on SMEs from 1996 to 1999, published by the Agency for Small and Medium Enterprises in 2000. In conjunction with the PHARE Programme, the report is a comprehensive analysis of SME development in Bulgaria, particularly their role in the labour market. In 1996 and 1997 SMEs accounted for 36.7 per cent of employment and in 1998 this share increased to 44 per cent.

SMEs contributed more significantly to the employment increase in the private sector, and in 1998 their share of employment in this sector was 51.6 per cent while their share in total public employment was only 5.4 per cent.

The structure of these enterprises is usually very small. According to the law for small and medium size enterprises,<sup>1</sup> in force since 1999, SME enterprises are defined as: micro-firms

<sup>1</sup> *State Gazeta* (SG) No. 84 of 24.09.1999.

with up to 10 employees; small firms employing from 11 to 50; medium size firms with from 51 to 100 employees; firms employing from 101 to 250; and the large firms, defined as those with upwards of 250 employees.

The share of these firms in total employment according to enterprise size is given in Table 1.14. The share of the private sector is the highest in terms of small firms and decreases as the size of the firm increases. Conversely, the public sector's share is lowest in terms of the small firm and increases with firm size. This situation prevailed during 1996-1998 although the shares decrease.

**Table 1.14. Share of firms in total employment, according to enterprise size, 1996-1998**

Sectors	Micro-firms	Small firms	Average firms	Firms with from 101-200 employees	Large firms
1996					
Total	16.3	11.9	8.5	16.0	47.3
Public sector	0.3	4.1	6.6	18.3	70.7
Private sector	39.7	23.3	11.3	12.6	13.0
1997					
Total	19.0	13.2	8.8	15.2	43.8
Public sector	0.5	5.0	7.1	16.0	71.5
Private sector	33.5	19.6	10.1	14.6	22.3
1998					
Total	20.5	14.5	9.1	14.2	41.8
Public sector	0.5	4.9	7.0	14.1	73.6
Private sector	31.7	19.9	10.3	14.3	23.8

Source: 1996-1999 SME Development Report, Agency for SME, Sofia, 2000, p. 55.

In relation to the branch structure of SMEs, it is interesting to note that the micro-firms prevail in health services (72.9 per cent of all firms in the branch); in education (52.6 per cent); trade (59 per cent); and hotels and catering (55.5 per cent). The share of the large firms is highest in mining and quarrying (90.8 per cent); in electricity (93.9 per cent); in transport (66.6 per cent) and in manufacturing (58.4 per cent). The small firms are distributed between branches mainly in agriculture (33.6 per cent); in finance and credit (32.9 per cent); and in construction (22.3 per cent).

The medium size firms' share in agriculture is 21.8 per cent of total firms in the branch, 15.9 per cent in construction.

Firms employing from 101 to 250 people have a share in agriculture of 27 per cent; 24.5 per cent in construction; 10.2 per cent in hotels; and 30.9 per cent in other services.

The dynamics of labour productivity (value added per employee) based on the results of the 1996-1999 SME Development Report mentioned above are presented in Table 1.15.

**Table 1.15. Labour productivity, according to enterprise size, 1998 (BLG thousands)**

Size of firm	Total amount	Public sector	Private sector
Total firms	354.8	522.4	260.0
Micro-firms	157.5	391.9	155.3
Small firms	243.7	276.6	239.2
Medium size firms	248.7	267.0	241.7
Firms employing from 101 to 250	305.2	286.9	315.3
Large firms	529.7	608.8	391.6

Source: 1996-1999 SME Development Report, Sofia, 2000, p. 56.

Private sector employment where, as mentioned earlier, the share of employment prevails, has lower labour productivity than public sector, where the share of large firms prevails.

SME share in export started to decrease during 1998 and 1999, which is considered to indicate problems for their further development. The share of micro-firms in total export in 1996 was 10.6 per cent and dropped to 9.53 in 1999. Within this group the share of private micro-firms in total export in 1996 was 37.0 per cent and in 1999 it decreased to 16.1 per cent. The same tendency is valid for the small private firms, whose share in total export in 1996 was 24.1 per cent and fell in 1999 to 12.5 per cent.

This and other data from the 1996-1999 SME Development Report indicate that there are many problems limiting employment growth in SMEs. The macroeconomic framework, the decline in domestic demand, the lack of experience in management and marketing make SME employers conservative about any increase in employment. There are also legal and administrative barriers, as well as subjective problems, which add to the cautious attitude of the SME employers on employment-related issues.

### 1.7 Changes in employment by type of contract

The transition caused significant changes in relations between employers and employees, which is reflected in the change in employment contracts. In the socialist period, employment was centrally organized under permanent contracts guaranteeing job security one hundred per cent. During the past ten years of transition, the situation altered completely. First, to allow for the possibility of holding a second job, the so-called "civil contract" was introduced, followed by the introduction of fixed-term and seasonal contracts. The fixed-term (usually for a short period of two to three months) contract became the preferred mode because it offered employers less legal problems in the case of dismissals.

There is no regular monitoring and information on types of contract. According to the LFS 2/97, the share of employed in the private sector without a contract in November 1997 was 15 per cent and has been decreasing compared to June 1997 (by 4.5 per cent) and November 1996 (by 2.3 per cent). In mid-2000, trade unions sounded the alarm: the majority of contracts were for short-term duration, with 680,000 employees or one-third of the total number of employees<sup>2</sup> engaged under this type of contract according to their information.

The tendency towards the replacement of permanent contracts by fixed-term or civil contracts can also be observed on the basis of vacancies offered by the employment services, as shown in Table 1.16.

<sup>2</sup> Newspaper *Trud*, 10.04.2000

**Table 1.16. Structure of vacancies by types of employment contract, 1994-1998**

	1994	1995	1996	1998
Total vacancies	100.0	100.0	100.0	100.0
Permanent contract	27.9	27.7	17.4	8.3
Fixed-term contract	63.3	65.3	79.4	88.9
Civil contract	8.7	6.9	3.2	2.9

Source: National Employment Services, various years.

From 1994 to 1998, the share of permanent contracts offered in the total number of vacancies reported by NES declined from 27.0 to 8.3 per cent, while the share of fixed-term contracts increased to 88.9 per cent. As mentioned above, employers clearly prefer to hire on more flexible contracts – a feature not only in SMEs but also in relatively large enterprises. From the worker's point of view, this implies deterioration both in employment conditions and the protection of existing jobs. The change from long-term to limited duration contracts also means a decrease in the level of total remuneration (seniority pay).

There is no reliable statistical information on the share of civil contracts in total employment. Collection by the LFS started in 2000. The structure of employment by types of occupational contract in 2000 is presented in Table 1.17.

**Table 1.17. Structure of employment by types of employment contract, 2000 (percentage)**

2000	March	June	March	June	March	June
	Average		Public sector		Private sector	
Labour contract	85.5	85.3	97.7	97.9	72.0	70.2
Civil contract	7.3	7.1	1.4	1.2	14.8	14.2
Other contract	1.5	1.4	0.4	0.4	2.6	2.6
Without contract	5.7	6.2	0.5	0.5	10.6	13.0

Source: LFS, National Statistical Institute, 2000.

The percentage of employees hired on civil contracts in the economy as a whole is not so high but the differences between public and private sectors are significant and disturbing. A similar situation appears in hires without contracts. As a result, a considerable part of employees in the private sector (over 25 per cent) have low job and employment security. These are mainly young workers (over 27 per cent) and people aged over 55 years.

As Table 1.16 showed, the tendency to a decrease in civil contracts in new jobs by a factor of 3 from 1994 to 1998 meant a 2.9 per cent share of the total number of offered jobs. Although these contracts have only a small share in the total status of employed, their reduction has important implications for establishing regular labour relations, more effective protection and social policy framework.

Although the type of employment contract remains unclear, the majority of employees usually work a full-time 40-hour week, as Table 1.18 shows.

**Table 1.18. Employees according to hours worked each week, 1994-1997**

Weekly hours of work	June 1994	June 1995	Oct. 1995	March 1996	Nov. 1996	June 1997	Nov. 1997	June 1998	Nov. 1998
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1-9	0.1	-	0.1	-	-	-	0.1	-	-
10-19	0.5	0.4	0.3	0.3	0.3	0.1	0.2	0.2	0.3
20-29	2.4	1.6	1.5	1.4	1.3	0.9	1.0	0.9	1.2
30-39	5.6	5.7	4.7	5.3	4.8	4.5	4.1	3.6	3.6
40-49	82.2	78.5	82.6	82.5	82.5	86.2	87.2	86.9	86.3
50-59	3.3	5.4	3.8	3.5	3.8	2.8	2.2	2.9	2.1
60 +	2.5	4.6	2.6	2.6	2.7	2.1	1.2	1.6	1.3
Unknown	3.3	6.7	4.2	4.3	4.7	3.4	4.1	3.9	5.1

Source: LFS, National Statistical Institute, various years.

### 1.8 Annual labour inflows and outflows

These inflows and outflows refer to hiring and quits, including lay-offs for economic reasons, other dismissals, voluntary quits and other quits for retirement, health reasons, etc. In the initial decade of transition, labour inflows and outflows were significant and, for the entire period, outflows were higher than inflows, as Table 1.19 shows. Many of the reasons for this have been previously discussed. Here it should be mentioned that the decreasing outflows during 1994, 1995 and 1996 were due to the delay in economic reform but not to any improvement in the employment situation. This delay after mid-1996 caused hyperinflation and the need for urgent measures, such as the Currency Board arrangement.

**Table 1.19 Labour flows, Bulgaria, 1990-1999**

	Labour outflows total number	Labour outflows due to economic restructuring	Labour inflow	Labour inflow - labour outflow
1990	1 054 645	114 885	727 512	-327 133
1991	1 158 341	347 848	472 525	-685 816
1992	828 675	312 515	335 227	-493 448
1993	671 594	264 111	348 517	-323 077
1994	523 412	148 182	368 521	-154 891
1995	429 944	70 321	399 253	-30 691
1996	460 125	78 338	395 284	-64 841
1997	686 993	128 734	590 780	-96 213
1998	623 108	103 972	542 806	-80 302
1999	779 836	110 989	538 088	-241 748

Source: National Statistical Institute, Statistical Yearbook, various years.

Unfortunately, there is no detailed information on labour outflows due to other reasons, such as voluntary quits, retirement, etc. The data available from the LFS are on persons unemployed for the following reasons: redundancy; job-leavers (including retirement); end of seasonal or temporary job; school (university) leavers; end of compulsory military service, etc. This information comes from the LFS questionnaires and covers only a part of, and not all, unemployed persons. Since it also includes jobless people who have never entered employment, the LFS information is not comparable to the outflows from employment registered by the National Statistical Institute on changes (reductions) in employment, based on enterprise information.

There is also no exact information on the structure of employment flows, such as employment to employment, employment to unemployment and employment to inactivity, or on employment inflows by origin, such as first employment. The information available on outflows from unemployment to employment is shown in Table 1.26, on changes in the numbers of inactives, and in Table 1.27 on those discouraged from job search who have quit the labour market.

### 1.9 Average employment tenures

Length of duration of current employment is not reported by the LSF. Data are available on duration of job-searching activities for the unemployed, but not what happened previously with this employment.

Information is available on the number of average working years required for eligibility to the newly granted personal pensions, according to data from the National Social Security Institute. As Table 1.20 shows, the average number of years in work increased by 1.1 per cent for the period 1993-1998. This trend should continue because of the following factors:

- Governmental policy aims at increasing the average number in work years so that contributors pay in longer to the Pension Fund and receive pension benefits for shorter periods;
- Employees are interested in staying in work longer because of the low level of pensions and the lack of other sources of income;
- The average number of years in work is higher for men than women; recently legislated opportunities for early retirement may perhaps be taken up more by women than by men.

**Table 1.20 Average number of years in work for eligibility to (newly granted) pensions, 1993-1998**

	1993	1994	1995	1996	1997	1998
Total	30.3	30.8	30.7	31.1	31.5	31.4
Men	33.0	33.3	33.1	33.6	34.0	33.9
Women	27.9	28.8	28.6	28.8	29.2	29.1

Source: National Social Security Institute, various years.

### 1.10 Unemployment

As mentioned earlier, the high unemployment level is one of the main hardships of the transition decade (Table 1.21). For the past ten years, people have had to live with the understanding that there is no longer a secure job for the “whole working life”. Many have been hit by unemployment, many others have been forced to change their jobs, occupations and professions in order to enter employment a second or even a third time. Exact statistical figures on this fact are not available; this conclusion is based on expert opinion.

**Table 1.21. Unemployment in Bulgaria, 1993-1999**

	1993	1994	1995	1996	1997	1998	1999
Total unemployment (thousands)	814.7	740.2	520.8	490.8	534.1	556.1	576.9
Unemployment rate (%)	21.4	20.5	14.7	13.7	15.0	16.0	17.0

Source: LFS 1993 – September; LFS 1994 - October; LFS 1995 - October; LFS 1996 - November, LFS 1997 - November; LFS 1998 - November, LFS 1999- November.

In 1999, unemployment started to rise due to a new “wave” of privatization and the restructuring of public enterprises. According to data published by the National Employment Office, the number of registered unemployment persons increased by the end of December 1999 to 610,551 or 15.97 per cent of the labour force. By end April 2000, this figure had jumped to 726,358 or 19 per cent of the labour force.

The number of registered jobseekers per vacancy during the transition declined from 48 in 1994, to 28 in 1995 and 26 in 1996, reflecting mainly the delay in the structural reforms. In 1997 this ratio increased sharply to 45 jobseekers per vacancy, as a result of active measures undertaken by the new government related to economic restructuring, financial stabilization and Currency Board fiscal rigidities. In 1998, the jobseeker/vacancy ratio dropped to 37 and in 1999 to 36, but continues to remain high.

### **A gender perspective on unemployment**

As Table 1.22 shows, the number of unemployed men is higher than for unemployed women. Similarly, the male unemployment rate is also higher than for female unemployment. One reasonable explanation of the higher male unemployment registered in the last two years of the transition decade is the continuing privatization process and job reduction in sectors, where male employment prevails (mining, chemicals, some manufacturing branches). Female unemployment was higher in the first years of transition when the economic crises, the restructuring process and privatization caused a dramatic decline in those industries (textiles, food, clothing, tobacco etc.) where female employment was predominant in total employment. As far as the unemployment rate is concerned it should be noted that the male labour force is higher than female labour force and the rate is a ratio between the number of unemployed and the labour force.

**Table 1.22. Unemployment in Bulgaria, by sex, 1993-1999**

	1993	1994	1995	1996	1997	1998	1999
Female employment (thousands)	393.4	347.6	250.4	232.6	255.4	258.4	264.0
Unemployment rate (%)	22.0	20.6	15.0	13.8	15.3	15.9	16.8
Male employment (thousands)	421.3	392.5	270.4	258.2	278.7	297.7	312.9
Unemployment rate (%)	20.9	20.4	14.4	13.6	14.7	16.1	17.3

Source: Same as for Table 1.1.

Unemployment among the 25-54 year age group has been higher than for the 15-24 or 55 years and over age groups for the entire period under survey (Table 1.23). The decline in the number of unemployed people from the 15-24 year age group is due not so much to an increase of the jobs and the younger age of this age group, but to their withdrawal from the labour market either to enter the shadow economy or continue study at university. As shown in Table 1.24, the unemployment rate among this age group was more than twice the average unemployment rate in 1999.

**Table 1.23 Unemployment in Bulgaria, by age group, 1993-1999**

Age groups	1993	1994	1995	1996	1997	1998	1999
Total	814.7	740.2	520.8	490.8	534.1	556.1	576.9
15-24 yrs	248.8	214.8	157.3	130.3	139.4	141.5	138.0
25-54 yrs	512.4	483.7	343.2	342.6	372.9	390.9	410.0
55 + yrs	53.5	41.7	20.3	17.9	21.8	25.7	28.9

Source: Same as for Table 1.1.

**Table 1.24 Unemployment rates (ILO definition), by age group, 1993-1999**

Period	Unemployment – total	Age 15-24 years	Age 25-54 years	Age 55+ years
Sep. '93	21.4	47.0	18.2	20.8
Oct. '94	20.5	44.8	16.8	17.3
Oct. '95	14.7	37.6	11.8	8.6
Nov. '96	13.7	33.4	11.6	7.5
Nov. '97	15.0	35.9	12.7	8.7
Nov. '98	16.0	35.9	13.6	10.8
Nov. '99	17.0	36.0	14.7	10.0

Note: Age groups are reported in the following ranking: 15-24; 25-34; 35-44; 45-55; 55-64; and 65+ years.

Source: LSF data, various years.

As mentioned earlier, the increase in unemployment has been a result of the accelerated restructuring of the public firms and the privatization process. Because of the corresponding increase in unemployed persons who are eligible for unemployment benefits and assistance, the Government approved Act 100 of the Council of Ministers (30.04.1998). This Act accorded unemployed people, dismissed due to liquidation or restructuring of a state or municipality firm, the entitlement to receive in cash BGN 1,000 (denominated BGL) paid by the Retraining and Unemployment Benefits Fund in order to start their own business. In 1998, 38,805 persons registered under this Act. In 1999, the number of expected job-cuts, registered by the National Employment Office was 35,300. In May 2000 the Chief of the National Employment Service reported in the mass media<sup>3</sup> that the Fund has difficulties in paying this money because of the high number of dismissed unemployed who were registered to receive payments. The mass media reported a delay in payment of more than three months. Table 1.25 presents the quarterly numbers of unemployed entitled to unemployment benefits, by total and by sectors. Data in this table includes those unemployed who are entitled to receive the lump sum of BGN 1,000. From the time the sum is received, they are no longer considered as having unemployed status.

<sup>3</sup> Newspaper "24 hours" 18.05.2000

There is an increase in almost all branches in the average numbers of dismissed employees, but the most significant increases are in manufacturing, construction, trade, public administration, and health.

**Table 1.25 Unemployed persons eligible for unemployment benefits, by economic branch, 1999-2000**

Sector	1st Q 1999	2nd Q 1999	3rd Q 1999	4th Q 1999	1st Q 2000
Agriculture, forestry	67 071	59 373	55 266	66 923	76 230
Mining and quarrying	1 859	2 204	3 188	3 928	4 906
Manufacturing	159 235	164 429	170 107	193 116	221 135
Electricity	910	908	1 007	1 154	1 222
Construction	21 681	21 245	21 208	23 813	28 866
Trade	32 098	32 188	33 818	39 264	45 167
Hotels	5 888	5 129	5 062	9 356	12 234
Transport	14 627	14 588	14 877	16 558	17 768
Financial mediation	4 303	3 993	3 861	3 536	3 728
Real estate	25 403	24 338	24 374	25 823	24 690
Research and development	7 691	7 524	7 345	7 020	6 682
Public administration	38 289	40 508	43 135	47 447	53 553
Education	14 569	14 550	17 592	17 609	19 484
Health	3 631	4 256	4 618	5 339	9 055
Other community	4 635	5 029	5 785	6 702	7 857

Source: Authors' calculations based on monthly data published by the National Employment Office, 1999, 2000.

Data on unemployment by firm size is not published either by the National Statistical Institute or by the National Employment Office. The procedure is that when mass dismissals are forthcoming, firms report to the local labour office on the expected numbers of lay-offs and this information is aggregated from the National Labour Office.

### 1.11 Annual inflows to and outflows from registered unemployment

The average monthly unemployment flows of registered unemployment are presented in Table 1.26. The share of people who quit unemployment because of new employment had increased from 19.1 per cent of total outflows in 1992 to 38.6 per cent in 1999. This is a positive trend indicating the growing opportunities for unemployed people for employment reintegration. Table 1.27 shows data for those who were discouraged and quit unemployment registration. Data in Tables 1.26 and 1.27 should not be compared, since they present different sources of information (LFS and monthly registration in labour offices). Table 1.27 also shows the numbers and the share of quits from the labour market in the total number of labour force inactives.

**Table 1.26. Unemployment flows (numbers), Bulgaria, 1992-1999**

Indicators	1992	1993	1994	1995	1996	1997	1998	1999
Inflows	53 279	44 932	41 410	45 224	51 975	60 907	35 695	58 050
Outflows	28 990	35 568	51 028	50 612	47 392	48 099	50 545	46 720
to employment	5 539	6 202	6 980	10 412	12 446	17 368	15 726	18 078
Ratio inflows/outflows	1.83	1.26	0.81	0.89	1.09	1.26	0.70	0.80

Source: Authors' calculations based on *Monthly Bulletin* data, Ministry of Labour and Social Policy, various years.

**Table 1.27. Discouraged quits from the labour market, Bulgaria, 1994-1999 (thousands)**

Period	Total number	Men	Women	Percentage of total inactives
June '94	208.8	105.0	103.8	6.5
Oct. '94	196.8	97.8	98.9	6.0
June '95	183.3	91.2	92.2	5.5
Oct. '95	195.9	100.6	95.3	5.8
Mar. '96	195.4	95.2	100.2	5.7
June '96	187.7	89.1	98.6	5.7
Nov. '97	239.1	118.8	120.2	7.1
June '98	231.6	118.2	113.4	6.8
Nov. '98	295.6	146.4	149.1	8.6
Mar. '99	307.3	154.9	152.4	8.7
June '99	306.6	155.9	150.6	8.9
Nov. '99	357.3	183.8	173.4	10.2

Source: LFS data, various years.

The increasing numbers of unemployed people who quit the labour market due to discouragement indicates that active labour market policies should be better targeted to cover this group by relevant programs for employment reintegration.

#### **Informal employment as an indicator of flexibilization of the labour market**

Informal employment in Bulgaria has been studied during the transition period as an integral part of the informal (shadow) economy. A number of research studies supplemented the attempts of the National Statistical Institute to describe the size and the structure of unreported, hidden economic activity and employment, in particular. The present report gives the most recent results of an international project carried out by the Agency for Economic Analysis and Forecasting, the Institute for Market Economy, and Harvard University (October 2000).

According to this project, the share of the shadow economy in 1998 in Bulgaria was 22 per cent of GDP. The maximum was observed in 1990 (32 per cent) and in 1996 (34.4 per cent), with a decline since 1997. These estimates are based on different methods used in the project, such as a modified physical input approach, a direct microeconomic approach based on firm-level questionnaire data, etc. According to another study, carried out by the Centre for the Study of Democracy and reported by the Bulgarian Telegraph Agency (21 June 2000) the share of the shadow economy in Bulgaria varied from 32 to 35 per cent.

The study of the Agency for Economic Analysis and Forecasting, the Institute for Market Economy, and Harvard University demonstrates that between 13 and 15 per cent of the sample reported hiring without an employment contract in the last 3 years, as well as during their first accounting year. Nevertheless, there is a tendency for growth in the total number of those employed without a contract over the 1997-1999 period. In 1999 the total number of employed fell by over 14 per cent, at the same time the number of employed with no contract increased by 22 per cent – a demonstrably clear tendency to avoid contracts when hiring labour.

The results of the project also show that approximately 3 per cent of employed people (ca. 80,000) are not legally registered. According to the Confederation of Independent Trade Unions, the number of people working without an employment contract by the end of 1999

was over 500,000.<sup>4</sup> Thus, the unemployment rate for 1999 seems to be lower than the LFS shows.

The largest share of workers without an employment contract was in the agriculture and trade sectors.

The survey shows that the salaries actually paid were higher than the wages reported (average BGN 230) by 10 to 50 per cent. Most firms hide around 34-35 per cent of labour costs to avoid tax payments. In reaction to this, the Government undertook steps to lower taxes, as has been reflected in the draft 2001 budget.

### 1.12 Real wages

As far as real wages are concerned, Table 1.28 shows the dynamics of real wages during the transition period.

**Table 1.28 Real wages and real gross income per capita, Bulgaria, 1990-1999**

Year	Nominal wage (yearly change)	Inflation annual changes	Real wage* yearly change	Real gross income per capita (1989=100)
1990	37.9	23.9	5.3	96.2
1991	167.8	338.5	-39.0	59.0
1992	102.3	79.4	12.8	63.5
1993	57.8	56.1	1.1	60.4
1994	53.5	87.1	-17.9	53.6
1995	53.4	62.1	-5.5	49.0
1996	89.2	123.0	-17.6	33.5
1997	884.1	1 087.8	-18.8	28.4
1998	47.0	22.3	22.3	36.9
1999	11.9	2.6	9.1	37.1

Note: \* Calculated as the ratio between nominal wages and inflation. Taxes are included.

Source: Statistical Yearbook, NSI, various years.

Changes in real wages in Bulgaria are mainly due to inflation chokes in particular years (1991, 1994, 1996-1997). During these years, nominal wages were partly compensated for according to inflation. Thus the changes in real wages, as shown in Table 1.28, should not be interpreted as a nominal wage flexibility under labour demand and supply. That being said, the wage decline reduces labour costs for enterprises and allows them to keep workers who would otherwise be made redundant (or even to recruit new workers). In this sense, the wage decline permits enterprises to adjust to economic conditions and make the labour market more flexible.

### 1.13 Internal migration

At a very low level during the previous regime, internal migration became more significant during the transition period. However, it is not widely accepted as an effective means of combating unemployment, since most regions are depressed in terms of labour demand. Another reason for lack of interest in internal migration is that the salary level of payment in Bulgaria overall is low. It is also low in comparison with most other transition countries, which is why the absolute number of people who migrate within the country has been decreasing over the latter half of the transition decade (Table 1.29).

<sup>4</sup> Published in newspaper "24 Hours", 24.02.2000.

**Table 1.29. Internal migration including labour migration, selected years**

Years	Total number	Labour migration (due to changes in jobs)	Percentage of total
1994	194 080	62 121	32.0
1995	193 917	51 884	26.7
1996	168 334	56 661	33.6
1998	186 150	55 657	29.0

Source: NSI, *Population*, 1999, p. 181 ; 1997 p. 216 ; 1996 ; p. 57 ; 1995, p. 283.

Section 2 now takes an in-depth look at labour legislation in Bulgaria.

## **2. Evolution of labour legislation and the restructuring of employment**

### **2.1 Historical brief**

For 50 years prior to 1989, Bulgaria belonged to the group of countries with centrally planned economies. In the early 1980s, discussions began on the need for change in the structure and legal basis of industrial relations. The 1986 (and still valid) Labour Code replaced the 1951 Labour Code (which had imported the Stalinist model of industrial relations, coinciding with the wave of industrial development and the collectivization of agrarian production). According to the Introduction to the current Labour Code, the State favoured a protectionist model based on a “creative Marxist-Leninist analysis of contemporary processes and phenomena in labour”. The trade union, given new functions in parallel to specific targets such as housing, transport to work, health and safety, children’s daycare, vacation homes and vocational training, was designated as “organizer of the labour collective” and “guarantor of the economic mechanisms”. This potentially important shift in the power structure remained more a concept than a reality for trade unions.

Since 1989, the gradual democratization of the political system has significantly changed labour law in Bulgaria. Similarly to other countries in transition, two contradictory trends have emerged. The first is the independence of trade unions from the State, including the new responsibilities this incurs, and their new role in collective bargaining. The second is that trade union power has been eroded by economic reforms (the liberalization of prices, privatization, and restructuralization). The introduction of the Currency Board in July 1997 in the wake of the country’s severe 1996-1997 financial crisis has constrained the ability of trade unions to act. This is valid to a certain extent for the Government itself; most of the economic and social reforms in Bulgaria are now under the supervision of two international financial institutions, the International Monetary Fund and the World Bank.

Trade unions continue to lose members in the public service and state enterprises, most of which are either privatized or have closed down. In the private sector, trade union presence is at a nascent stage. It would appear that firms in Bulgaria are replacing the stable labour force with a different category of worker, one frequently offered atypical forms of employment or hired on a less secure basis. Nevertheless, Bulgarian labour law was and still is based on the employment relationship. In the Fordist model, the enterprise is conceptualized as the community wherein workers of various trades are brought together around a common

economic activity and under the management of a single employer. The core of this model is employment of indefinite duration and the secure livelihood of the worker.

In consultation with the social partners, the Labour Code underwent a further change through the draft Act on Amending and Supplementing the Labour Code in May-June 2000, regarding tripartite cooperation, collective bargaining, fixed-term contracts, and grounds for termination of employment. The proposed amendments cover almost half of the present Labour Code. They will be referred to under the heading '*Draft act proposals*' following the relevant paragraph/s in the present report.

In 2000, Parliament passed the final act on the ratification procedure of the European Social Charter. Bulgaria has also ratified the core ILO Conventions and is in the process of rapid harmonization of its social and labour legislation with the legal standards of the European Communities.

## **2.2 Scope of labour legislation**

Article 1 of the Labour Code, regulating the employment relationship as well as other relationships between employee and employer, was amended in 1996 to preclude any but the direct employment relationship. This amendment aimed at reducing the spread of the civil contracts which, for various economic reasons, were replacing employment contracts. It was accompanied by a new article (405a) similarly aimed at restricting the "hidden" employment relationship in its atypical form. Given the rapid increase of civil law contracts and of work without contract, these attempts have been unsuccessful.

Paragraph 1 of the Labour Code stipulates that the employer shall be any natural person, legal entity or division thereof, as well as any other organizationally and economically autonomous entity (enterprise, office, organization, co-operative farm, establishment, household, association) that independently hires employees in an employment relationship. Paragraph 2 explicitly states the applicability of the Labour Code to the employment relations of members of co-operatives, unless otherwise stipulated.

In 1999, Parliament adopted the Civil Service Act. This law, already in force, stipulates the establishment, content and termination of employment relations between the State and the civil servant, as far as not otherwise provided by a special law. Civil servants are designated as those persons taking paid positions in administration, as well as persons to whom a special law concedes civil servant status. Exceptions are members of cabinet, the deputy regional governors, the deputy mayors of municipalities and persons implementing technical functions in the administration.

## **2.3 The individual employment contract**

According to Art. 61 of the Labour Code, the employment contract shall be concluded between the employee and the employer. For positions specified by law or by an act of the Council of Ministers, the employment contract shall be concluded by the body superior to the employer. In such cases, the employment contract relationship shall be established with the enterprise offering the work. An employment contract may also be concluded with a group of persons, either directly or through their authorized representative; the same rights and duties apply as for an individual employment contract.

From 1987 to 1996, the written form of the employment contract was a precondition for its validity. Since 1996, amendments<sup>5</sup> to the Labour Code also state that an employment

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<sup>5</sup> (New - SG, No. 2/1996)

relationship may arise where no written contract is concluded. In the trade union view, this amendment was hastily undertaken without due consideration for workers; they subsequently proved that, in practice, employers were using unwritten contracts in order to conceal the true number of their workers and to avoid social security payments. Surprise checks by the labour inspection bodies confirmed the trade union findings. In such cases the existence of employment relations are proved in court through witnesses or by other means.

### **Draft act proposals**

At the end of 1999 and the first half of 2000, further amendments have been under discussion. One of the main proposals is a return to the written form of employment contract.

### **Commencement of duties**

The performance of the employment contract obligations begins with the employee's beginning work, which shall be verified in writing. According to Art. 63 of the Labour Code, the employee shall begin work within a deadline of one week after the conclusion of the employment contract, unless the parties have negotiated otherwise. If the employee does not begin work within this period, the employment contract relationship shall be deemed null and void, unless the failure is due to reasons beyond the employee's control and he has notified the employer before the expiry of the deadline.

### **Content of the employment contract**

According to Art. 66, the employment contract shall specify the place and nature of work, and the employee's wage. Other terms and conditions may also be negotiated in the employment contract pertaining to the provision of labour, which are not regulated by mandatory provisions of the law, as well as terms and conditions that are more favourable for the employee than those established by the collective agreement.

### **Duration**

According to Art. 67, the employment contract may be concluded for an indefinite period or for a fixed term. The employment contract shall be considered concluded for an indefinite period, unless expressly agreed otherwise.

### **Employment contract for a fixed term (Art.68)**

A fixed-term employment contract shall be concluded:

1. for a definite length of time which shall not exceed 3 years, insofar as a law or an act of the Council of Ministers do not provide otherwise
2. until completion of the work specified
3. in substitution of an absent employee
4. for positions subject to an examination or competition at a specified time.

For civil service positions, according to Art. 15 of the Civil Service Act, a civil servant shall be appointed for a fixed term only in the case of substitution for an absence of more than 30 days. The official legal relationship shall be terminated as from the day of return of the absent civil servant.

### **Changing an employment contract from fixed term to indefinite period (Art.69)**

The employment contract concluded for a fixed term shall be transformed into a contract for an indefinite period if the employee continues working for 5 or more working days after the expiry of the agreed period, without the written objection of the employer, provided the job is vacant. This rule also applies to a fixed-term employment contract in substitution of an absent employee, in case the contract with the employee being substituted is terminated during this period of absence.

### ***Draft act proposals***

The draft act for amending the Labour Code proposes that a fixed-term contract shall be concluded for temporary, seasonal or short-term work, as well as with new workers or employees in insolvent enterprises or in enterprises in liquidation. As an exception, a fixed-term contract for a period of at least 1 year shall be concluded for normal jobs within an enterprise. Such a contract would be for a shorter period only when the worker or employee has requested it in writing. The contract could be renewed for the same job only once for a period of one year minimum.

These proposals introduce the limits for using the fixed-term contracts not more than twice in succession.

The employers' organizations were in favour of more flexibility in employment forms. The Working Group participants have obviously considered the Council Directive 1999/70/EC of 28 June 1999 concerning the framework agreement on fixed-term work, concluded by ETUC, UNICE and CEEP, although they have not introduced obligations for employers on providing information on employment opportunities, and consultation, etc.

Civil contracts are not considered as typical employment contracts and do not enter into the scope of the Labour Code.

### **Employment contract for a trial period (Art.70)**

If the work in question requires testing the employee's ability to perform it, the final contract may be preceded by a probation contract of up to 6 months. Such a contract may also be concluded should the employee want to ensure the job is suitable. During the trial period, both parties have the same rights and duties as under a final contract. The trial period does not include the time during which the employee has been on a statutory leave, or has not done the contracted job without due cause.

### **Termination of the trial-period contract (Art.71)**

Prior to expiration of the trial period, the employee may terminate the contract without notice. The employment contract shall be regarded as finalized if it has not been terminated under the preceding paragraph prior to the expiration of the trial period.

### **Trial period according to the Civil Servants Act**

When the candidate is appointed for the first time, the appointing body shall be able to terminate the contract without notice, after expiry of the 6-month term. Within the term of these 6 months, the civil servant shall be able to terminate with 1 month's notice.

### **Draft act proposals**

Trade unions and employers are in discussion over possible amendments to the regulation of fixed-term contracts. Recently, the issue has become particularly sensitive. Applied on a large scale and renewed an unlimited number of times upon expiration, they are

viewed as a major tool of employers (from the public sector as well as the private) who impose these contracts unilaterally. Employees, faced with the threat of becoming unemployed or accepting the terms, thus stabilize the misuse of the present regulation. Trade unions are also heavily affected by this practice because it diminishes trade union density and threatens trade union activists.

#### **Employment contract with a pensioner (Art.72)**

An employment contract with a pensioner shall be concluded only in the event that there is no applicant for the same job who is not a pensioner. The absence of such an applicant shall be certified by the relevant employment service. An employment contract with a pensioner who has reached 60 years of age (men) or 55 years (women) shall be concluded for a fixed term not exceeding 1 year. An employment contract with a pensioner who has not reached pensionable age may also be concluded for an indefinite period or for a term longer than 1 year. In this event, the employment contract concluded shall be transformed into an employment contract for a term of 1 year from the date of pensionable age, insofar as the parties have not agreed on a shorter period.

#### **Nullity of the employment contract (Art.74)**

An employment contract, which contravenes the law or a collective agreement, or circumvents them, shall be declared null and void by the court. Where this is due to the appointment of an employee under the minimum age required under the Labour Code, the nullity shall be declared by the labour inspectorate. The parties shall not invoke nullity of the employment contract or of individual provisions thereof prior to its declaration and the receipt of such by the parties. Nullity shall not be declared if the deficiency in the employment contract disappears or is removed. The employer shall not invoke a deficiency in the employment contract, which can be removed.

The provisions of Art.333 shall not apply where the nullity of an employment contract has been declared. (See later, under 'Protection against dismissal'. In addition, Annex 1 provides a comparative view of labour market institutional arrangements in Bulgaria for individual and group dismissals.)

#### **Relationship between the parties in a null and void employment contract (Art.75)**

If the employment contract is declared null and void and the employee has acted in good faith when concluding it, the relationship between the parties to the contract prior to the moment of declaration of its nullity shall be regulated in the same manner as for a valid employment contract. This shall also apply where individual provisions of the employment contract are declared null and void. The rules on nullity of an employment contract shall apply *mutatis mutandis* to the other grounds for creation of an employment relationship as well.

**Additional work for the same employer under an employment contract**

According to Art. 110, the employee may conclude an employment contract with the employer for whom s/he is working for the performance of work beyond the specified scope of the job description and outside the specified working hours.

**Additional work for a second employer**

According to Art. 111, the employee may also conclude an employment contract with other employers for a second job outside the working hours specified in the primary employment relationship (and outside of additional work for the primary employer). Prior consent of the primary employer is required.

**Prohibition on additional work**

Additional work shall be prohibited to employees who are:

1. drivers of vehicles
2. employed in hazardous or unhealthy conditions, in the event that additional work is under the same or other hazardous or unhealthy conditions
3. as specified by a law or an act of the Council of Ministers.

**Working hours under an employment contract for additional work**

The maximum duration of the working hours under an employment contract for additional work, together with the duration of the working hours under the primary employment relationship, shall not violate the minimum uninterrupted rest between days and weeks established by the Labour Code.

**Contract for working up to 5 days a month**

An employment contract may also be concluded for working on certain days of the month. In the event that a person is working for one and the same employer for more than 5 working days or 40 hours a month in total, whether continuously or in broken succession, this shall not be included in length of service. According to Article 115, the employment contracts for additional work with the same or another employer shall also specify the duration and allocation of working hours, and may also specify the periodicity of wage remuneration as well.

**Social security (Art.117)**

Employees who perform additional work shall be entitled to social security under terms and procedures to be established by a separate law.

**2.4 Changes in the employment relationship****Prohibition on unilateral change of the employment relationship (Art.118)**

Neither employer nor employee may unilaterally change the employment relationship, with the exception of those cases established by law. Transferring the employee to another workplace in the same enterprise, without changing the specified place of nature of the work or the employee's wage, shall be not considered a change of the employment relationship. Art.199 stipulates that the employment relationship may be a written agreement between the parties for a definite or an indefinite period.

**Changing the place and nature of the work by the employer (Art.120)**

The employer may, in case of a production necessity or idle time, assign the employee (without his or her consent) to perform different work temporarily in the same, or in another enterprise, but in the same community or locality, for a period of up to 45 calendar days in 1 calendar year. The same holds true in the event of idle time, for as long as such idle time continues. These changes shall be done in accordance with the qualifications and the health condition of the employee. When necessitated by insurmountable reasons, an employer may assign work of a different nature to the employee, even if it does not correspond to the employee's qualifications (Art.81).

For civil servants, the official legal relation cannot be unilaterally changed, with the exception of those cases established by law.

### **Retention of the employment relationship when restructuring the enterprise**

According to Article 123, the employment relationship shall be not terminated in the event of a merger of enterprises, a transfer of a part of one enterprise to another, or the distribution of the operations of one enterprise among several enterprises.

The obligations towards the employee arising from the employment relationship prior to the restructuring are as follows:

1. In the case of a merger, the new enterprise is responsible.
2. In the transfer of a part of one enterprise to another, both enterprises jointly or severally.
3. In the case of the distribution of a single-enterprise operation among several, obligation is on the part of the enterprises taking over the operations, jointly or severally.

The employment relationship with the employee shall not be terminated in the event of a change of enterprise owner or of leasing it out. In this case, the new owner (the lessee) shall be the employer.

### **Training – Qualifications and skilling**

#### **Contract for acquiring a qualification (Art.229)**

The employer may conclude a contract with a person who is entering or has entered a training institution for acquiring a qualification. Such contract shall bind the employer:

1. to financially support the trainee while being trained
2. upon termination of training, to give employment to the trainee suitable to the qualification newly acquired, for a period agreed by both parties, which cannot exceed 6 years.

The contract shall bind the trainee:

1. to complete training for the agreed qualification according to schedule
2. to take up employment with the employer in the agreed period of time.

In the event of failure to perform these obligations by one or other of the parties, as long as no other provisions exist, the party at fault shall be held liable in accordance with civil law.

### **Apprenticeship contract (Art.230)**

The apprenticeship contract binds the employer to train the novice while working in a specified profession or specialty; and the novice to master it. The contract shall set down the forms, the place and the duration of training, which cannot be longer than 6 months, the compensation due by the parties in case of non-performance as well as other issues related to training. The parties shall set down in the contract the period of mandatory work performed by the trainee for the employer after successful completion of the training course. The employer shall provide work in accordance with the acquired qualification, for a period not exceeding 3 years. During training, the trainee shall receive remuneration in proportion to the work done but not less than 90 per cent of the minimum monthly wage decreed by law.

The training period is limited to 6 months in apprentice contracts (mainly applied to work that is not highly qualified) as it is considered sufficient for mastering the skills necessary. The limit of 6 months also has some protective function, aimed at preventing reduced remuneration under the guise of an apprenticeship.

### **Recognition of the qualification obtained in apprenticeship training (Art.231)**

After successfully passing a theoretical and practical test, the trainee shall be certified as qualified in the corresponding profession or specialty. In preparation for the test, the trainee is entitled to paid leave for a period agreed with the employer, but not less than 12 working days. For a repeat test, the trainee shall be entitled to an unpaid leave of 12 working days, which shall be recognized as length of service.

### **Employer and employee obligations and liabilities regarding non-performance of the apprenticeship contract (Art.232)**

Upon successful completion of training, the employer's obligation under the apprenticeship contract is to appoint the trainee to a job corresponding to the qualification acquired. The trainee is obliged to take up the job for the agreed period.

Should the employer fail to provide a job corresponding to the qualification acquired by a trainee, the employer shall be liable in the amount of gross wage remuneration for the corresponding position for the period when such work was not provided, but not exceeding 3 months, unless otherwise agreed upon.

Should the trainee fail to complete the training course without serious cause, or fail to take up the job provided by the employer, or should leave before the agreed period expires, the trainee shall owe the employer compensation in proportion to the non-performance of work, in an amount agreed upon by both parties, but not exceeding 3 times the minimum monthly wage decreed by law.

### **Contract for employment upon completion of training (Art.235)**

A contract for training for acquiring a higher qualification or for re-training may be concluded between the employer and a person who is preparing to start work with the employer upon completion of the training.

### **Termination of the contract before completion of training (Art.236)**

By notice in writing, either party may terminate the contract before completion of the training course:

1. due to non-performance of the obligations of the other party through that party's fault; (although the party at fault shall be given an appropriate time period to carry out the required obligations)
2. in other cases agreed upon in the contract.

## **2.5 Termination of the employment relationship**

### **General grounds for termination of employment contract without notice (Art.325)**

A contract of employment shall be terminated without notice from either party in the following cases:

1. By mutual written consent of the parties. The party to which the proposal is addressed shall notify the other party within 7 days of receipt of the proposal. Failure to do so shall be deemed refusal to accept the proposal.
2. When the dismissal of an employee is found unlawful, or the employee is reinstated in his job by ruling of the court, but does not report to work within the term stipulated under Art. 345, para. 1.
3. Upon expiry of the contractual term.
4. Until completion of the specified work.
5. Upon return of the substituted employee to work.
6. When a position is occupied by an employee who is pregnant, or who is listed for rehabilitation, and a candidate entitled to that position appears.
7. Upon the appointment of an employee who has been elected or has passed a competitive examination for the position.
8. In the case of the employee's inability to perform the assigned work because of illness resulting in permanent disability, or because of health contraindications established by an expert medical commission. In such cases, the contract of employment shall not be terminated when the employer can provide another job suited to the employee's health status, and the employee consents to perform it.
9. Upon the death of the person with whom the employee has concluded a contract of employment, if this is an individual employer.
10. Upon the death of the employee.
11. When the position is listed as occupied by a public servant.

### **General grounds for termination of the civil service contract**

According to Art. 103 CSA, the official legal relationship shall be terminated on the following grounds:

1. By mutual written consent of the parties; the party to which the proposal is addressed is obliged to notify the other party within 10 days; if not, the proposal is considered as not accepted.
2. When the termination of the official legal relationship of the civil servant is recognized as unlawful or s/he is reappointed to the former job by the respective body or by the court and s/he does not take up the position within the term of two weeks from receiving notification.
3. If the inability of the civil servant to perform the assigned work is due to illness that results in long-lasting disability, or to health contraindications as judged by the official

labour medical commission, then the employment relationship shall not be terminated if another position (appropriate to the health status of the civil servant and in the same administration) is offered and he agrees to take it.

4. Due to incompatibility with the requirements for appointment as in Art. 7, para. 2.
5. When the civil servant is convicted of a crime and sentenced to imprisonment.
6. Upon the death of the civil servant.

#### **Termination of the employment contract by the employee without notice (Article 327)**

Employees may terminate the employment contract in writing without notice, in the following circumstances:

1. Should the employee be unable to perform the assigned job because of illness, and should the employer fail to provide suitable work as per the prescription of the medical authorities.
2. Should the employer delay the payment of remuneration or compensation pursuant to this Code or for social security.
3. Should the employer change the place or the nature of the work performed, or its agreed remuneration (except where entitled to make such changes); or should the employer fail to meet other obligations stipulated in the employment contract or the collective agreement, or established by a normative act.
4. Should the employee assume a paid elective office or begin research work on the basis of a competitive examination.
5. Should the employee be enlisted for regular military service. However, if the employee reports back to work within 1 month of postponement or release from regular military service, but no later than 3 months after leaving work, the employment contract shall be considered as *not* terminated.
6. Should the employee opt for enrolling as a regular student at an educational institution, or as a postgraduate student.
7. Should the employee be employed as a substitute for an absent employee and take up employment elsewhere under a contract of employment for an indefinite term.
8. Should the employee be officially reinstated as a result of unlawful dismissal.
9. Should the employee be appointed to a public service job.

#### **Civil Service Act. Unilateral termination of the official legal relation on behalf of the civil servant**

According to Art. 105, the civil servant may unilaterally terminate the civil service legal relationship by submitting a written application to the appointing body, to come into effect after 1 month from the date of submission of application. The appointing body may pay compensation to the civil servant amounting to the gross wage for the remainder of the unelapsed month's notice.

**Termination of the employment contract by the employer without notice (Art.330)**

An employer may terminate without notice an employment contract of an employee who has been detained for committing a criminal offence.

The employer may terminate an employment contract without notice in the following cases:

1. When the employee has been divested by court order of the right to practise a profession or to continue occupying the position;
2. When an employee is divested of an academic title or academic degree;
3. If the contract of employment has been concluded in view of the respective title or degree;
4. When the employee has been deregistered from the Bulgarian Doctors' Union or the Dentists' Union;
5. When an employee is divested of the right to inhabit the community in which s/he has been employed, or is compulsorily resettled in another community as provided by the law;
6. When an employee refuses to take up a suitable job offered because of reassignment for medically prescribed reasons;
7. In the case of dismissal for misconduct.

**Compensation for terminating the employment relationship without notice (Art.221)**

According to Article 327, paras.2 and 3, (*Delayed payment of remuneration or compensation; unilateral change of the employment conditions or failure to meet other legal obligations*), the employer is obliged to pay compensation amounting to the gross wage remuneration for the notice period (for an employment contract of indefinite period); or loss compensation (for a fixed-term contract).

An employee dismissed for misconduct is obliged to pay the employer compensation amounting to the gross wage remuneration for the notice period (for an employment contract for an indefinite period); or loss compensation (for a fixed-term contract).

The preceding rule shall also apply in cases where the employee is dismissed without notice by reason of detention for a criminal sentence (which at the same time constitutes a violation of the employee's obligations to the employer).

For an employee divested of the right to practice, loss compensation is calculated on the basis of the gross wage remuneration for the period during which the employer has been left without an employee for the same position, but not exceeding the remainder of the employment relationship.

**Termination of the employment contract by the employer with notice (Art.328)**

An employer may terminate a contract of employment by written notice to the employee, in observance of the terms of Art.326, para.2 (*Length of the notice period*), in the following cases:

1. Closing down of the enterprise;
2. Partial closing down of the enterprise or staff cuts;
3. Reduction of the volume of work;
4. Work stoppage for more 30 than days;
5. When an employee lacks the ability for efficient work performance;

6. When an employee does not have the necessary education or vocational training for the assigned work;
7. If an employee refuses to follow the employer's enterprise (or a division thereof) when it is relocated to another community or locality;
8. When the position occupied by the employee should be vacated for the reinstatement of an unlawfully dismissed employee, who had formerly occupied the same position;
9. When the previous employee has been released ahead of schedule or postponed from regular military service, and had previously occupied the same position;
10. (Amended - SG, No. 2/1996) When an employee has become eligible for retirement pension in terms of age and length of service, but not earlier than three years from pensionable age;
11. When job requirements have changed and the employee no longer qualifies for it;
12. When it is objectively impossible to implement the contract of employment.

In addition to the cases listed under 1. above, enterprise management employees may be dismissed at the conclusion of an enterprise management contract.

In the case of partial closure of an enterprise, as well as in the case of staff cuts or reduction of the volume of work, the employer is entitled to the selection of employees and, in the interests of enterprise production or finances, may dismiss employees whose positions have not been made redundant, in order to retain employees of higher qualifications and better performance.

In the case of selection by the employer, working pensioners and employees entitled to full retirement pension in terms of age and length of service shall be dismissed before other employees.

In the case of equal qualifications and equal performance, priority for non-dismissal is given to employees with financial or health problems. Employees whose spouses are registered as unemployed, as well as employees who are sole providers, may not be dismissed. This ban does not apply to employees who have other monthly income exceeding two minimum monthly wages, or who own property that may provide them with such income, or to employees representing a family of one, except where the latter owe alimony.

The notice period for termination of an employment contract of unlimited duration shall be 30 days, unless a longer period has been agreed by the parties, but not exceeding 3 months. The notice period for termination of a fixed-term contract is 3 months, but not exceeding the remaining period of the contract.

**Civil Service Act.** According to Art.106, the appointing body shall be able to terminate the official legal relationship with 1 month's notice in the following cases:

1. Closure of the administration where the civil servant is appointed;
2. Elimination of position;
3. In the case of objective impossibility to implement official obligations (apart from those in Art. 103, para.1, item 3 concerning temporary disability);
4. When the position is restored to a formerly unlawfully dismissed civil servant;
5. Upon qualifying for full retirement pension by age and length of service.

### **Termination of contract by employee with notice (Art.326)**

An employee may terminate a contract of employment by written notice to the employer.

The notice period for termination of an employment contract of unlimited duration shall be 30 days, unless a longer period has been agreed by the parties, but not exceeding 3 months. The notice period for termination of an employment contract of fixed period shall be 3 months, but not exceeding the remaining period of the contract.

Employees accountable for assets, whenever unable to hand over the assets within the 30 day period, shall have that period extended, but by no more than 2 months, including the notice period.

The notice period shall begin on the day following receipt of the written notice. Such notice be considered withdrawn either upon the employee's request or at the time of its receipt by the employer. With the consent of the employer, notice may also be withdrawn before the notice period expires.

### **Compensation for failure to provide notice**

According to Art.220, the party entitled to terminate the employment relationship with notice may terminate it before expiry of the notice period, in which case the other party will be owed compensation equal to the amount of the employee's gross wage remuneration for the remainder of the notice period.

The party which has received notice of termination of the employment contract may terminate it before the expiration of the notice period, in which case the other party shall be owed compensation equal to the amount of the employee's gross wage remuneration for the remainder of the notice period.

**Civil Service Act.** According to Art.106, in the cases of closure of the administration or staff cuts, civil servants have the right to compensation for the period during which they have remained jobless, but not exceeding two months. Compensation for a longer term is possible by a Council of Ministers by-law. During this longer term, civil servants who have commenced work in an area of civil service with a lower salary shall be entitled to the difference in salary for this term.

### ***Draft act proposals***

The major proposal for changes in the rules on termination of employment was the introduction of a revised text dealing with termination due to economic difficulty for the employer. In a compromise agreed to by all parties in the Working Group on amendments to the Labour Code, a new Art. 331 proposed that:

“In the case of economic or financial difficulties on the part of the employer, said employer could propose terminating the employment contract of the individual worker/employee. Should the worker/employee not state his/her opinion on the employer's proposal within 7 days, the law presumes that the offer is not accepted.”

and:

“Should the worker/employee agree to the proposal, the employer is under obligation to pay compensation equal to the amount of at least the gross wage remuneration for the preceding 3 months. The parties may agree on a higher amount of compensation.”

### **Protection against dismissal (Article 333)**

Concerning the cases set out in Article 328, para.1, items 2) partial closing down of enterprise and staff cuts; 3) reduction of work volume; 5) employee's inability to perform assigned work; 11) change in job requirements and employee's insufficient qualifications to fulfil new requirements; Article 330, para.2, item 6) dismissal for misconduct; the employer may dismiss employees only with the prior consent of the labour inspectorate, for each specific case:

1. Pregnant employees, mothers of children younger than 3 years of age, or spouses of persons who have entered their regular military service;
2. Employees who have been reassigned due to medical reasons;
3. Employees suffering from certain diseases, listed in a Ministry of Health regulation;
4. Employees who have commenced a period of approved leave.

Prior to dismissal of employees on health grounds, the opinion of an expert medical commission should also be considered.

### ***The enterprise trade union: Leading members***

As set out above for Art.328, para.1, items 2), 3), 5), 11) and Art.330, para.2, item 6), an employer may dismiss an employee who is a member of the enterprise trade union leadership belonging to a territorial, industrial or national elected trade union body, throughout the period of occupation of the trade union position and no earlier than 6 months after that period, only with prior consent of the trade union body, ratified by a decision of the central leadership of the respective trade union organization.

When provided for in the collective agreement, an employer may dismiss an employee due to staff cuts or reduction of the volume of work after obtaining prior consent from the respective trade union body of the enterprise.

### **Termination of employment contract for additional work (Art.334)**

In addition to the cases provided for by this Code, an employment contract for additional work (Articles 110, 111, and 114) may be terminated by the employee or the employer with 15 days notice. In case of dismissal, Article 333 shall apply as above.

### **Date of termination of an employment contract (Art.335)**

An employment contract shall be terminated:

1. Upon expiry of the notice period – in the case of termination with notice;
2. When the notice period has not been observed, upon expiry of the remainder of the period;
3. As from the date of receipt of a written statement of termination of contract – in the case of termination without notice.

### ***Draft act proposals***

The draft act on amending the labour code envisages that the employment contract shall be terminated in writing.

### **Compensation for dismissal on other grounds (Article 222)**

Upon dismissal due to closing down of the enterprise or part of it; staff reduction; reduction of work volume; and work stoppage for more than 30 days, the employee shall be entitled to compensation from the employer, equivalent to the gross wage remuneration for the period of unemployment but not exceeding 1 month. A compensation for longer periods may be stipulated by an act of the Council of Ministers, by a collective agreement, or by the labour contract. If within this period the employee starts work with a lower remuneration, s/he shall be entitled to the difference for the said period.

The period of 1 month is the maximum under this Article, which dates back to 1980, a time of almost no unemployment. For this reason, under the Unemployment Protection and Promotion of Employment Act (UPEPA) the payment of unemployment benefits starts after this period has elapsed. (See Section 2.8 for further discussion of this Act. In addition, Annex 2 gives an overview of the unemployment benefit system in Bulgaria).

Upon termination of the employment relationship due to illness (Article 325, para.8, and Article 327, para.1) the employee shall be entitled to compensation from the employer amounting to gross wage remuneration for a period of 2 months, provided that the length of service is at least 5 years and that during the last 5 years of service, the employee received no compensation on the same grounds.

According to the amendments from 1996 (SG, No. 2/1996) upon termination of the employment relationship after the employee has acquired pension entitlement for length of service and retirement age, irrespective of the grounds for the termination, s/he shall be entitled to compensation by the employer amounting to gross wage remuneration for 2 months. When the employee has worked with the same employer for the previous ten years, compensation shall equal gross wage remuneration for a period of 6 months. The compensation is a once-only payment.

### **Termination of employment resulting from an election (Art.337)**

Employment relationships resulting from an election shall be terminated upon expiry of the term for which the person has been elected. Should no new election be provided upon expiry of the term, the employment relationship shall be extended until such election is held. Employment relationships resulting from an election may be terminated without notice by the respective electoral body.

### **Application of provisions for termination of employment contract (Art.339)**

The grounds for termination of an employment contract, except for termination for misconduct, shall also apply *mutatis mutandis* for termination of employment relationship from an election.

In cases where termination of the employment relationship requires a binding statement by the employer, it shall be substituted with a decision of the electoral body.

Protection against dismissal (Art. 333) shall not apply to termination of an employment relationship resulting from an election.

### **Protection against unlawful dismissal (Art.344)**

An employee shall be entitled to contest the lawfulness of dismissal with the employer or in a court of law and demand:

1. Recognition of dismissal as unlawful and its repeal;
2. Reinstatement to the former position;

3. Compensation for the period of unemployment due to unlawful dismissal;
4. Revision of the grounds for dismissal, entered in the employee's record of service.

On his or her own initiative, an employer may cancel an order of dismissal prior to the bringing of the action before the court by the employee.

In dismissal cases where the prior consent of the labour inspectorate or a trade union body is required and this consent has not been asked for or given prior to dismissal, the court shall cancel the dismissal order as unlawful solely on these grounds, without considering the merits of the labour dispute.

Labour disputes contesting unlawful dismissal shall be considered by the district court within 3 months of receipt of the claim and by the regional court within 1 month following receipt of the appeal.

### **Reinstatement**

Following reinstatement of the employee to the former position by the employer or a court of law, the employee may assume the position provided s/he reports to work within 2 weeks of receipt of the reinstatement notice, unless this term is exceeded with due cause.

An employee dismissed pursuant to Article 330, para.1. (detention for a criminal sentence) shall be reinstated to the former position, in accordance with the preceding paragraph, on the grounds of a verdict of acquittal.

### **Recording the annulment of dismissal**

Should the employee's dismissal be found unlawful, or should the grounds for termination of an employment relationship be revised, such revisions shall be entered in the service record of the employee. The entry in the service record shall be made by the employer who terminated the employment relationship; should the employer refuse to do so the entry shall be made by the labour inspectorate.

### **Compensation for unlawful dismissal and for non-admission to work of a reinstated employee (Art.225)**

In case of unlawful dismissal, the employee shall be entitled to compensation by the employer amounting to gross wage remuneration for the period of unemployment caused by that dismissal, but not exceeding 6 months. If, during the period of unemployment caused by dismissal, the employee has worked in a lower paid job, s/he shall be entitled to the difference in wage remuneration. The same right shall apply to unlawful reassignment of an employee to a lower paid job.

An unlawfully dismissed and reinstated employee who, upon reporting to work, is prevented from resuming his/her former position, the employer and those officials culpable shall be liable, jointly and severally, to the employee in the amount of his/her gross wage remuneration from the day of reporting to the day of actual admission to work.

## **2.6 Regulation of labour disputes**

### **Definition**

Labour disputes are defined as disputes between an employee and an employer on the creation, existence, implementation and termination of employment relationships, as well as disputes on the implementation of collective agreements.

### **Limit of action**

Labour dispute action shall be taken within the following time limits:

1. 1 month for dispute on the limited financial liability of an employee and for repeal of the administrative sanction (“reprimand”);
2. 6 months for dispute on the repeal of the disciplinary sanction (“dismissal notice”), changes in the location and nature of work and termination of the employment relationship;
3. 3 years for all other labour disputes.

These limits shall commence as follows:

For action to repeal a disciplinary sanction and on changes in the location and nature of work: as from the date the order has been served on the employee.

For action on termination of an employment relationship: as from date of termination.

For other action: as from the date the subject of action has become executable or may be exercised.

For claims in cash: the ability to execute shall be considered as from the date on which payment should have been rightly effected.

**At no cost to employees.** Proceedings involving labour disputes shall be free of charge for employees; they do not pay these fees and expenses, including applications for trial revision or for repeal of effective rulings on labour cases.

**Jurisdiction.** Labour disputes shall be settled by the courts, pursuant to the Civil Procedure Code, unless otherwise provided by the Labour Code (Amended SG - No 2/1996). The court shall not review disputes on the dismissal of elected employees of government representative bodies, of public organizations and of political parties and movements; and of the responsible Government officials designated under a) the Council of Ministers; b) the heads of ministries, committees, agencies, and other central departments heads; c) district and regional heads at national level and the d) heads of regional administrations.

## 2.7 Unemployment protection

### Unemployment benefits

The new Bulgarian Constitution, 1991 regulates the right to work in Art.48 and the right to social security in Art. 51.

#### Article 48 – The right to work

“Citizens shall have the right to work. The State shall take care to provide conditions for the exercising of this right.

The State shall create conditions favourable to the exercise of the right to work by disabled persons.

Everyone is free to choose an occupation and place of work.

No one shall be compelled to perform forced labour.

Workers shall be entitled to safe and healthy working conditions, to guaranteed minimum pay and remuneration for the work performed, and to rest and leave in accordance with conditions and procedures established by the law.”

*Article 51 – The right to social security*

“Citizens shall have the right to social security and social assistance.

The State shall provide social security for temporary unemployed persons in accordance with conditions and procedures established by the law.

Aged persons without relatives and unable to support themselves, as well as those who are physically or mentally disabled, shall enjoy special protection of the State and of society.”

**The Unemployment Protection and Promotion of Employment Act (UPEPA)**

Adopted by Parliament in 1997, the main legal source in force at time of writing is the Unemployment Protection and Promotion of Employment Act (UPEPA). Its content has been developed through a special Regulation issued by the Council of Ministers (CoM) and CoM Resolutions dealing with specific groups of unemployed persons.

CoM **Resolution 57** on transfers and effective use of the redundant labour force dates from 1989. It set up the National Employment Service (NES) and stipulated rules for providing unemployment benefits. As changes in the economy and in labour demand were considered only temporary, relatively generous unemployment benefits were provided. To be eligible, a jobseeker was required to have been employed for at least 6 months within the year prior to dismissal and to have been released for economic reasons or at the initiative of the employer. Those deemed to have left their jobs voluntarily were not entitled to benefits, nor were those dismissed for misconduct. In addition, those on fixed-term contracts were not eligible for benefits when their contract expired. The condition of 6 months was relaxed for school-leavers, those completing secondary or university education who could not find a job, or who started a job but were dismissed before completing 6 months of employment. Benefits were paid for 9 months at a declining rate: for the first month, equal to the last monthly average wage (with the last employer responsible for payment); during the next 5 months benefits were lowered by 10 per cent each month, reaching 50 per cent of the last wage at the sixth month. In the remaining three months of eligibility, benefits amounted to minimum wage. CoM **Resolution 102/1990** introduced price indexation of benefits, analogous to income indexation; this proved to be too expensive and was soon abandoned.

These resolutions were supplemented by CoM **Resolution 110/1991** on solving the urgent problems of employment and unemployment and CoM **Resolution 209/1992** on amending and supplementing the previous by-laws. CoM Resolution 110/91 limited eligibility for benefits to those having worked in paid employment for at least 6 months in the past year and had not been dismissed for misconduct. Those having worked on a fixed-term contract became eligible for benefits if they had not been dismissed for misconduct and if they provided proof that they had been obliged to accept a fixed-term contract because of no better job opportunity.

University graduates, secondary school-leavers and young skilled workers became eligible for a new type of income support – means-tested unemployment assistance, which was paid after 1 month of registration with the employment services. This group was extended to include young men with university and secondary education returning from the obligatory military service.

CoM Resolution 110/91 stipulated an obligation for laid-off workers to register within 7 days of dismissal. If not, entitlement to benefits was shortened for the period of delayed registration. Benefits were made conditional on cooperation with the Labour Office, which included the obligation to pay regular visits; not to refuse an offered job or retraining course

without due cause; and not to stay abroad for more than 30 days. Failure to meet these obligations implied that benefit entitlement could be interrupted for some time. A repeated failure would permanently bar the individual from benefit entitlement. The period of benefit entitlement was linked to the length of past paid employment and to age, with people over retirement age being ineligible for unemployment benefits. The level of benefits was calculated by the formula: Benefit = Minimum wage + 20 per cent of the difference between average monthly wage and minimum wage.

**CoM Resolution 135/1992** further lowered the level of benefits to 60 per cent of the previous gross wage, but could not exceed between 90 to 140 per cent of the minimum wage. Part-time workers eligible for benefits had them reduced according to their contracted shorter hours.

Unemployment assistance was originally paid at the level of the minimum wage, but in 1992 it was reduced to 80 per cent of the minimum wage. The length of payment of young skilled workers was fixed at 3 months and for school-leavers from secondary schools and university graduates, at 6 months. Unemployed workers enrolled in a retraining course and eligible for benefits received them for the whole period of retraining, even if this exceeded the legal entitlement.

**CoM Resolution 65/1993** awarded the successful completion of retraining with an additional lump sum equivalent to 15 per cent of unemployment benefits for the whole period of retraining. According to this Resolution, an unemployed person with two or more children under 16 years old (under 18 if studying) were eligible for a supplement of 10 per cent of their unemployment benefits.

In 1992 there was no price indexation of unemployment benefits; in 1993 the CoM Resolution 65 approved a new indexation scheme. Until June 1993 the minimum wage was indexed by 90 per cent of the price increase in the second quarter, and this indexation determined the unemployment benefits. After June 1993, indexation was to be negotiated for each quarter of the year. In subsequent years, several by-laws were adopted for fixing the minimum wage and for fixing a specific index for almost each quarter, because of high and dynamic inflation. At time of writing, the last by-law indexing benefits and pensions was adopted in 1998 when, due to the introduction of the Currency Board in July 1997, inflation was drastically reduced.

After the UPEPA entered into force, several important measures were undertaken – the closure of loss-making enterprises and financial rehabilitation programmes for a selection of enterprises were set up. This in turn brought amendments to the UPEPA in 1998-1999.

Meanwhile, several new acts were adopted:

- Regional Development Act (main objectives: to create conditions for sustainable and balanced regional development and decrease the interregional differences in employment and income levels)
- Small and Medium Enterprises Act
- Act on Protection and Development of Culture
- Mandatory Social Insurance Code
- Act on Voluntary Additional Pension Insurance
- The Civil Servants Act.

### *Unemployment insurance*

According to the UPEPA (1998), unemployment insurance was obligatory and voluntary. The *obligatory* unemployment insurance constitutes a system that collects resources with the aim of providing benefits to unemployed persons and certain other services (intermediary placement services, retraining, social assistance in case of unemployment). It is implemented on the basis of the following principles:

- participation of all employers and commercial companies employing people with labour contracts;
- contracts for the management and supervision of state and municipal enterprises that have been transformed into limited liability companies;
- solidarity of those insured in using the funds;
- participation of the State, those insured, and the employers in the management and supervision of the funds.

**The unemployment insurance contribution** is 4 per cent of the funds calculated at the gross wage remuneration of workers with employment contracts and the gross wage remuneration of persons contracted for management or supervision.

The amount of this contribution is distributed between the employer and the employees according to the following ratios:

To end 1999	– 4:10 employer/ employee
2000-2001	– 80:20
For 2002	– 75:25
For 2003	– 70:30
For 2004	– 65:35
For 2005	– 60:40
For 2006	– 55:45
For 2007	– 50:50

The unemployment insurance contributions for public servants are to be paid from the relevant public budgets.

The insurance against unemployment guarantees the rights of the employees to information on available jobs; intermediary placement services; professional information and consultation; vocational training and retraining; and to unemployment benefits and social assistance.

Persons who are not insured against unemployment (for reasons outside their control) have all rights, with the exception of the right to unemployment benefit or unemployment assistance under the conditions specified by the UPEPA.

### **Eligibility**

Unemployed persons who have worked with an employment contract and have been under insurance at least 9 months during the last 15 calendar months before the termination of employment are entitled to unemployment benefits in cash. The same is valid for unemployed persons who have performed work under a contract for management and supervision. Unemployed persons, who have performed seasonal work with an employment contract for at least 6 months during the last 12 months are also entitled to benefits. The same is valid for actors and performers under an employment contract in the respective calendar year for a period of 6 months in the last 12 months.

Cash benefits for persons employed on full-time contracts amount to 60 per cent of the average gross remuneration they received during the last 9 months of the insurance period. The limits of possible unemployment benefits, compared to the national minimum wage, are from minimum 80 per cent to maximum 150 per cent.

The amount of cash benefit for unemployed on part-time contracts is proportionate to the agreed working time.

Unemployed persons, whose contracts have been terminated on their initiative without notice, except in cases of Art.327, paras.1, 2 and 3 of the Labour Code (see above), as well as for disciplinary discharge, are entitled to unemployment benefits of 80 per cent of the national minimum wage for the period of 4 months.

Unemployment benefits are paid monthly, depending on the length of service for which contributions have been paid, as shown below.

Length of service (years)	Period for paying benefits (months)
Up to 3 years	4
From 3 to 5	6
From 5 to 10	8
From 10 to 15	9
From 15 to 20	10
From 20-25	11
Over 25 years	12

The compensation paid under Art 222, para.1 (dismissal on other grounds – see above) and unemployment benefits are not to be received in the same month, which means unemployment benefit should be paid after the period stipulated below has elapsed.

**Start of payment.** The unemployment benefits in cash are paid from the date of registration of the unemployed at the territorial units of the NES. If the contract has been terminated on the initiative of the employee (except for: temporary disability to work; delayed payment of remuneration; unilateral change of working conditions; as well as for disciplinary discharge) payment of benefit starts 3 months from the date of registration.

Unemployment benefits shall be received by the unemployed person until the acquisition of the right to pension for specified years of contribution and retirement age. The unemployment benefits are not levied with taxes. During the period of receiving unemployment benefits, the entitled person shall be covered by payments of social insurance contributions for pensions and for health insurance, paid from the Retraining and Unemployment Benefits Fund.

**Termination of payment.** Payment of unemployment benefits is terminated if the recipient is found to:

- Work with an employment contract for a term longer than 9 months;
- Fulfil the job of a manager or member of supervisory body of a commercial company;
- Work as a member of a co-operative by order of the Co-operatives Act, or as a farmer;
- Work without a formal employment contract with an employer;
- Receive income in cash or in kind from certain registered activity;
- Perform a commercial activity.

The payment of benefits is also terminated in case of: the recipient's ungrounded refusal to be included in a retraining course; by voluntary termination of participation in the training

course; the ungrounded refusal to accept an appropriate job offered; imprisonment; starting a course of regular education; or acquiring the right to pension if the coverage of years and retirement conditions are satisfied.

**Suspension.** Payment of unemployment benefits is suspended for the period during which the recipient is:

- Working with an employment contract for a fixed duration;
- Participating in retraining courses organized by the National Employment Service;
- Fulfilling regular conscript military service;
- Detained compulsorily;
- Participating in military training exercises or training for more than 5 days;
- Receiving benefits for temporary inability to work.

Payment is also suspended for any period in which the recipient: implements a “civil law” contract; does not appear (without due cause) at a territorial division of the NES; or is abroad.

The duration of unemployment benefit will be extended in line with the period of suspension.

If during the period of payment of unemployment benefits a recipient commences work with an employment contract that is terminated after more than 9 months, the entitlement to benefit is reacquired for the same duration and under the same conditions. Similarly, if the employment contract is terminated before the lapse of 9 months, entitlement is restored for the benefits not paid. If a recipient commences part-time work during the benefit period but for a wage less than that of the national minimum, s/he shall receive 50 per cent of the initial benefit.

#### **Supporting unemployed persons to set up their own business (Art. 54, UPEPA)**

Persons entitled to unemployment benefits who wish to start, separately or jointly, their own business for the production of goods or services shall be entitled to receive **the due benefits as a lump sum** after the business project is approved by a territorial division of the NES. Should the project provide employment to another unemployed member of the family or to other families entitled to unemployment benefits, the right to lump sum payment is granted to each separate person.

#### **Lump sum benefits for redundancies from enterprises in liquidation and with financial rehabilitation programmes for companies with public property**

Many workers have been laid off as a result of the structural reform implemented in Bulgaria. As most have spent their working careers in state-owned enterprises, they are often confronted with difficulties in finding new jobs. The first legislative act on lump-sum payment of benefits related to the structural reform was adopted in 1996, namely CoM **Resolution 131/June 1996**. This deals with the right to additional payment as a lump sum for a group of workers who have become redundant due to liquidation or for economic reasons of the enterprise, as listed in a special Decree of CoM 480/96. The additional payment varied, depending on whether the worker had been employed for more than 6 months in the relevant enterprise, from the sum of a maximum 6 to a minimum 3 average net salaries. This payment was additional to the monthly unemployment benefits under CoMR 57/89. The funding was effectuated from a special account at the Retraining and Unemployment Benefits Fund.

Resolution 131/96 was adopted on the basis of Art. 244, s.2 of the Labour Code:

*The Council of Ministers shall decree...2. The types and minimum amounts of the additional labour remuneration or compensations related to employment relationships insofar as they have not been defined in this Code.*

This Resolution was in force until end March 1997. The next step was the **CoM Resolution 100/April 1998** on lump-sum severance pay for workers associated with the liquidation or financial rehabilitation of state-owned or municipal enterprises. It was adopted in relation to Art. 54 UPEPA and applied to laid-off workers from state-owned or municipal enterprises, grouped in special lists. The lump-sum payment is provided, as well as the compensation paid by the employer under Art.222 of the Labour Code. The source of funding is a loan from the International Bank for Reconstruction and Development (IBRD).

Resolution 100/1998 was amended three times in the year of its introduction, with the aim of enlarging its scope (by approving lists of enterprises under liquidation or financial rehabilitation programmes) and of setting eligibility conditions for both enterprises and workers. Employees in the “isolation group” enterprises were entitled to severance pay if laid off after March 1, 1998; in the second group were employees laid off after November 30, 1998 who were entitled to an additional BGL 1 million to start their own business. The laid-off workers were from enterprises included in a list (No. 2) appended to the Regulations on Implementation of the Transformation and Privatization of State Owned and Municipal Enterprises Act. The source of funds is from the World Bank Rehabilitation loan for employees categorized in the first group and from the consolidated budget, through the Retraining and Unemployment Benefits Fund, for the additional BGL 1 million payments.

In 1999, Resolution 100/1998 was amended and supplemented in February, May, July and August 1999.

In July 1999, the Bulgarian currency was denominated, with 1 BGN equivalent to 1,000 old BGL. The Currency Board agreement pegged the Bulgarian currency to the Deutsche Mark (1 BGN =1 DM)

At time of writing, the lump-sum severance pay of BGN 1,000 under Resolution 100/98 is paid to:

- Employees made redundant as a result of certain CoM by-laws or by decision of acting governing bodies, related to liquidation or restructuring of state-owned and/or municipal enterprises;
- Employees from commercial companies with a 50 per cent or over state or municipal share, which are to be liquidated or restructured, based on a decision of the general assembly.

The above workers should be laid off based on Art. 328, para.1, points 1 and 2 (see above) on termination of employment by the employer with written notice of enterprise closure; partial closing down of the enterprise or staff cuts. These workers are entitled to lump sum severance pay on condition that they have been employed on individual contracts with the commercial company or the enterprise more than 18 months prior to termination of the contract. Severance pay can be received at the local employment services, following the residence registration of the workers, who need to apply in writing within 3 months, stating their preference for lump-sum payment in lieu of monthly paid unemployment benefits.

Persons not entitled to lump-sum severance pay are those who have already retired or are eligible for retirement benefits; and those who have already received lump-sum severance

pay under the requirements of previous CoM Resolutions 131/96 and 57/1989 (now repealed by CoM Resolution 100/98.)

The lump-sum severance pay shall be returned to the NES if the laid-off worker has been re-employed by the same employer within a period of 9 months after termination of employment. Laid off workers have the right to choose whether to receive lump-sum severance pay or to receive the monthly unemployment benefits under the terms of the UPEPA.

Under Art.6 of CoM Resolution 100/98 (amended in mid-1999) an additional lump-sum severance pay, amounting also to BGN 1,000 is offered to workers laid off after the 30 June 1999, on the grounds of Art. 328, para.1, points 1 and 2 on closures, partial closing or staff cuts) from specific companies, listed in the Addendum to Art.1, para.3 of the Financial Rehabilitation of State Owned Enterprises Act. Payment is under the following conditions:

1. Unemployed persons must declare that they shall start independent or joint business for the production of goods or services;
2. Declare that they shall take part in companies as partners or shareholders or as members of co-operatives;
3. Present an employment contact with a previous employer for a period of at least 24 months.

Those wishing to receive this additional payment must apply within 3 months of the date of redundancy and declare that they shall pay all social insurance contributions or that the employer is going to pay for at least half of the period of employment (minimum 24 months).

After the 24-month period has elapsed, those who receive the additional payment but do not fulfill the conditions, are required to make restitution of the money received within a period of 1 month.

The total number of unemployed persons who have received the above mentioned lump sum pay under article 1A of Resolution 57 (which had been in force up to end September 1998) was 1,496 for the first three months of that year. The total amount paid in 1998 was BGL 537,677,000. Under Resolution 100/30 04 1998 for the period June-December 1998, the number of registered unemployed was 11,172 and the total amount of money paid was BGL 10,832,241,000.

In 1999 the number of registered unemployed was 34,805 persons and the total amount paid out under Resolution 100/98 was BGN 34,794,380. The lay-off of workers who were entitled to lump sum payment took place in 206 companies and enterprises with public assets. There are no data in the Annual Report of the NES for 1999 on how many workers received the additional payment of BGN 1000 under Art.6 of Resolution 100/98.

Implementation of the measures contained in the CoM resolutions has met with many obstacles due to the dynamic character of the amendments in these by-laws and also due to deficiencies in the documents presented by companies and enterprises.

### **Unemployment assistance**

According to Art. 77 of the UPEPA, persons who are jobless for a period of 6 months after the expiry of unemployment benefits shall have the right to social assistance in the amount of 60 per cent of the national minimum wage. Payment is made for a term not exceeding 3 months. The requirements for receiving social assistance are the same as for unemployment benefits.

## **2.8 Regulation of labour market policies**

In brief, labour market policies in Bulgaria in the last years of the transition decade were primarily focused on the disbursement of severance payments and unemployment benefits. In 2000 (from January to April), labour market policies contracted in scope. Initially, the share of unemployed persons receiving severance payments and unemployment benefits accelerated, due to the higher numbers of laid-off workers entitled to severance payments. Later, this share was sustained at a level slightly below 30 per cent of registered unemployment. The share of unemployed covered by employment and vocational training programmes has been constantly declining. The shrinking reserves of the Retraining and Unemployment Benefits Fund are the chief reason for this decline. For workers laid off from restructuring enterprises and economic sectors, this restriction of opportunities to participate in retraining courses decreases their chances for a transition to employment.

### **Intermediary services (Articles 49-52, UPEPA)**

Intermediary placement services are organized and available to jobseekers and employers. The NES organizes free-of-charge services for Bulgarian citizens and for employers registered according to the Bulgarian legislation as legal entities. Access to the services is upon registration at the territorial unit of the NES.

Unemployed registered to use the NES intermediary services are obliged to appear when summoned by the relevant employment service. Registered persons who do not comply with this requirement, or refuse to participate in a retraining course or the offer of suitable employment face termination of registration. They are entitled to a second registration after 3 months.

All employers registered according to the commercial legislation are entitled to intermediary services. Employers are obliged to notify the NES within 5 days of their list of vacancy/ies, together with the names of unemployed persons who either a) refused to accept the job offered, or 2) were sent by the NES to apply for the job and were rejected by the employer.

The Council of Ministers has issued a Decree that regulates fee-charging agencies operating as intermediary services. Intermediary services for the information and placement of Bulgarian citizens within the country and abroad may be performed by persons or companies with more than 50 per cent Bulgarian participation; authorization is required in the form of a licence issued by the Minister of Labour and Social Policy. The licence may be revoked for violations of the provisions specified in the Decree. Bulgaria is one of the few countries still formally bound by ILO Convention No. 34 concerning Fee Charging Employment Agencies. They are not party to the updated instrument, the ILO Fee-Charging Employment Agencies Convention (Revised), 1949, No. 96.

### **Temporary employment: Public works schemes (Art. 53, UPEPA)**

The NES, together with municipal administrations, municipal and private enterprises and non-profit organizations, implements programmes providing unemployed persons with temporary employment in “socially useful activities”. These programmes are funded through the Retraining and Unemployment Benefits Fund. They provide payment for each temporary employee up to the amount of the national minimum wage/salary and due contributions to the Social Security Fund and the Retraining and Unemployment Benefits Fund, as well as any additional remuneration under the Labour Code, for a maximum of 5 months within a 12-

month framework. Long-term (more than 6 months) unemployed persons are prioritised in these programmes.

#### **Mobility grants (Art. 55, UPEPA)**

Unemployed persons hired to work for a duration of not less than 6 months in areas (settlements) located at a distance up to 100 kilometres from their permanent abode shall be entitled to a once-only payment of up to 3 minimum monthly wages from the Retraining and Unemployment Benefits Fund to cover relocation costs (for self and family). For distances over 100 kilometres, relocation costs are assessed as 5 minimum monthly wages.

Those unemployed persons directed or hired to work for a duration of not less than 6 months in an area or settlement near their permanent place of residence receive up to 50 per cent of their daily costs of transportation for the duration of the employment contract but not for more than 12 months.

#### **Support for employment of young specialists and skilled workers (Arts. 57-59, UPEPA)**

The NES shall jointly with the municipal administrations, with state-owned enterprises, and municipal and private enterprises, implement programmes for on-the-job training, and professional guidance on work and the working environment for unemployed persons up to 28 years of age with higher education or with secondary (or less) education up to 24 years of age without work experience. The minimum wage salaries, together with the contributions due to the Social Security Fund and the Retraining and Unemployment Benefits Fund are provided from the latter. The same is valid for the retraining costs. The maximum term of such support is 12 months and depends on the duration of the employment contract.

#### ***Disabled persons***

A similar rule has been introduced to cover disabled unemployed and orphans without work experience and aged up to 28 years. The maximum term of support for this group is 18 months.

The UPEPA envisages incentives for employers who hire young specialists and skilled workers, disabled persons and orphans up to 28 years and, also, incentives for hiring those unemployed persons who work part-time but would prefer to work more.

#### **Measures for transition to employment at redundancy (Arts. 64-65, UPEPA)**

In the case of redundancies effected under Art.328, para.1, s.1, 2 and 3 (termination of employment with notice in case of closures, staff cuts or reduction of work volume) the employer shall be obliged, 60 days in advance, to notify the relevant territorial body for tripartite cooperation, the municipal administration, and the territorial unit of the NES. For redundancies affecting more than 150 workers, the NES headquarters are to be notified. Notifications in such cases shall contain data on the number of lay-offs, their work qualification, employment status, age and sex, as well as the schedule for their discharge.

Upon notification, the municipal administration and the territorial units of the NES, with the participation of the territorial bodies for tripartite cooperation and relevant employers, shall undertake measures for guidance and retraining of those laid off and shall implement employment programmes.

#### **Professional and vocational qualifications (Art. 90-95, UPEPA)**

The NES is responsible for organizing the training of unemployed persons, in accordance with labour market demands, for:

- Unemployed persons attempting to start their own business;
- Workers in enterprises with staff up to 50 who during the last 12 calendar months had an employment contract with the same employer;
- Workers whose job requirements have changed due to restructuring of production;
- Workers who have received redundancy notification for closure, staff cuts or decrease in work volume of the employer.

Those in the last-mentioned category who are actually participating in retraining courses are entitled to assistance in the amount of 60 per cent of the unemployment benefit for days in training. Resources for retraining are from the Retraining and Unemployment Benefits Fund and, in certain cases, paid jointly by the Fund and the employers, under the conditions and by order as determined by the supervisory council of the Fund.

Section 3 of the present report is an investigation of the issues of labour market flexibility and employment security in relation to social dialogue and collective bargaining agreements at the national and enterprise level.

### **3. Industrial relations and employment security**

During the early and middle years of the transition decade, collective bargaining in Bulgaria concentrated on the issues of wages, wage regulation, working conditions and social problems. Little attention was paid to employment-related issues, particularly the protection of workers made redundant. However, in 1998 the new wave of restructuring and the escalating insecurity of the workforce have turned the focus of collective agreements to the protection of employment. Specific areas addressed are: mass lay-offs, more security of labour contracts, training and retraining of redundant workers, redeployment, compensation for lost income, the promotion of employment, and on the provision of other assistance for dismissed workers, such as business start-up programmes. These issues are the subject of social dialogue and collective agreements mainly at national and enterprise level.

#### **3.1 General characteristics**

The collective bargaining system adopted in Bulgaria is a combination of centralized and decentralized negotiations. Perhaps it is best characterized as a *nationally centralized* system, since the negotiations at different levels are independent. In only some instances does subordination exist between separate levels (for example, the agreement on the national minimum wage is obligatory at lower levels of negotiation). The main characteristics of the negotiation system are encapsulated below.

**Coverage.** Collective bargaining mainly covers the public sector. In the private sector, it covers those large and medium privatized firms that had trade unions and experience in collective bargaining prior to privatization. There are no collective negotiations in the newly emerged small and medium enterprises (SMEs); hiring and working conditions are set unilaterally by employers.

Collective bargaining is relatively extensive in industrial relations in Bulgaria, as a result of the dominant position of the state sector, where it covers all enterprises and all workers – irrespective of their union affiliation.

No statistical information is available on firms concluding collective agreements, but the spread of collective bargaining may be roughly gauged by data on wage determination. According to the results of a labour market force survey<sup>6</sup> conducted in 1996, 56 per cent of responding enterprises reported they have collective negotiations (Table 3.1). This percentage may be considered high, since these enterprises incorporate the main share of workers.

**Table 3.1. Structure of wage determination (percentage)**

	<b>Shares</b>
By collective bargaining	56.0
By employers	37.0
Other	7.0

Source: Labour market survey, 1996.

Firms whose labour relations are determined by the employers (37 per cent) have only a small share of employees; in the private sector small firms (with few workers and no union organizations) predominate. The ongoing process of privatization will not tend to increase the share of enterprises concluding collective agreements, as the only change is one of property.

### **3.2 The tripartite body and social dialogue**

**System and levels of negotiation.** A tripartite system of negotiation has been adopted at four levels - national, regional, branch and firm. In Bulgarian industrial relations these levels are independent bodies and have evolved in varying degrees. National and firm levels of negotiations are most developed, while branch and particularly regional levels have weak representation. The changes in the levels of negotiation mainly affected the development of negotiations at the branch level, a positive indication for the future.

The subjects of agreements at national level are minimum wage, the average wages in the budget sector and the parameters of the wage regulation mechanism, employment and unemployment, the standard of living and, to a lesser extent, employment protection.

Branch level negotiations focus on the minimum and average branch wages, the level of additional payments according to the Labour Code, and other branch topics. Branch negotiation has relatively weak representation despite its rapid development in the last years of the transition decade. The survey shows that almost 43 per cent of firms reported that they have branch agreements.

The social partners at firm level negotiate all parameters of hiring relations, working conditions and employment. Negotiations at firm level are extensive. According to the 1996 survey, almost 66.3 per cent of enterprises reported negotiations at enterprise level – providing grounds to conclude that indeed the collective bargaining system is strongly decentralized and creates favourable conditions for independent agreements.

Regional wage bargaining is small (only 6.8 per cent of firms reported regional negotiations). An increase cannot be expected in the near future either, as the regional problems coincide with branch ones.

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<sup>6</sup> Conducted by an authorized sociological organization, the aim of the survey was to collect data on labour market issues for which there was no statistical information; it covered 309 state and private firms from all branches of the Bulgarian economy.

**Degree of coordination.** In the present negotiating system, coordination of the interests at national and firm levels is strong. The relevant institutional structures are established and well functioning. The branch structures for negotiations are not established in all industrial branches, leading to low coordination at this level.

**Trade union influence.** The key factor for achieving balanced agreements in collective negotiations is union power and at national level there is parity between the social partners. However, in some branches and particularly at firm level, this parity does not exist. While in some branches (coal mining, metallurgy and energy) union power is stronger, in others (textile, clothing) it is weaker. This can be partly explained by the higher remuneration and benefits in the stronger union branches, notwithstanding the low efficiency and poor financial results of these industries.

The survey previously cited also indicates that at firm level, trade union power has not changed significantly (Table 3.2); almost 40 per cent of trade union leaders in enterprises reported that in the companies there is no change in union power, as opposed to 12 per cent who saw it as increasing. A relatively high percentage of respondents (over 19 per cent) reported decreasing trade union influence in collective negotiations. This can be seen as a worrying sign and to some extent explains why trade unions could not negotiate more employment protection above the provisions set by the law.

**Table 3.2. Trade union influence in enterprises (percentage)**

Opinion	Share
No influence	27.0
Increasing influence	12.0
Decreasing influence	19.3
No change	40.7
Other	1.0

Source: Labour market survey, 1996.

The economic crisis and economic restructuring have created an environment unfavourable to a more effective protection of existing jobs. The poor financial and production situation of enterprises has resulted in permanent dismissals. This circumstance, combined with an increasing trend of tax burden on employers does not forge conditions favourable to increasing the costs of dismissals to employers as a preventive measure for protection jobs. However, as worker insecurity is increasing, it is clear that further improvement is necessary, both by means of legislation and collective bargaining.

Social dialogue at national level on employment protection mainly concerns the agreements on improvement of labour legislation towards effective protection from mass layoffs; the guarantee of jobs and job status in privatizing state enterprises; and increasing worker security by reducing fixed-term employment contracts and civil contracts.

The most important step for the enhancement of labour legislation was the adoption of the Unemployment Protection and Employment Promotion Act (UPEPA) in 1997 (see also Section 2.8 of this report). This law provides relatively good protection from mass lay-offs and the opportunity to compensate dismissed workers by various forms of active labour market policies. According to the UPEPA, employers are obliged to present adequate evidence supporting the decision for mass lay-off and, more importantly, the confirmation of the trade union organization is required. While this complicated procedure does not lead to the retention

of existing jobs, it has created effective mechanisms to ensure fair dismissals. This legislation is preventing mass lay-offs in enterprises where there is a possibility of improving the firm's economic performance.

The other form of employment protection at national level is the protective measures taken by the Government in the privatization process. These agreements deal not only with the price of enterprises but also with their obligation to preserve the number of existing jobs and the business plan for increasing their workforce. This is an important principle of government privatization policy: the negotiated issues are solved concretely for every privatization contract at central and local level. The privatization contracts contain clauses obliging the new employers to retain their level of employment in accordance with their 1-3 year business plans.

### **3.3 Collective bargaining**

The change from permanent to fixed-term contracts during the transition period, as shown in Section 1.7, leads to more flexible forms of employment and labour market mobility but at the expense of employment protection. Another problem is that shift from permanent to fixed-term contracts may work against functional flexibility of labour within enterprises (i.e. internal changes in work assignment accompanied if necessary with retraining and skills upgrading) as employers are usually unwilling to invest in workers with time-limited contract. Such workers are then trapped in a vicious circle of excessive employment flexibility and a low level of skills and professional mobility, which aggravates their employment insecurity. Trade union organizations insisted that the practice of fixed-term contracts be changed to that of permanent contracts. Social dialogue concluded with an agreement (June 2000) to include more protective employment measures in future amendments to the Labour Code.

Pressure from the trade unions has also resulted in the improvement in worker security by reducing non-regular employment (civil contracts). From the worker's point of view, civil contracts offer an opportunity for more flexible work, especially when combined with a primary job. But they also imply insecurity and a lesser degree of entitlement to social protection and enterprise benefits. For employers, civil contracts offer greater flexibility and a means of avoiding wage taxes and social security contributions.

Measures for protecting existing jobs and employment at enterprise level take two main forms:

- Administrative unpaid leaves;
- Part-time employment.

These forms of worker security (particularly the first) are not common practice in collective bargaining and have rarely been included in collective agreements. They are implemented when enterprises are undergoing heavy falls in production and finances. The social partners negotiate and agree on measures to avoid job reduction and dismissals; these agreements include one or both of the above forms of protection.

During the transition years, the first form was a widespread practice. Most state enterprises fell into serious production problems and put a share of workers on forced unpaid leave. During administrative unpaid leave, workers receive no remuneration or compensation. In some rare cases, depending on the financial condition of the enterprise, the employers could pay a minimum wage. Despite the lack of protection, the workers confronted with the alternative of being unemployed, were in agreement with this step.

Part-time employment offers workers better conditions for job security than administrative leave without pay. In effect, two or more workers share one existing job. In this way, employers reduce the number of jobs and prevent workers from lay-off. For workers, the

choice is between part-time work or dismissal. Such agreements between the social partners are not a solution, but are preferable to forced unpaid leave or lay-off.

Part-time employment has increased over the past decade. In 1999, the share of part-time employment was 4.1 per cent of the population aged over 15 years, while that of full-time employment was 36.5 per cent.<sup>7</sup> In the first month of 2000 the share of part-time workers slightly increased and reached about 4.7 per cent.

### *At a glance*

Job and employment security measures in the collective bargaining process in Bulgaria may be summarized as follows:

- The UPEPA does not oblige employers to increase their firing costs. This limits the implementation of more effective forms of job and employment protection in the process of collective bargaining;
- There is a tendency to increase labour market flexibility (transformation from permanent to fixed-term contracts) but at the expense of worker security;
- There is a tendency to increase employment protection by reducing the non-regular labour contracts (civil contracts);
- At firm level the social partners agree to implement inefficient forms of job and employment protection, such as administrative unpaid leave.

Several reasons are constraining the social partners from negotiating employment protection above the provisions set by UPEPA. First, the poor economic results and limited financial resources in most enterprises do not allow an increase in the firing costs. The employers have no available financial resources to increase severance pay and to finance the training and retraining costs for redundant workers. Second, the high employers' tax burden combined with additional firing costs would increase labour costs and reduce the enterprise competitiveness. Third, employers seek easy ways to reduce their labour costs, such as agreeing to fulfil the minimum provisions that are set by law. Fourth, in many enterprises the social partners have unequal balance of power in the negotiating process. In those enterprises where the trade unions are the weaker side of the table, it is not possible to negotiate better protection for the workers. The effect is similar when the stronger unions are combined with bad economic results.

### **Training and retraining of laid-off workers**

Bulgarian labour legislation contains no special clauses to oblige employers to train or retrain laid-off workers. The Labour Code obliges employers to increase the qualifications/skills of employees independently of their status (redundant or not). The UPEPA requests the NES to train workers in specified situations (enterprises undergoing restructuring, small firms and those hit by group dismissals). In practice, however, the limited financial resources of enterprises mean that the training and retraining of workers, particularly those in-group dismissals, are weakly represented in collective bargaining and in collective agreements.

There is no relevant information about training and retraining of employees. According to the data of a sociological survey<sup>8</sup> conducted by the Confederation of Labour Podkrepa and the Foundation Fridrich Ebert in 1995, only 48,800 workers in cities had participated in

<sup>7</sup> See *Early warning: Annual outlook 1999, Bulgaria*, United Nations Development Programme, 2000, p. 63.

<sup>8</sup> "Training and retraining of the labour force in the context of the structural reform", Confederation of Labour Podkrepa Survey, 1995.

training courses and only 22,400 in retraining courses (or 2.4 per cent and 1.1 per cent of total employment in cities). This survey also provides information on the inclusion of training and retraining issues in collective agreements. According to the survey results, only 9.9 per cent of workers who participated in courses had contracts with employers for training (5.4 per cent) and retraining (2.4 per cent).

These figures confirm the failure of enterprise-based training and retraining processes, and the limited implementation of training in collective bargaining. Two reasons for this are the deterioration of training institutions and the lack of financial support. The large-scale enterprises have their own training institutes and facilities, which at present are shut down or reduced to a very modest level. The new small-scale firms typically cannot afford such facilities or feel they can obtain sufficiently skilled workers in the labour market. They also refuse to train their own workers because of the fear of diminishing return on investment.

The main obstacle is financial limitations: employers have insufficient funds to finance the training and retraining process for their workers, particularly in the case of group dismissals. After enforcement of the UPEPA, employers in smaller firms (under 50 employees) and restructuring enterprises could receive financial support from the Retraining and Unemployment Benefits Fund, which stimulated the training and retraining process. In 1999, 765 employees participated in these courses. The majority (87 per cent) are employed in restructuring enterprises and could be considered as redundant workers. There are no data on the training of those workers who received dismissal warning.

#### **Group dismissals and lost income**

The minimum size of redundancy compensation is regulated by the Labour Code and is fixed at the level of one monthly wage. Collective bargaining at enterprise level negotiates the size of compensation; this is often higher than the amount stipulated, depending on factors such as the financial state of the enterprise and the power of the local trade unions. Large disparities exist – negotiated redundancy compensation can vary from 1 to 6 monthly wages. For administrative workers, the prevailing compensation is 1 monthly wage. Employers are obliged to pay all negotiated compensations to workers and all necessary payroll taxes.

There are two issues that should take place in collective agreements at enterprise level. One is: What action can employers undertake to help their redundant workers find new jobs? This question is usually passed on to local employment services. The second issue is that of employers' financial support for self-employment programmes, which is also not included in collective bargaining in many enterprises. Although financial support is provided in the form of lump-sum compensation by the Unemployment Fund (as described in Section 2.7), this support is limited: in 1999 only 34,805 persons received such support and for 72 per cent of recipients<sup>9</sup> the amount was BGN 1,000. Typically, these redundancies are concentrated in low-skill services or small-scale production; without financial supplementation on the part of employers, this form of self-employment cannot substantially increase.

## **4. The role of labour market policies in promoting employment**

Because of changes in legislation, this review of employment policy looks at two separate time frames, from 1990 to 1998 and from 1999 to 2000. The new Unemployment Protection and Promotion of Employment Act (UPEPA), in force since mid-1998, has

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<sup>9</sup> According to National Employment Services data.

significantly altered how active labour market policy is implemented and how information is collected (the latter causing a break in the time-series).

Both passive and active labour market policies have played a modest role in the dynamics of total unemployment. The share of expenditure from the Retraining and Unemployment Benefits Fund varied from 0.7 per cent of GDP in 1994 to 0.6 per cent in 1997 and 1.11 per cent in 1999.

The priorities of labour market policy (LMP) during the years of transition changed with shifts in the stages of economic development. The main aspects of policy change are a more precise definition of the criteria for unemployment compensation; the reduction of stimuli for receipt of benefits; and encouraging unemployed persons to participate more actively in programmes for employment, training, retraining and self-employment.

#### **4.1 Passive labour market policies 1990-1998**

Passive labour market policy played a very important role in the beginning of the transition period, when unemployment “exploded” as a result of economic restructuring. Of itself, unemployment was a new social phenomenon and LMP focused on the identification and registration of unemployed persons and the payment of unemployment allowances. In tandem, the legal and institutional administration systems of unemployment were being established and developed. Later, efforts were directed at the development of active labour policies, including packages of regional or branch programmes for alternative employment, temporary employment, and programmes for the development of self-employment, as shown in Table 4.1.

**Table 4.1. Expenditure on labour market policies (share from the Retraining and Unemployment Benefits Fund), 1993-1998**

	1993	1994	1995	1996	1997	1998
Total expenditures	100.0	100.0	100.0	100.0	100.0	100.0
Active labour market policies, of which:	17.3	19.9	27.3	30.8	27.5	31.2
Administration services	11.5	12.9	15.3	15.0	11.6	14.7
Training and retraining	1.4	1.3	1.6	1.7	0.6	0.2
Youth programmes	0.2	0.2	0.0	0.1	0.1	0.6
Subsidized employment	4.1	5.4	10.2	13.9	15.0	16.2
Passive labour market policies	82.7	80.0	72.6	69.1	60.1	57.4
Other expenditures	-	-	-	-	12.1	11.4

Source: National Employment Service, various years.

For 1999, the structure of expenditure for the share of passive measures was around 58 per cent and the share of active measures around 32 per cent.

By the end of 1998, three main problems hindered the effective use of the programmes targeting employment promotion and unemployment reduction:

- A methodology for evaluation of the programmes on the labour market (active and passive measures) had not been developed;
- The active labour market policies implemented had only a temporary effect on balancing a particular segment of the labour market;
- Active and passive LMP were impeded by the lack of sufficient experience in the administration of policy processes and by the strong financial limitations for the development of the policies.

The structure of expenditures from the Retraining and Unemployment Benefits Fund reflects the decreasing share of unemployment benefits in total expenditure. At the same time, the extremely constrained demand for labour meant limited job opportunities. According to a recent study, the probability that an unemployed jobseeker will find a job within 12 months is 6.2 per cent, or one-sixth of the yearly exit rate from unemployment observed in Poland and less than one-eighth of those prevailing in high-unemployment European countries such as Spain.<sup>10</sup> It should also be noted that, when unemployment benefits and even unemployment assistance expire, unemployed persons are transferred to social assistance if their family income is below the accepted poverty line. Unemployment registration is a condition for this transfer, so some of those registered remain in unemployment registration for that purpose. All these factors, as well as the limited resources of the fund, contributed to changes in passive policy measures. The introduction of the Unemployment Protection and Promotion of Employment Act (UPEPA) stipulated the creation of new jobs and the increasing employability of jobseekers as priorities.

Unemployment benefits are defined as a compensation that is paid at the occurrence of a job loss. According to the UPEPA, the participation of the employers and employed in securing this risk is in the ratio of 4:1. The law also regulates the period for receiving benefits,

<sup>10</sup> Jan J. Rutkowski, *Labour Market and Poverty in Bulgaria*, The World Bank, August 1999, Discussion paper No. 9918, p.1.

the amount of benefit, and additional conditions for receiving unemployment benefits. For a detailed description, see Annex 2 of this report and see also Section 2.8.

**Table 4.2. Unemployment benefits as a share of average wage, (percentage) 1990-1999**

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Share of average wage	43.8	62.2	43.9	38.5	37.6	34.0	28.6	29.5	32.0	30.8
The average wage in US\$	151.2	59.5	89.0	115.3	91.8	113.3	86.2	84.4	124.0	103.6

Source: Authors' calculations based on National Employment Service database. Also based on data from *Monthly Bulletins* and on data for average wage provided by the National Statistical Institute.

Passive labour market policy has become more and more restrictive in criteria for benefit entitlement and the payment period for unemployment benefits. In addition, the amounts of benefit were reduced considerably, as Table 4.2 shows. As no evaluations have been made to date, it is difficult to gauge the real impact on the unemployment rate of this more restrictive approach, since unemployment has been influenced mainly by factors outside the labour market system (for example, labour demand is influenced by the business cycle and the impact of external factors on the economic system). In this context, the impact of the level of unemployment benefits paid assumes secondary importance.

#### 4.2 Active labour market policies, 1990-1998

The employment programmes include a wide-ranging variety of schemes: job creation schemes; self-employment promotion; job creation policies in regions with mass lay-offs and a high unemployment rate; programmes for increasing labour force mobility; training and retraining schemes; job placement; special programmes for those who are physically disabled, for youth and for women; early retirement schemes; compensation schemes to encourage those who are unemployed to participate in public work activities, etc. (Programmes are funded by the Retraining and Unemployment Benefits Fund unless otherwise specified below.)

**Table 4.3. Active labour market programmes (share of total expenditure on active labour market policies)**

Type of programme	1993	1994	1995	1996	1997	1998
Vocational training for unemployed	8.0	6.6	5.8	5.5	2.4	0.6
Youth programmes	1.5	1.1	0.2	0.3	0.4	0.2
Job creation	23.9	27.2	37.6	45.1	54.7	51.9

Source: National Employment Service

As shown in Table 4.3 subsidized employment is among the main active labour market programmes. The most important sub-programmes are the following:

##### **Programmes for employment and self-employment promotion**

The package of sub-programmes includes schemes promoting:

- Employment in the private sector;
- Unemployed persons to start their own business;

- Job creation for vulnerable groups of unemployed, including in the temporary employment programme;
- Occupational programmes in relation to Decisions N 142\1992 and N 56\1994 of the Council of Ministers;
- Programmes for the unemployed from Smolyan, Madan and Rudozem (municipalities with particularly high unemployment);
- Programmes for growing tobacco, sugar beet, etc.

Job-creation schemes have become an important instrument for reducing the social pressure in certain regions of the country since these programmes are the only opportunity for increasing employment (see Table 4.4).

**Table 4.4 Sub-programmes for subsidized employment (share in total subsidized employment expenditures)**

Programmes	1993	1994	1995	1996	1997	1998
Self-employment of the unemployed	7.8	6.0	2.8	1.7	1.8	2.2
Job creation	92.2	94.0	97.2	98.3	98.2	97.7

Source: National Employment Service.

**Training and retraining programmes** are targeted at compensating labour demand and labour supply mismatch by upgrading or expanding the skills of unemployed persons (see Table 4.5).

**Table 4.5. Percentage of unemployed persons involved in training and retraining programmes, 1994-1996**

Type of training	1994	1995	1996
Total	100	100	100
Professional qualification	2.3	4.9	6.5
Additional professional qualification	43.2	50.0	48.4
Re-qualification	36.5	14.4	22.4
Motivation	18.0	14.4	22.4

Source: Annual Reports of the National Employment Service; Ministry of Labour and Social Policy.

According to an OECD study on labour market in Bulgaria, despite the limited resources, a broad array of active labour market policies exists, including most programmes in place in OECD countries. In order to avoid wasting the limited resources available for active labour measures, the study stresses the importance of improving labour market performance more generally.<sup>11</sup>

The same study finds that the pattern of choosing participants indicates “creaming” in the selection process for retraining programmes: candidates who have the best chance of finishing the course are usually chosen.<sup>12</sup>

From an expert point of view, training and retraining programmes require the introduction of diverse services, different forms for rendering these services, periodic monitoring and evaluation in order to increase the flexibility and efficiency of the system. Non-government organizations (NGOs) could play an important role in these activities.

<sup>11</sup> *Labour Market and Social Policy in Bulgaria*, OECD, March 1998, p.7.

<sup>12</sup> *Ibid*, p.33.

**Employment promotion through international projects** (such as “Beautiful Bulgaria”) is one of the active labour market programmes implemented with the assistance of international institutions. Recently the “Regional Initiatives for Employment” Programme, initiated by the UNDP has started very actively.

### **4.3 Employment promotion policy since 1998**

In the recent past, employment policy has been based on the priorities listed in the Governmental Programme for the period 1997-2001; the UPEPA; the Currency Board options and the conditions for accession. The main goal is to focus on job creation and employment growth, as well as on effective unemployment protection policy.

The main links between employment protection, labour market policies and employment promotion have been forged by a package of measures under the UPEPA. This package includes four priorities:

- Improving employability;
- Development of entrepreneurship;
- Incentives for business development and employment;
- Strengthening the policies for equal opportunities.

Encompassing these four priorities, the National Employment Office (NEO) offers a variety of schemes. Data are published by the NEO on the number of participants in different programmes and the expenditures for these schemes.

### **4.4 Improving employability**

This comprises the following six sub-divisions of activities to target a reduction in unemployment and incentives for employment.

#### **4.4.1 Unemployment reduction and employment incentives**

##### *Employment services – Brokering services*

This scheme represents the job placement activities of the labour offices. In 1999, this number was 216,939 persons (including those who participated in different programmes and measures), a 15 per cent increase on those placed in 1998. In 1999, the placement rate was 41 per cent. The placement rate varies among the different groups of unemployed (for example, for unemployed with higher education it was 75 per cent in 1999 compared to 46 per cent in 1998).

This scheme also included labour office activities in organizing meetings with employers, recording employer information on file and familiarizing employers with the active labour market programmes. By the end of 1999 labour offices had compiled files of 46,076 firms (8,457 public, 28,296 private and 9,323 co-operatives).

*Temporary employment schemes* included the National Programme for Temporary Employment, winter temporary employment, and a programme for opening up jobs in some of the regions with high unemployment (Byala Slatina, Kneja, Borovan and Blagoevgrad).

The National Programme for Temporary Employment is among the most popular programmes. Under this scheme the average jobs planned to be open during 1999 was 25,000 (the same as in 1998). The actual opened jobs numbered 23,625 and the number of unemployed who participated in the programme was 63,190 persons.

*The temporary winter employment scheme* (open from January to April and again from November to December) is targeted to groups who are especially vulnerable: persons unemployed for more than 6 months, disabled people, etc. The number of participants during January-April 1999 was 3,811. In November and December 1999, participants numbered 12,190. Thus, the total number of unemployed participating in this programme in 1999 was 16,001. Similar programmes opening temporary jobs in regions with high unemployment managed to create 142 jobs and place about 350 unemployed persons.

*Incentives for employers to hire long-term unemployed*

Existing legislation defines long-term unemployed as those who remain jobless for a period of more than 12 months. The employers are paid a subsidy equal to the minimum wage (plus tax and social security contributions) for each hired employee for a period not exceeding 3 months, on condition that they will hire long-term unemployed persons for a period of more than 6 months. In 1999, the number of placements was 684 (3 times higher than in 1998). Private employers predominated (89.6 per cent) in the total number of employers who participated in the programme.

The *labour mobility programme* includes coverage of transport expenditures (paid from the Fund) for unemployed persons who are hired to work away from their home area. The UPEPA defines three circumstances:

- Transportation costs amounting up to three minimum wages when an unemployed person is hired to work within 100 kilometres of home, paid once only; and five minimum wages if the place of work is over 100 kilometres from home.
- Transportation costs amounting to 50 per cent of daily transportation costs, paid for a period not exceeding 12 months, when the unemployed person is hired to work away from the home area.
- Transportation costs amounting to 20 per cent of the minimum wage, paid monthly, when the unemployed person is hired to work for an employer through the labour office and is required to commute from home to the place of work. The period for this payment is not limited.

The total number of unemployed who participated in the programme in 1999 was 731 persons (2.3 times higher than in 1998).

*Employment associations*

Under this scheme, unemployed people are reintegrated into employment through the existing employment associations. Although the programme provides temporary jobs, the aim is to prepare unemployed persons for regular employment and to assist them in finding a permanent job. During 1999, there were 19 of these associations in 35 municipalities. The programme planned to open 2,894 jobs and achieved 2,282. The number of participants in the programme was 4,455; the jobs were opened in industry (19.8 per cent); social sphere (3.7 per cent); housing (66 per cent); and culture (1.6 per cent). In 1999 the number of unemployed who left the programme was 1,755 people of which 283 found a job and 3 persons started their own business. The average monthly numbers of unemployed, participating in the programme was 2,248 people (2.5 times higher than in 1998).

*Incentives for employers to hire part-time workers*

Employers who hire unemployed persons part-time for not less than 3 months are paid 50 per cent of the national minimum hourly payment, as well as tax and social security

contributions. The total number of participants in 1999 was 3,084 people (4 times higher than in 1998). The share of women participants predominated (60 per cent).

*Incentives for the self-employed to hire the first five hired employees*

This scheme targets self-employed people to expand employment by hiring unemployed people for a period of 24 months. The employer has a grace period of 12 months related to tax and social insurance payments. In 1999, the number hired to work under this scheme was 174 (30 persons in 1998). The number of self-employed employers who participated in the programme was 84 (13 in 1998).

*Vocational training*

In 1999, the number of unemployed who participated in vocational training courses was 16,573 and the number of courses 1,091 compared to 602 in 1998. A comparison with 1998 figures is misleading in the sense that the previous legal basis for participation in training and retraining courses was only possible on the offer of an employer declaring the need to hire an unemployed person with a specific professional qualification (Act of Council of Ministry 100/1997). The new law omitted this restriction and in 1999 the number both of participants and courses have increased. Under the new UPEPA and subsequent Acts, the National Employment Office also covers the travel and accommodation expenses of participants in training and retraining courses. Since mid-1999 the upper limit of expenditure paid for this purpose per unemployed person has been set at BGN 200.

Table 4.6 shows that in 1999 the number of unemployed persons who found jobs after completing a training course was 4,546 or 35.3 per cent of the total number of participants. The placement rate before 1999 was higher than that after 1999; the programme has become much more open to unemployed participants, no longer constrained by the condition of training for a concrete employer according to that employer's requirements.

**Table 4.6. Unemployed persons, completed training and retraining courses, 1998 and 1999**

Year	Initial vocational training	Skills upgrading	Retraining
1998	24.9	38.1	37.0
1999	8.9	65.0	26.1

Source: Annual Report 1999, National Employment Office.

*Vocational guidance*

This is a relatively new form of activity in Bulgaria, comprising a joint effort between the labour offices, local centres for vocational training and guidance and the employment associations. In 1999 the number of consultations was 177,451, of which 172,609 were individual consultations and 13, 307 group consultations.

*Training programme for special groups*

Economic restructuring caused mass lay-offs in some sectors/branches and this programme aims to support vocational guidance and the retraining of some workers, for example, military staff. Under the programme, 870 people passed individual and group consultations for social and labour reintegration and 180 of them completed vocational guidance courses organized by the labour offices.

*Building vocational training centres*

This scheme presents the Bulgarian-German joint project for decreasing migration, including three Bulgarian-German vocational training centres in the towns of Pazardjik, Stara Zagora and Pleven. The centres provided training for employed unemployed persons in 26 different long- or short-term courses (in 1999, the number trained was 3,320, of which 849 were unemployed persons).

*“Beautiful Bulgaria” programme*

Funded by the UNDP, EC and the Bulgarian municipalities, this programme comprises training for unemployed persons and their placement in reconstruction works. For 1999 the programme included 245 reconstruction projects and the participation of 2,500 unemployed persons.

**4.4.2 Youth unemployment**

These schemes aim to prevent youth from long-term unemployment.

*Incentives for employers to hire youth*

The programme provides incentives for employers to hire unemployed youth for a period of more than 12 months. Employers are paid the minimum wage and tax and social security contributions for the employee for a period not exceeding 6 months. Should disabled youths be hired for a period of not less than 24 months, the employers are paid up to 12 months. The total number of persons hired under this scheme in 1999 was 1,725.

*Vocational training for youth*

This is a joint project between Bulgaria and Austria for organizing vocational training for unemployed youth. The programme is running in three towns in Bulgaria (Montana, Veliko Turnovo and Kazanluk), training is for six months and the number of participants is 60 persons.

**4.4.3 Transition from passive to active measures***Special services for self-employment*

The idea here is to help unemployed persons to start self-employment in agriculture. They may receive their unemployment allowances in a lump sum once their project is approved by the local labour office. If a second unemployed member of the family participates in the project, s/he will also receive lump-sum payment of unemployment benefits. In 1999 the number of unemployed persons who participated in this scheme was 2,966 people (3.5 times higher than in 1998).

*“From Social Care to Employment” programme*

This programme is targeted to those on an unequal position on the labour market (poor people, long-term unemployed, single mothers, youth up to the age of 24). The programme includes individual contact with the aim of motivating them to be active in job search. Several sub-programmes are included, such as “Motivation for Work”, “Job Search”, “Professional Training”, etc. The number of participants in 1999 was 5,578 people (47 per cent higher than in 1998) of whom 4,302 participated in the sub-programme “Search for Work”. The number of persons placed in jobs was 4,687, which is considered a good output. The problem is that most participants were included in the temporary job schemes, which means that after a time they will again be jobless.

#### **4.4.4 Incentives for partnership**

The idea here is to make the social partners more active in the training and retraining of unemployed persons, in new job opening processes and in employment growth. Specific activities are:

*Regional employment councils (REC)*

These were built up under the UPEPA (Arts.78 and 79) and include members of the local government, local administration, local labour offices, local employers’ organizations, local structures of employees and trade unions, local structure of the Ministry of Education, local development agencies, local statistical offices, and non-governmental organizations. The REC goal is to prepare regional employment programmes and to work actively on a tripartite basis for increasing employment in their region. In 1999 there were 26 regional REC and 21 municipality employment councils.

#### **4.4.5 Easing the transition from school to work**

This programme intends to raise the adaptability of youths to the labour market requests from technological and economic point of view. Recently the programme included the following sub-programme:

*Supporting the employability of youths from “house care” institutions (i.e. houses for orphans) who finished school.* Activities include vocational guidance of these youths, meetings of young people with employers, and similar activities improving their employment chances. In 1999, 315 youths were placed in jobs.

#### **4.4.6 Developing a labour market “open for all”**

This is a scheme for work with disabled people, ethnic groups, etc. The sub-programmes are the following:

*Incentives for employers to hire disabled persons*

The number of disabled persons registered as unemployed in labour offices in 1999 was 5,492. Employers who hire disabled people for more than 12 months receive minimum wage including tax and social security contributions for each person hired for a period not exceeding 6 months. The same option is valid for employers who hire disabled people for temporary, part-time or seasonal work. In 1999, 88 persons were hired under this scheme.

#### *Literacy, qualification and employment*

This is a scheme for integrating illiterate persons in employment; courses include literacy and vocational training. In 1999 the number of participants in the first module was 269 and in the second, 27 people.

#### *Roma employment*

The aim of the two programmes funded by the Regional Initiative Fund is to increase employment among the Roma population in special regions by sponsoring certain activities such as the collection and processing of plastic waste or cultivation and harvesting of medicinal herbs. The number of participants is 194.

### **4.5 Developing entrepreneurship**

#### **4.5.1 Incentives for business development**

##### *Building up business centres in Vidin, Razlog and Blagoevgrad*

Funded by the UNDP, this programme commenced in 1997 and includes the development of regional agencies with business centres, to help small and medium sized enterprises in the preparation of business plans. It creates jobs by mediation. Thus, for example, the business centre in the Mesta region supported the opening of 600 jobs for the period November 1998- December 1999.

##### *“Start Your Own Business” programme*

Established in 1999, this programme includes six regional one-year projects that are conducted by 27 local labour offices. The main aim is to help unemployed persons to start their own business by obtaining knowledge about entrepreneurship. The number of courses organized by the programme in 1999 was 36, the number of participants 511.

#### **4.5.2 Creating the right conditions for job creation**

This scheme included programmes and measures for job opening at the local level and according to local structural changes. It mainly reflects local employment programmes. The only such programme to date is the Regional Employment Programme for the Russe area, consisting of three components: managing starting business; joint start-up and flexible employment. The last-mentioned aims at job protection and stable employment in strategic sectors and branches of the region. The main elements are flexible working time, the training of unemployed persons, part-time employment, etc; 44 people participated in the programme.

## **4.6 Business development and employment**

### **4.6.1 Support the adaptability of enterprises**

#### *Retraining of employed persons*

The programme includes regular labour market analysis and organization of training and retraining in line with changing labour demands, in order to increase the adaptability of those in the labour market. The number of employed persons in need of retraining who participated in this programme in 1999 was 770.

#### *The “Quick Start” programme*

This provides professional qualification to unemployed persons in accordance with employers’ needs. The programme is part of a package, including the training of national experts – future trainers – to work under this programme. Within the NES, 16 experts have already been trained. In 1999, within the programme these experts organized 2 courses for unemployed persons, always for a concrete employer. For example, 10 women were trained as tailors, to be able to work with specific high-tech machines for a Greek company.

## **4.7 Strengthening equal opportunities**

#### *Strengthening labour market reintegration*

This programme is targeted to those in an unequal position in the labour market, such as prisoners. In 1999, with the support of the British Know-How Fund, several employment associations have been established in prisons.

Another aspect of this section of activities includes the evaluation of active labour market policy, with the funding of the World Bank. The evaluation is being done by NEI, the Netherlands and the final results are forthcoming.

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Despite the wide range of labour market policies described above, they have had no significant impact on reducing unemployment. They can only relieve the scope of the problems for some time.

In sum, from the start of transition until now, many of the changes have occurred in the wake of a liberalization of the labour market by relieving enterprises from their previous responsibilities related to employment protection and income security and shifting them to the State. However, the policies implemented and the transformations that have taken place are not in balance. Decisions on policy and labour market programmes have been taken with insufficient attention to their linkage and insufficient coverage of the workers concerned.

## 5. Conclusions

Several conclusions may be drawn from this analysis on labour market trends, the legislative framework and collective bargaining in Bulgaria. First, the mechanisms that should provide labour market flexibility are not sufficiently developed to ensure employment growth. Unfavourable macroeconomic conditions are influencing the decline in employment, and hindering labour market development. In turn, as the numbers of employed continue to fall, so do contributions to the social security system.

Second, labour legislation in Bulgaria has gone through substantive changes in the past ten years. For the first time, numerous new laws and by-laws have appeared in the area of labour market regulation. In the quest for unemployment alleviation, new legislative acts have introduced various forms of unemployment protection and intermediary placement services for unemployed persons. Amendments to the acts are dynamic in nature, as social changes are necessitating frequent alterations in the unemployment protection system. Economic development has failed to achieve an environment favourable to successful active labour market policies. Passive policies have been constantly under strain as unemployment continues to accelerate, leading to shorter duration of unemployment benefits, lower levels of replacement and tighter eligibility criteria.

Parallel to these legislative changes, the Labour Code has also been frequently amended in order to set up a new system of industrial relations and to provide protection against atypical forms of employment, such as fixed-term or civil contracts, which disguise employment relationships. These amendments have accomplished only marginal positive results. Reasons may be sought in the lack of in-depth economic and sociological analyses of labour market trends and the inadequacy of the legal regulation framework. In the face of an ongoing and painful transition to a market economy, efforts persist to adhere to the traditional model of an employment relationship of indefinite duration and relative stability of employment. This approach limits the scope of labour law and leads to camouflaging its non-applicability through various legal forms. It is doubtful whether the amendments to the Labour Code that have been recently agreed on by the social partners can solve the problems arising from the new forms of employment that have mushroomed in Bulgaria.

Third, in a climate of enterprise restructuring and employers' uncertainty for future developments, collective bargaining agreements have paid scant attention to the protection of workers made redundant by restructuralization. Social dialogue at the national level mainly concerns agreements on: 1) improvement of labour legislation towards effective protection from mass lay-offs; 2) guarantee of jobs and level of employment in privatizing state enterprises; 3) increasing worker security by reducing atypical labour contracts. The protection of existing jobs and employment at firm level has taken two principal forms: administrative unpaid leaves and part-time employment, while internal redeployment is severely constrained by the negligible internal retraining or skills upgrading of redundant workers provided by the enterprise.

The main trends for employment security in collective bargaining may be assessed as: limited implementation of the more effective forms of protection; an increase in labour market flexibility (from permanent to fixed-term contracts) at the expense of employment security; an increase in employment protection by reducing non-regular labour contracts (civil contracts) and, at enterprise level, the implementation of inefficient forms of employment protection.

Fourth, the income security of workers made redundant has little place in collective bargaining. Negotiations take place mainly in collective bargaining at enterprise level and, for special categories of worker (army, police, etc.), at the national level. The minimum size of redundancy compensation is regulated by the Labour Code and is fixed at the level of one monthly wage. It is usual for the social partners to negotiate a higher amount of compensation but this depends on a variety of factors.

Fifth, the training and retraining of workers made redundant is weakly represented in collective bargaining agreements, because of the poor economic situation of enterprises and the limited financial resources. After the introduction of the Unemployment Protection and Employment Promotion Act in mid-1998, the employers of small (under 50 employees) and restructuring enterprises could receive financial support from the Retraining and Unemployment Benefit Fund, to stimulate the training and retraining process for these workers. However, the access of enterprises to this scheme is very limited so that the scheme has a minimal impact on reducing unemployment.

Sixth, the active labour market policies implemented have only limited possibilities to offset the combined negative effects of all other factors, including the macroeconomic climate, that have caused employment reduction and decreased social security in Bulgaria.

Labour legislation on the employment protection of workers against lay-off is rather weak, and collective bargaining improves it only very slightly (through higher severance pay). All redundant workers are entitled to assistance in job placement, income support and to participation in employment promotion programmes provided by the NES. However, due to weak labour demand and very limited funds for labour market policies (even the passive ones) this assistance is fairly insufficient. Thus, the level of unemployment and the share of long-term jobseekers and persons discouraged from unemployment registration continue to remain high and call for taking steps to improve the mechanisms for labour market flexibility and employment security in Bulgaria.

### **5.1 Viewpoints: Trade unions and employers' organizations**

The followings points were expressed by the representatives of two trade union confederations and an employers' organization on the links between employment protection, income security and labour market policies. Their opinions are presented here in summarized form.

#### **The Confederation of Independent Trade Unions**

- Labour market, employment protection and income security have not been among the priorities of economic policies during the transition process in Bulgaria. Moreover, the economic decisions that have been taken often had negative effects on employment protection and income security – the closure of enterprises and the reduction of jobs, for example. The accumulated negative effects were covered to some extent by government action on protecting incomes from inflation but, overall, income security and employment protection have not been elements of national policy.
- There is no link between income policy and labour productivity.
- Private sector development and self-employment have been limited because of lack of investment capital. In turn, this has influenced high unemployment and restricted job opportunities.

- The income security on a national level is provided through the tripartite system and covers all minimum payments. This system is not sufficiently developed at the lower levels, i.e. at collective or branch level bargaining.
- The control and monitoring of implemented policy in each of the above directions has been weak. Breaches of employees' rights are much in evidence, with no pertinent reaction from governmental institutions.
- In sum, links between labour market policy, employment protection and income security are not properly considered in the Government's policy.

### **The Confederation of Labour Podkrepa**

- At the beginning of transition, some steps for linking employment and income security were undertaken as an element of overall labour market policy. These steps were: 1) the tripartite dialogue that proposed collective bargaining for linking employment and wages, and 2) building up relevant institutions – the Tripartite Commission and its employment and wage sub-commissions.
- With the introduction of the Currency Board, the freezing of wages was intended to make Bulgaria more investment-attractive. This has not happened and the low level of wages has been accompanied by a sharp reduction of employment. Income security has decreased due to unstable employment. Private employers are paying wages at the minimum level, social insurance is paid at the minimum level, if paid at all. Recently, new health insurance payment has also been introduced. The situation is one of decreasing employment, low wages and decreasing social security. Employment protection has decreased with the introduction of temporary labour contracts (in some cases, employers signed only monthly contracts). Sometimes, there is no employment contract at all. In the view of this Confederation, governmental policy continues to support employment and income policies that keep high unemployment and low incomes.
- As far as income security is concerned, the Confederation insists on a new approach that would include an officially recognized real poverty line, and minimum and average payments linked to this poverty line.
- Employment protection, income security and labour market policies have not been linked because the labour market is imperfect and labour market policy is much limited by the unfavourable macroeconomic conditions and the declining demand for labour.

### **The Bulgarian Economic Chamber**

- The existing labour market is not a “real” but rather a “quasi” labour market, due to the high level of shadow economy activity.
- The active labour market policies that are in place have only a temporary effect on the labour market. The main goal of employment policy has to be “stable” employment.
- There is no policy that *prevents* unemployment. Existing funds have to be directed to employers, to encourage them to create jobs or to keep existing jobs.
- Income security should be provided by increasing minimum payments in accordance with increase of the average wage.

- Privatization contracts should not include protection of jobs since this makes no economic sense for the new owner and sometimes has considerable negative effects.

## Annex 1

### Comparative tables on labour market institutional arrangements in Bulgaria (See Labour legislation, Section 2.3 and 2.5 of this report)

**Table A1. 1. INDIVIDUAL DISMISSAL**

Source of legal regulation	Grounds for individual dismissal	Notice period	Severance pay	Procedural obligations	Sanctions	Exemptions
Labour Code, 1986, amendments in 1992, 1995, 1996, etc.	By employer, with notice: Art. 328, 1, s.5, 6, 7, 8, 9, 10, 11	30 days unless a longer period has been agreed by the parties, but not longer than 3 months.	Art.222, para.3: compensation for employees who acquired the right to pension irrespective of the grounds for dismissal 2 months gross remuneration (the employee has worked with the same employer for the last ten years, severance pay is equal to 6 months gross remuneration)	Notice in writing and dismissal communicated in written form to the employee	Reinstatement to the previous position and compensation for the period of unemployment due to dismissal (Art.225) for maximum of 6 months	
Labour Code	By employer, without notice: Art .330; Whenever the employee is detained for execution of a sentence; divested by sentence of court or administrative order to practise a profession; or divested of academic title; is dismissed for misconduct			Dismissal in writing	In the case of unlawful dismissal, reinstatement and compensation up to 6 months	

Source of legal regulation	Grounds for individual dismissal	Notice period	Severance Pay	Procedural obligations	Sanctions	Exemptions
Civil Servants Act 1999	Art 106, s. 3, 4, 5: Objective impossibility to implement the public service function; when the position taken by the civil servant has to be ceded to a reinstated unlawfully dismissed civil servant; and at qualifying to full pension for length of service and retirement age.	One month	In the case of s. 5 – at retirement-maximum 20 salaries, depending on the length of civil service	Notice is in writing and the dismissal is an administrative act	Repealing the act of termination; reinstatement and compensation for the time the civil servant has not been in service due to the unlawful dismissal	

- There is no legal definition of unfair dismissal in Bulgarian legislation. It deals with “unlawful dismissals” in Art. 344 (cited in Section 2.5 of this report). Unlawful dismissals are those which are not based on strictly and comprehensively defined grounds in the law (chapter 16 of the LC).
- “Just” causes for individual dismissals are dealt with in the texts on termination of employment without notice by the employer (Art. 330 LC) and in a few cases with notice by the employer for reasons which are connected with worker/employee.
- “Justifiable objective reasons” are connected with the employer, the organization of labour, productivity, closures, etc.

**Table A1.2. GROUP DISMISSAL**

	<b>Definition</b>	<b>Exemptions</b>	<b>Procedural obligations</b>	<b>Sanctions</b>	<b>Notice period</b>	<b>Severance pay</b>	<b>Premium for agreement</b>	<b>Social plans</b>
Unemployment Protection and Employment Promotion Act, 1997	No explicit definition is contained in Art. 64. This article refers to the LC, Art. 328, s.1, 2, 3* 1. Employers may terminate a contract of employment by giving notice in writing to the employee in the <b>notice period</b> , in the following cases: 1. Closing down of the enterprise; 2. Partial closing down of the enterprise or staff cuts; 3. Reduction of work volume; 4. Work stoppage for more than 30 days.		Obligation for the employer to notify 60 days in advance the respective body for tripartite cooperation; the municipality administration and the territorial unit of NES. In the case of more than 150 workers being dismissed, the employer is obliged to notify the HQ of NES.	Art 113- Employers who undertake mass lay-offs without notification in advance in the 60 days period, shall be fined for each laid-off person with 3 minimum wages.	30 days unless a longer period has been agreed by the parties, but not longer than 3 months.	Art.222, para.1 LC: Upon dismissal due to closing down of the enterprise or part of it; staff reduction; reduction of work volume; or work stoppage for more than 30 days, the employee shall be entitled to compensation from the employer in the amount of the gross labour remuneration for the period of unemployment, but not for more than one month. A longer period may be stipulated by CoM Resolution, by a collective agreement or by the individual labour contract. After the expiry of this period and unemployment registration, the unemployed is entitled to unemployment benefits.*		
<b>* The unemployment benefits are paid monthly depending on the length of service, for which contributions have been paid:</b>								
<b>Length of service (years)</b>	Up to 3	From 3 to 5	From 5 to 10	From 10 to 15	From 15 to 20	From 20 to 25	Over 25	
<b>Period for paying benefits (months)</b>	4	6	8	9	10	11	12	

	<b>Definition</b>	<b>Exemptions</b>	<b>Procedural obligations</b>	<b>Sanctions</b>	<b>Notice period</b>	<b>Severance pay</b>	<b>Premium for agreement</b>	<b>Social plans</b>
Council of Ministers Resolution (CoM) 57/89 – in force till mid-1998	For redundancies for which the worker has no fault					Art.1 A/97- lump sum (USD 250) payment instead of the monthly unemployment benefits for workers in state-owned enterprises, in case of the worker being employed in it for more than 12 months.		
CoMR 131/96 In force till Sep 98	Provides lump sum additional payment to workers and employees, laid off before 14 May 1996 from a group of SOEs listed by a CoM Decision 480/96					The additional payment amounts to 6 average monthly wages for workers employed more than 6 months by the enterprise; for workers employed for less than 6 months – 3 average monthly wages.		
COMR 100/98: Ongoing multiple amendments. Still in force	Provides lump sum sev. pay for firms liquidated or undergoing financial rehabilitation programmes, with more than 50% public assets.					2 groups of beneficiaries: entitled to the lump sum BGN payment of 1,000 instead of monthly unemployment benefits and for the laid off after 30.06.99 additional lump sum payment of BGN 1000 is provided, if they start own business or enter into employment contract with a new employer.		

**Table A1.3. NON-STANDARD FORMS OF EMPLOYMENT**

	<b>Restrictions (or not) on firms</b>	<b>Restrictions (or not) on workers</b>	<b>Maximum number of successive contracts</b>	<b>Maximum duration</b>	<b>Sanctions</b>	<b>Restrictions on agencies</b>
<b>Fixed-term contract</b> Labour Code, 1987 (multiple ongoing amendments).	Fixing the term in writing is allowed in the case of: substitution for an employee who is absent from work; for a job which is to be taken through a competitive examination, for the time until such examination is taken, or until completion of the work.	No rules on this	No rules on this	Not more than 3 years, insofar as a law or an act of CoM do not provide otherwise	The fixed-term contract becomes for indefinite period if the employee continues to work for 5 or more working days after the expiry of the agreed period, without the written objection of the employer	
<b>Employment contract for a trial period</b> Labour Code, 1987, Art.71	In the event that the work requires a test of the ability of the employee or the employee wants to ensure that the job is suitable.		Only one according to the judicial practice of the Supreme Court.	Up to 6 months. The trial period does not include the time during which the employee has been on statutory leave or, with due cause, has not performed the specified job.		
<b>Part-time work</b> , Labour Code, 1987, Art.138	The parties to an employment contract may negotiate work for a part of the statutory working hours. In this case they shall specify the duration and allocation of working hours.					
<b>Apprenticeship contract:</b> Art.230 LC considered as a specific labour contract.	The apprenticeship contract binds the employer to train the novice while working in a specified profession and binds the novice to master it.	No rules	Not renewable	Maximum 6 months		

**Table A1.4. REGULATION OF WORKING-TIME**

	<b>Normal annual weeks according to legislation</b>	<b>According to provisions in collective bargaining</b>	<b>Normal weekly hours according to legislation</b>	<b>According to provisions in collective bargaining</b>
Labour Code/1987	5 working days is the standard*		40 hours (46 for a six day work week)	

\* The right to paid leave is established in the Labour Code and a by-law, developing details on the length and conditions. Collective agreements are a new option for the determination of paid leave. The Draft Act on amending the Labour Code proposes a minimum of 20 working days.

<b>Limits on annual overtime and overtime pay premiums</b>				<b>Minimum weekly rest and restrictions on Saturday and night work</b>		
	<b>Maximum hours</b>	<b>Other limiting factors</b>	<b>Minimum pay premium for overtime hours</b>	<b>Saturday work allowed in general</b>	<b>Minimum weekly rest period</b>	<b>Restrictions on night work</b>
Labour code, art. 145	150	The duration of the overtime work shall not exceed: 30 hours day work or 20 hours night work in one calendar month; 6 hours day work or 4 hours night work in one calendar week; 3 hours day work, or 2 hours night work in two consecutive working days. Overtime shall not be permitted for employees under 18, pregnant employees and mothers with children aged under 3 reassigned employees and employees who are continuing their education while in employment.	Art.262 LC: 50% for overtime work on working day; 75% for work on weekends; 100% for work on official holidays; 50% for work with an accumulated calculation of working time. No additional labour remuneration shall be paid for overtime hours on working days to those employees with open-ended working hours.	Yes.	Art.153 LC. For a 5-day working week: weekly rest of 2 consecutive days, one of which shall be Sunday – 48 hours. In the case of continuous production process, in the case of change of shifts, as well as for a 6-day working week: minimum 24 hours.	Normal duration of the weekly working hours at night for a 5-day week shall be 35; for a 6-day week it shall be 35. The normal duration of the night working hours for a 5 day week shall be 7 hours and for a 6-day week: 6 hours. Night work is prohibited for employees under 18; pregnant employees and mothers with children aged under 3; mothers of children aged 3-6, except with consent; reassigned for medical reasons employees, employees continuing their education while in employment; except with consent.

## **Annex 2**

### **The unemployment benefit system in Bulgaria**

The system in force follows the provisions of the Unemployment Protection and Employment Promotion Act, (*State Gazeta*, 16 December 1997).

#### **Qualifying conditions**

Entitlement to cash unemployment benefit

The right to cash benefit shall pertain to unemployed persons who have been employed under labour contracts and have been on unemployment insurance or subject to such for at least 9 months during the last 15 calendar months prior to its termination, and that period shall be recognized as record of service.

The right to cash benefit shall pertain to unemployed persons who have operated under a contract for the management or supervision of a commercial company in respect of state or municipal enterprises (sole proprietor of commercial companies and/or dismissed by the decision at the General Meeting of the Board of the commercial company) and have been on unemployment insurance or subject to such for at least 9 months during the last 15 calendar months prior to its termination.

The right to unemployment cash benefit shall pertain to unemployed persons who have performed seasonal work under employment contracts for a period of at least 6 of the last 12 months.

#### **Obligations ensuing from unemployment benefit entitlement**

The Act states that the unemployed person shall register at the local office of the NES under their registered address of residence not later than 3 months from termination of their permanent employment contract or of their manager's or supervisor's contract and shall submit a declaration stating that they are unemployed, actively looking for a suitable job and are available for joining a vocational training course.

During the period of receiving unemployment benefit, the unemployed persons shall confirm the declaration at least once a month and shall present themselves when summoned to be offered a suitable job or vocational training course.

Unemployed persons who do not receive unemployment benefits under this law but wish to use any rights under this law in accordance with other specific legal and regulatory norms of the Council of Ministers on such grounds shall sign a declaration confirming monthly that they are actively looking for a job and ready to enter into suitable employment.

#### **Unemployment benefit amount**

The unemployment benefit amount regarding persons who have been full-time employees shall be 60 per cent of their average gross monthly salary over the last 9 months when they have been subject to a mandatory unemployment insurance scheme. Unemployment benefit cannot fall below 80 per cent of the minimum wage and cannot exceed 150 per cent of the maximum wage.

The amount of unemployment benefits paid to unemployed persons who worked on a part-time basis shall be proportionate to the time worked.

Unemployed persons who have terminated their permanent employment contracts voluntarily, will (except in certain cases pertaining to articles of the Labour Code and, also, in cases of dismissal for misconduct or breach of discipline) shall receive unemployment benefits for a period of four months, amounting to 80 per cent of the minimum wage.

Unemployed persons, who have again gained entitlement to unemployed benefits within 3 years of the previous entitlement, shall receive unemployment benefits for a period of 4 months.

#### **Commencement of payment of unemployment benefit**

The unemployment benefits shall be paid as from the date of registration of the unemployed people at the local office of the NES.

Where the contract has been terminated voluntarily (except under certain articles of the Labour Code and, also in case of dismissal for misconduct or breach of discipline) payment of unemployment benefits shall commence 3 months after the registration date.

#### **Mode and period of payment of unemployment benefit**

The unemployment benefit shall be paid on a monthly basis in accordance with the record of service of the unemployed person, recognized under the Labour Code or other specific laws, for the following period:

<b>Record of service</b>	<b>Period of entitlement to unemployment benefits</b>
<b>Years</b>	<b>Months</b>
Up to 3	4
3 to 5	6
5 to 10	8
10 to 15	9
15 to 20	10
20 to 25	11
Over 25	12

#### **Termination of unemployment benefit payments**

Payment of unemployment benefits shall be terminated when the person starts:

- Working on the basis of a permanent employment contract for a period exceeding 9 months;
- Operating under a contract for the management or supervision of a commercial company;
- Working under no written contract with the employer;
- Performing commercial activities;
- Working as a co-operative member in pursuance of the Law on Cooperatives or as a farmer;
- Receiving income in cash or in kind from exercising a registered labour activity.

Payment of unemployment benefits shall likewise be terminated in the following cases:

- Unjustified refusal of the unemployed to join a training programme or wilful termination of participation in such a programme;
- Detention of the unemployed to serve a term in prison;
- Enrolment of the unemployed for regular studies at a school/university;
- Obtaining entitlement to old-age pension.

### **Suspension of unemployment benefit**

Payment of unemployment benefits shall be suspended for the period during which the recipient: a) works under an employment contract for a specified period; attends training courses organized by the NES; is called up for regular military service; b) is detained by the government authorities under a procedural enforcement; c) participates in military exercises or military retraining for longer than 5 days; d) receives benefits for temporary disability to work.

Payment of unemployment benefits shall be suspended also in cases where the recipient: a) carries out an individual personal service contract; b) fails to turn up without mitigating circumstances at the local office of the NES (only for the period covering failure to turn up); c) has his residence abroad (only the period of absence from the country).

Benefits are paid from the Retraining and Unemployment Benefit Fund (4.5% of the payroll). The employers' and the employees' contribution ratio is 4:1.