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Targeting Youth Employment Policy in Bulgaria

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Abstract[∇]. Youth unemployment and above-all long-term youth unemployment in Bulgaria is much higher than the EU average. Low flows out of unemployment into a job, especially for the least educated and qualified young people residing in peripheral regions are the principal source of long term unemployment amongst young people. Evidence based on various data sources suggests on the one hand the most disadvantaged segments of the young population are left with two equally unsatisfactory alternatives: working in the informal sector and thus, in practice, often permanently withdrawing from the labour force or emigrating. On the other hand, employment policies face significant financial and institutional constraints. Increasingly, with rising overall unemployment, passive policy is taking an increasing proportion of expenditure on labour market policy to the detriment of active policies. Moreover, important segments of young people are bypassed by such active measures as do exist. An adequate response requires action at the level of the education system as well as more extensive and more effective Active Labour Market Policy. This paper concludes with some suggestions for the way in which such policies might be developed.

JEL classification: I28, J68, P41

Keywords: Youth Unemployment; Active Labour Market Policy; Economic Transition

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0. Introduction

Since the late 1990s, Bulgaria's reform process has had a new start. The privatisation and restructuring of state-owned firms, interrupted in the middle of the decade, has now been resumed. Prices have been fairly stable for some years. At the same time, trade liberalisation is almost completed and the country looks more and more like a small open economy. This does not mean that the government has adopted shock therapy, as in the case of Poland. Notwithstanding a full commitment to market reforms, now more or less irreversible, employed labour still enjoys substantial protection, which is mirrored in the high share of subsidised early retirements and high social security costs. In other words, Bulgaria's transition seems more similar to the Czech model of a soft landing into the market economy, but ten years on¹. Overall, current political and monetary stability, low labour costs and a market potential of over 8 million people make Bulgaria a more attractive destination for foreign direct or indirect investors, discouraged until recently by the stop-and-go approach to transitional reforms typical of large part of the 1990s².

The youth labour market to some extent mirrors the country's overall situation. Over the 1990s, youth (as adult) unemployment rates have followed the destiny of economic reforms, shrinking when reforms came to a stop and increasing when reforms started again. However, in 2000, unemployment has remained at the 1999 level, suggesting that a stable economic framework and the implementation of relevant active

¹ The comparison with the Czech Republic regards only the slow speed of transition. The initial conditions and the economic outcomes of the reform process are rather different.

² By 2000, FDI in Bulgaria had reached 975 million USD. This is only a little over one-tenth of FDI in Poland (9461 mill. USD) and one-fifth of that flowing into Hungary (4595 mill. USD) in the same year.

labour market policies (ALMPs) have started to become effective, favouring economic growth and increasing the labour demand elasticity. Despite this, youth unemployment is an important problem in Bulgaria and the need for substantial further reforms makes it easy to predict that the general economic framework will still be unfavourable in the years to come. It is, therefore, of the utmost importance that ALMP be as effective as possible to mitigate the impact of economic restructuring on young workers, that passive income support will not be able to alleviate due to the heavy burden on social security finances.

Various international organisations have stressed the role of labour market reforms and of pro-active measures within this difficult context, especially for young workers (Beleva *et al.*, 1999; Walsh *et al.*, 2001; World Bank, 2001). Monitoring and evaluation activities provide no clear-cut answers as to the effectiveness of the measures adopted. Nonetheless, they suggest that a better targeting is necessary. In 2000, the European Commission argued that the interventions implemented have disregarded the significant unemployment differentials across regions and groups. In 2001, the National Employment Strategy envisaged more specific measures for young people. In particular, it suggested investment in the development of labour market and professional training, building also the necessary infrastructure. It also announced the launch of several micro-projects aimed at facilitating the transition from school to work.

There are three main reasons why ALMPs are not fine-tuned to the needs of young people in Bulgaria. First, they are still in their infancy, being launched for the first time in the second half of the 1990s. This means many institutional limitations prevent a

However, it does represent a major increase since 1996 when FDI in Bulgaria was only 109 Mill. USD (UNECE, 2001, appendix table B.17, p. 269).

full implementation of the measures adopted. Second, employment policies face binding financial constraints. Third, research is still missing on the main features of youth unemployment.

The aim of this paper is to cover the gap in systematic and detailed information on youth unemployment and employment policy and to suggest ways to overcome the existing institutional and financial constraints. The analysis is based on a variety of data sources. Principally, data is taken from the Labour Force Survey (LFS) and the Unemployment Register kept by the National Employment Service (NES). We also use information coming from two *ad hoc* surveys, the Survey on Youth Initiative (SYI) and the Survey on Youth Unemployment (SYU), conducted by UNDP in February and March 2001 respectively. Where relevant, comparable figures are provided relative to the EU, OECD or other transition countries.

In December 2000, youth unemployment reached 34.2% in Bulgaria, double the EU average (17.2%). The ratio of youth to adult unemployment (2.1) is higher than the EU average (1.9). Unemployment varies significantly across regions and districts, reaching 24.9% in the North-West whilst falling to just 9.9% in the South-West. Moreover, 72.3% of the young unemployed had already been in search for a job for at least six months. This points to a very low job finding rate for young workers (12% of registered unemployment in January 2001). The consequences of the stagnancy of the youth unemployment pool are dramatic. With few exceptions, those who find a job when leaving education tend to concentrate in private (relatively) high pay, but often low skill jobs, such as those in Trade and Repairs and Hotels and Restaurants. A third group, mainly constituted of young workers with low levels of education attainment tend to

accept jobs in the informal sector, feeding the grey economy. Finally, according to the SYI, many from all educational levels, but especially among the most educated, emigrate or plan to emigrate reflecting, at least in part, the low rates of return to higher education within the country itself.

Youth employment policy should be targeted to the needs of specific disadvantaged groups, including not only the unemployed with low educational attainment living in depressed areas, but also the discouraged with similar characteristics. In view of Bulgaria's ongoing EU accession negotiations, in the longer run ALMP measures should respect the EU Employment Guidelines, offering some form of "employability" option to young people within six months of the beginning of their unemployment spells.

The remainder of the paper is as follows. In section 1, we briefly describe the data sources used. Section 2 puts Bulgarian youth unemployment into international context. Section 3 provides evidence on, and suggests some reasons for, the low job finding rate of young people. Section 4 identifies specific target groups for ALMP. Section 5 discusses the Government Employment strategy and section 6 shows its institutional and financial constraints. Some concluding remarks complete the paper.

1. Data sources and methodology

For the calculation of unemployment rates for different categories of young people, the main source of data is the Labour Force Survey (LFS). This is based on the ILO definition that the unemployed include those who are without work, but are willing, able and actively seeking, to obtain employment. In some cases, data is also taken from

the NES's registry of unemployment. Obviously, here the concept used is different. In this case, the unemployed correspond to those people who have registered with labour offices in order to access services offered by the NES or to Social Security and/or Health benefits. Although overlapping, the two concepts do not coincide.

In addition to LFS and NES data, we use two *ad hoc* surveys on young people, the SYI and the SYU. The SYI was conducted by UNDP in February 2001 on a nationally representative sample of 1178 young (15-25) people. The SYU was carried out in March 2001 by the National Centre for Public Opinion Research, commissioned by the UNDP within the context of the Anti-Poverty Action Plan follow up. The sample includes 712 registered unemployed people aged 16-24.

2. Characteristics of youth unemployment in Bulgaria

Youth vs. Adult Unemployment Rates. Youth unemployment rates are more than twice those of adults in Bulgaria. This ratio is somewhat higher than the average for EU and many other CEECs. In December 2000, LFS data suggests that the unemployment rate for young people (15-24) was 34.2% as opposed to 16.4% overall giving a ratio of 2.1. The comparable figures for the EU in 1999 were 17.2% and 9.2% respectively (or a ratio of 1.9). There is little difference between young men and young women as far as unemployment rates are concerned. Young men have slightly higher rates (36.0% as opposed to 32.1% for young women). This situation is similar to that of men and women in the labour force as a whole. In December 2000, the unemployment rate of men as a whole was .3 percentage points higher than for women (16.5% as opposed to 16.2%).

Long-term unemployment. Youth unemployment is not evenly spread amongst all young people. The high rate of long-term unemployment presents a particularly worrying aspect of the problem in Bulgaria. Short (even repeated) periods of unemployment are likely to have relatively limited long-term consequences. However, extended periods of unemployment early in a person's labour market experience may have negative consequences throughout their working life. In December 2000, the percentage of the young unemployed who have been out of work for more than one year was 49.9% (and 72.3% had been out of work for more than six months)³. In the light of the EC Employment Guidelines which state that young people should receive some opportunity for training, education or work experience before being unemployed for six months, this is particularly worrying. Indeed, the figures are comparable to those for all labour force participants (i.e. young people and adults together) in the EU which had figures of 63.7% (over six months) and 47.5% over one year in 1999. Given the duration of unemployment increases with age, the Bulgarian situation is particularly serious.

Activity Rates and Discouraged workers. In general, activity rates are low and still declining amongst the population in Bulgaria. This is indeed recognised by the government's National Action Plan for Employment. It is natural for labour force participation rates to be low amongst young people in as much as low participation may be a reflection of high rates of educational participation. The problem arises when such low level of labour force participation does not reflect involvement in education. In December 2000, the number of young discouraged workers was recorded by the LFS as

³ Although, of course, the way this is measured in practice is through registration at the employment office. The rate of long-term unemployment for young people as measured by registration at the offices is much

122,400, representing 26.1% of the total number of discouraged workers – this was higher than the total number of young people who were actually recorded as unemployed (113,500). If the unemployment and discouraged worker figures are added together one arrives at a non-employment rate of the order of 52%⁴. Furthermore, this group is largely concentrated amongst those aged 20-24 (62.5%). Whether these young people are actually working in the informal sector or whether they are really inactive does not alter the fact that they are a substantial group towards whom policy should be directed.

Education and Unemployment (and non-employment). As with many other countries, unemployment and non-employment rates are highest amongst those with low levels of education. Table 1 reports unemployment rates and the employment-population ratios for young people and adults by educational level based on LFS data. The unemployment rate of young people with primary education or less was 59.7% just over twice the unemployment rate of young people with secondary education or more (29.7%). Furthermore, the comparison becomes even more extreme if one looks at the employment-population ratio. The table shows that only just over 5 young persons out of 100 with primary or lower education have got a job. In the case of young workers with upper secondary or above education, the corresponding figure is of the order of 30 out of 100. If one considers also that a substantial proportion of young people with higher levels of education who are not participating in the labour market are likely to be in education whilst, for obvious reasons, this will not be true for young people with low levels of education, the contrast becomes even more stark. That the bulk of discouraged young

lower than observed by the LFS for easily understandable reasons.

workers come from the lower educational levels is confirmed by the penultimate column of the table. Almost nine out of ten young people who are not involved in education were also without work. Turning to adults, the long-run benefits of upper secondary or tertiary education become even more obvious. The unemployment rate of adults with upper secondary education level or better is well under one-third of the rate for those with primary education or less and the employment-population ratio of adults with upper secondary education or better is nearly 70 per cent, the target level established at the EU Lisbon Summit in March 2000, to be reached in the EU as a whole by 2010.

[Table 1 about here]

A low level of education also significantly affects the duration of unemployment: the higher the education level, the shorter the duration of unemployment. The SYU suggests that 71.4% of young unemployed with primary education or below are long term unemployed. This contrasts with a share of 28.6% long-term unemployed among those possessing a University degree.

Table 2 compares the composition of young and adult unemployed by educational levels. It seems to suggest that, relatively speaking, employers tend to prefer hiring youths to adult workers at high education levels and, conversely, adult to young workers for low education levels.

[Table 2 about here]

This impression is further strengthened when one considers that educational levels are on average lower amongst adult workers so that other things being equal the

⁴ The non-employment rate is defined here as the unemployed plus discouraged workers, divided by the unemployed plus discouraged workers plus employed.

proportions of adults with low levels of education should actually be higher than for young people rather than the converse picture presented above.

Regional Differences. There are substantial regional differences in unemployment rates. Even considering the six large regions, unemployment rates vary from 24.9 in the North-West to 9.9 per cent in the South-West in December 2000⁵. Substantial regional imbalances are a feature of many CEE countries reflecting as they do the large-scale industrial restructuring affecting specific industries concentrated in particular areas. Given the low level of geographical mobility, experiences both in Bulgaria and internationally suggest mobility allowances are not likely to be a successful way of combating this. More important is concentration on developing initiatives to promote employment in the depressed areas (Pastore, 2000).

In January 2001, the country's incidence of youth unemployment over total unemployment was 15.9%, with substantial differentials across regions. Generally speaking, the regions with the highest unemployment rate have also the highest incidence of youth unemployment. The Sofia area and Stara Zagora represent the exception to this rule being regions with a higher than average incidence of youth unemployment and a relatively low unemployment rate. The following regions have the highest incidence of youth unemployment: Sofia Region, Sliven Region, Kjustendil Region, Vidin Region, Stara Zagora Region, Targoviste Region. The most problematic regions are those with the highest incidence of youth unemployment *and* of young unemployed entitled to

⁵ The range of variation of the unemployment rate at a district level is wider. According to NES data, Plovdiv (6.1%) is the lowest and Turgovishte (34.2%) is the highest unemployment district.

unemployment benefits. Such regions are Bourgas, Varna, Smolyan and Targoviste (see Beleva *et al.*, 2001, Table 3).

The effectiveness of ALMP largely depends on the ability to match local labour demand to the characteristics of the local labour supply. The programmes could foster, for instance, the development of self-employment and small businesses in areas dominated by tourism, as well as stock breeding in agricultural areas. State investment in infrastructure could encourage foreign direct investment to reach also peripheral areas. Agreements at a local level between central government, local authorities and employers and workers associations could combine all the resources available and direct them towards a coherent goal (the Italian so-called *Contratti d'area* are a successful example of such local initiatives, see Caroleo and Pastore, 2000).

Ethnic Minorities. Although it is widely accepted that unemployment rates are much higher amongst the Roma and Turkish minorities, particularly for young people, data is not systematically collected on these groups. The collection of such data is indeed a sensitive issue and probably the best approach is to concentrate on those with low levels of education, rather than basing intervention on belonging to a specific ethnic minority.

3. Hiring young people

Information from the NES suggests that the hiring rate amongst young people is much lower than for adults. In January 2001, only 12% of the young registered

unemployed were hired, whilst the overall hiring rate from the register was 20.3%⁶. Greater stress should be put then on enhancing the employability of young people.

A reasonable explanation of employers' relative preference for adult workers in the low educational segment of labour supply is the qualification level of the workforce. Young workers are less qualified and have less work experience than their adult counterparts. The lack of professional experience of young workers compared to adult workers is apparent from the figures in Table 3. Moreover, the SYU points out 47.3% of the sample declared they had not had any job during the last ten years.

[Table 3 about here]

The lack of experience among young unemployed is due to the fairly natural high share of new entrants, who comprise around 60% of the young unemployed (Table 4).

[Table 4 about here]

Incomes and social security contributions. Since the early 1990s, the rapid deterioration of macroeconomic conditions has led to a substantial decline in average Bulgarian living standards and to widespread poverty. Labour incomes are generally very low and minimum incomes (such as the guaranteed minimum income, the minimum wage and the State pension) have become unable to cover the essential needs of recipients. From 1990 to 2000, real wages in Bulgaria declined by 40%. More generally, real incomes in general declined by almost 60%. The average pension declined by 62% over the period 1990-1999. Minimum income payments (such as minimum wage and minimum pension) dropped even more (Figure 1). Also, earnings inequality increased.

⁶ As reported in Pastore (2000, Ch. 4), LFS based annual hiring rates for the average unemployed were 65.9% in the USA (1992-'93), 40.8% in Russia (1994-'95), 33% in Poland (1995-'96) and 20% in Italy

The ratio of top to bottom deciles of earnings rose from 2.56 in 1989 to 3.57 in the late 1990s (Garibaldi et al., 2001, p. 26). All of these factors point to the persistent worsening of poverty as a widespread problem.

[Figure 1 about here]

Social security contributions. The sum of social security contributions, health care taxes and contributions to the unemployment fund in Bulgaria represent on average 50 per cent of labour costs (Table 5). Understandably, social contributions are considered to be high and many employers and employees prefer not to declare the real incomes so as to avoid social payments.

[Table 5 about here]

Informal Sector. Information on the informal sector is not comprehensive, but there is much evidence to suggest that participation in the informal sector is concentrated amongst the young. The SYU reports that 51% of the young registered unemployed are involved in informal activities to some extent or another. Asked whether they had the chance to work in the “shadow economy” (without labour contract and social security), 14.2% respond “yes, I live on that”. 36.8% respond “Yes, but occasionally” and only 48.9% give definite negative answer. Asked “What is the source of income you are currently living on?”, 21% answer “Labour - working occasionally without contract”. All this gives ground for the conclusion that at least 1/5th of the young registered unemployed are, in fact, actively engaged in informal income earning. The number might be twice this much if the discouraged labour force is taken into consideration.

The education profile of people involved in the informal sector as described by the SYU is also interesting. The highest share (28%) of those answering that “working occasionally without contract” is their major source of income have only primary education. The other options receive values close to the average. The same applies to answers to the question on informal work experience. Clearly this suggests that an effective long-term strategy to reduce the informal sector involves raising the educational and professional qualification level of young people.

The existence of the informal sector has many explanations. One is income level. Facing the choice between higher current incomes at the “price” of lower social and job security, 36.5% of the respondents preferred to work without a labour contract, with higher remuneration, but without social security payments.

Migration of the Young and Qualified. Although there appears not to be systematic information on this issue, the SYI reports 27.3% of young people in the sample were willing to emigrate. The large number of highly educated young people leaving the country is certainly perceived as a major problem by policy makers. In one sense, this is a waste of resources – young people are educated in the country only to go abroad and exploit the returns to their human capital elsewhere. Of course, this is not specific to Bulgaria. However, in contrast to other countries, remittances from emigrants abroad (which therefore re-enters the GDP of the country) are low for Bulgaria.

Emigrating abroad is certainly perceived by young unemployed people as a viable survival strategy. Although, given the relatively small population of the country, the emigration potential in absolute terms is small as compared with, say, Poland or Romania

as has been noted by the International Office for Migration and the EU. In the SYU, the respondents were asked to point out the reasons for which they did not leave the country. The option receiving major support was “lack of visa” (80.6%). Interestingly, the second widely supported option (51.4%) was “Life there is not that good as it seems to be”. The next most common answer (43.2%) was “Here I have relatives whose support I can rely on”. The least popular option was “Things will improve here in a feasible future” (only 30,6% agree). This implies there is significant emigration potential among the young unemployed.

Employment structure and the substitution effect. Table 6 below suggests young and adult workers do not have the same sectoral employment patterns even at a highly aggregated industry level. This strongly supports the view that, similar to other countries (O'Higgins, 2001), the degree of substitution between young and adult workers is low in Bulgaria. This, at least is positive news for policy makers wishing to help young workers without damaging the employment prospects of adults.

As a matter of fact, young workers tend to be hired in new private activities in traditional services, such as Trade and Repairs, Hotels and Restaurants, to a larger extent than their older counterparts. However, they are under-represented in State service sector activities such as Education, Health and Social Work⁷, and Transport and Communications. LFS data confirm that young workers tend to concentrate in private activities to a larger extent than adult workers do. In fact, 73.5% of young and 43.5% of adult workers are employed in private activities as employees.

The available information confirms the impression that young people tend to concentrate in high pay, low skill jobs in the private sector, with the attendant risk of human capital depreciation over time.

[Table 6 about here]

4. Targeting youth employment policies

The previous analysis of the Bulgarian youth labour market lets us identify the main (not mutually exclusive) target groups to which the policy should be addressed, i.e. young workers with:

- low educational levels, including 37,300 unemployed with lower secondary education or below, of which 8,300 with primary education or below;
- no work experience - first time job seekers (63,000);
- no (or low levels of) professional qualifications (74,200);
- a record of long-term unemployment, including about 56,600 young people unemployed by more than a year and 82,100 workers with spells longer than six months according to LFS data. At the end of January 2001, registered long term unemployed amounted to 69,300;
- residence in the 15 districts with the highest incidence of youth unemployment (47,400).

⁷ The lower than average share of young workers in civil services is partly a direct consequence of the fact that these are the sectors with the highest share of University educated people while young people only finish University at the age of 24 or even later.

5. Current youth employment policy

Institutional framework. Since 1996, various programmes of ALMPs have been implemented in Bulgaria⁸. They all involve young workers, but some are specifically targeted at them. The principal programme currently operative funded by the Vocational Training and Unemployment Benefit Fund (VTUBF) envisages a subsidy of the value of minimum wage plus social security and tax contributions for up to six months on condition that an employer hires the young unemployed person for at least one year. Eligibility requirements are that the person be under 25 years old (or under 29 if they possess a higher educational qualification), that they have not been previously employed and that they are registered as unemployed with the NES⁹.

However, participation on this programme is relatively low and it is commonly perceived that ALMPs should be better targeted in Bulgaria. In 2000, the European Commission argued that the programmes implemented have not taken into account the significant unemployment differentials across regions. In 2001, the National Action Plan envisaged more specific measures for young people. In particular, it suggests investment in the development of labour market and professional training, building also the necessary infrastructure. Moreover, it announced the launch of several micro-projects especially addressed to the youth transitions from school to work.

⁸ ALMP started in Bulgaria already in 1991, but at a scale that was almost irrelevant before 1996 (Nesporova, 1999).

⁹ Full details are given in article 59 of the Unemployment Protection and Promotion of Employment Act (UPEPA), 1999.

Expenditure and Participation. Total expenditure on Labour Market Policy (LMP) has increased from 0.5 to 1.1 per cent of GDP from 1996 to 2000, which compares to an OECD average of 2.3 per cent in 1997. The composition of the expenditure is heavily biased in favour of passive as opposed to active policies, with the former representing about 3 times the latter. The comparable figure for the EU average was a ratio of 0.63 of active to passive expenditure in 1997.

Since young unemployed participate in all programmes, they have benefited from the overall increase in LMP expenditure over the second half of the 1990s. Moreover, the share of expenditure on programmes specifically targeted at young people has more than doubled from 1999 to 2000, mainly due to expansion of the article 59 wage subsidy mentioned above. However, the share itself remains very low (Table 7).

[Table 7 about here]

The most recent report by the NES in 1999 suggests that the share of youth unemployed participating on ALMPs varies greatly from one programme to the other. Information relative only to some of the programmes implemented suggests a tendency towards a reduction in the share of young unemployed beneficiaries from 1998 to 1999. Particularly striking is the reduction of young unemployed in the professional qualification programme (from 33.1% to 27.4%) and in the programme for encouraging employers to hire long term unemployed (from 11.8% to 6.1%).

Expenditure and participation on Labour Market Programmes for the two years 1999 and 2000, drawn from the Professional Qualification and Employment Fund, is reported in Table 8 by main programme¹⁰. Overall, the number of people participating

¹⁰ Note that the figures in the table do not include the expenditure in ALMPs from other funds. The table includes all the beneficiaries though. This means that the actual overall expenditure per person is slightly

and the amount of funds disbursed have fallen in 2000, with the former decreasing at a higher rate. Participation of young people has fallen from 14,608 to 10,564.

Moreover, the figures point to an important change in the composition of expenditure and participants across programmes. The largest increase in participation concerns the programmes for temporary work, especially those linked to the winter period, for regional employment and for part-time work. However, expenditure on these programmes has increased at a lower rate, which has meant a reduction in the per capita expenditure. Reductions are observable in the number of participants and funds relative to the programmes for disabled people, for benefit recipients ex art. 100/98 and 141/2000 and for training schemes. Moreover, there is a tendency towards an increasing emphasis on programmes that rely on the involvement of employers, a positive trend. However, there has been a fall in training programmes, which could provide cause for concern if it continued in the future.

As far as young unemployed are concerned, the number of participants has increased significantly in some programmes, such as the programme aimed at subsidising youth employment (art. 59), the programme for temporary employment in winter, the programme for part-time work (art. 61), the programme for geographical mobility as well as social assistance for the unemployed. Meanwhile, the number of youth participants to the National Temporary Employment Programme has fallen from 8818 in 1999 to 2779 in 2000. Overall, this suggests a move towards an increased targeting of young people.

[Table 8 about here]

higher than that reported in the third column of the table. To get an idea of the difference between the figures we report and the actual situation consider that in 1999 the total value of the disbursed funds by

Evaluation. The Ministry of Labour and Social Policy recently commissioned an evaluation of the employment impact of ALMPs in Bulgaria. Walsh *et al.* (2001) analyse data drawn from a 1999 survey relative to a sample of unemployed workers registered at the Employment Offices in 1998. Unfortunately, this study reports results relative only to workers aged below 30 rather than on young people as more commonly defined (15-24) and groups all the ALMP measures under six headings. According to the authors, workers aged less than 30 benefited more than average from three main measures, which are, in order of size of the individual impact: temporary employment, self employment and training with guaranteed job. The estimates seem to suggest that other programmes, such as training without a guaranteed job, had no statistically significant impact on young unemployed (Table 9).

[Table 9 about here]

Evidence from other Central and Eastern European countries (the Czech Republic, Hungary and Poland) suggests that in particular: a) training programmes have a positive impact on young people's employment and earnings; b) individual voucher type training seems to be more effective than group training; and, c) wage subsidies for young people are also effective in contrast to findings relative to other OECD countries (Fretwell *et al.*, 1999). This seems to confirm overall the impression from the Bulgarian analysis. However, in contrast to the Bulgarian experience, self-employment programmes in other CEE countries seem to be less effective for young people than for other groups.

6. Some suggestions for the improvement of youth employment policy

In this section, proposals for long and short term action to promote youth employment are outlined. Action is envisaged in both the educational and employment systems¹¹. In general, youth unemployment is closely related to the aggregate level of unemployment. This implies that any strategy to promote youth employment must be part of an overall strategy for the promotion of economic growth and employment as a whole (O'Higgins, 2001; for Eastern countries, Nesporova, 1999). However, this does not imply that young people should not be subject to special intervention.

Education. There is a generalised need to modify the educational system so as to better prepare young people for entry into the labour market. The existing system is relatively inflexible and the VET system often provides training in obsolete skills¹². The whole system of vocational education and training needs major reform. Steps have already been taken in this regard (see the Vocational Education and Training Act), but changes are slow and need to be accelerated.

The first step in labour market entry concerns the acquisition of basic general skills, which are a pre-requisite for the acquisition of professional skills. In the longer run, this will involve coming to terms with and resolving the problem of dropping-out from the education system. Professional education should be more closely linked to the general education system. All the actors in the labour market: employers, workers organisations, NES and schools, separated at present, need to be institutionally linked.

¹¹ For a more detailed discussion of our policy proposals for Bulgarian youth unemployment, see Beleva *et al.* (2001).

Specific measures to be implemented are as follow. Formal and informal links between employers and school directors at the level of local employment councils should be developed. Mentoring by local employers and by the staff of local employment offices could be introduced also during education. The UNDP's SYI found a major problem for young people was the lack of information accessible to them on existing labour market opportunities. The employability of young school students could be also enhanced by introducing instruction on communication skills at secondary level and developing work experience while at school. On dropouts, one method for encouraging the return to education of unemployed and low educated youth would be to subsidise the cost of school attendance for the young unemployed using the VTUBF. Finally, self-employment could be promoted for young people wishing to start their own business. Linked activities might include talks by employers in schools, the set up of an information centre for providing access to consulting services in business start ups and the establishment of business competitions in schools with the collaboration of large firms.

Labour market policy. In the longer term, in conformity with the EU employment guidelines, the government will be required to move towards a situation in which all young people are offered an opportunity for training, retraining, education, work experience or self-employment before they have been unemployed for six months. The basic EU approach also involves making the receipt of social/unemployment assistance conditional upon individuals participating on one of the options offered to them by the employment services. A comprehensive policy of this type would undoubtedly be costly.

¹² To take an anecdotal but illustrative example, in Vidin, mining schools are still operational and indeed accepting new students even though the last mines operating in the region closed down five years ago.

In January 2001 there were 69,300 registered long-term unemployed young people in the country. To offer to all of them an employment and training opportunity would, on the basis of the current costs of programmes, require something in the region of 6.7 million BGN¹³ for training programmes or 26.7 million BGN for temporary employment schemes¹⁴. This does not include the additional cost of developing the different alternatives. As shown in O'Higgins (2001), one successful example of a comprehensive programme for young people is the Chile Joven programme.

In the shorter term, existing measures could be refined and improved. First, the emphasis should gradually be shifted from passive to active measures. Between 1999 and 2000, expenditure on ALMP actually fell from 25.8% to 17.3% of the total State expenditure on LMP¹⁵. Second, existing programmes target some specific disadvantaged groups, such as the disabled and orphans. However, policies should be more carefully targeted at those with low levels of education and at those without vocational qualifications or work experience. Third, an effective strategy to promote youth employment requires the active involvement of local stakeholders. That is local employers, local employment offices, local workers' organisations and local schools. Fourth, at present, regional and local initiatives are being developed more or less independently (under art. 79 of the UPEPA) of the central policies which, for young people, are covered by art.s 57 to 59. These local initiatives should be developed within the framework and terms of reference of the overall policy. Yet, local employment councils should have the power to determine the length and the content of training

¹³ The new Bulgarian Lev (BGN) is tied one-to-one to the DEM.

¹⁴ This estimate is based on the per capita cost of existing programmes, as shown in Table 9.

provided within schemes, in addition to a minimal training requirement determined at the central level. Finally, effective policy implementation and development requires appropriate monitoring and evaluation. Some such measures are discussed below.

Measures to improve ALMPs include strengthening the role of the National Employment Service and involving (often too sceptical) employers more actively in Labour Market Policy. Private and public employment agencies should also develop links to each other. Furthermore, evidence from the SYU suggests young people do not rely on the local employment services as a major means of job search. There is need for the employment offices to promote their own role, for instance through dissemination of information and the provision of effective guidance on job search. This is an effective and relatively cheap means of providing assistance. The establishment of an information centre in local labour offices, offering services such as free access to the Internet and telephones for job search and to establish contacts with prospective employers, would also be useful. In order to implement such a programme, it would be necessary first to train local employment staff in the areas of vocational guidance and counselling.

Development of Active Labour Market Programmes. The main aim would be, of course, promoting Wage Employment, with some cost savings arising from reduced social assistance payments from the VTEBF. In the longer term, labour market based training programmes for the young unemployed could be developed within the context of the local employment offices preferably using a Modular approach. At present, Art.s 57

¹⁵ This excludes active labour market programmes funded from external sources such as the EU funded PHARE programmes as well as programmes such as the UNDP/MLSP “Beautiful Bulgaria” projects.

and 59 of the UPEPA provide the legislative bases for youth employment programmes based with employers. Specific proposals are listed below:

- *Eligibility.* Preference in participation on programmes should be given to members of the target group identified above. Employers' participation should be conditional on the provision of a period of training as part of the programme to be agreed with the local employment office.
- *Regional distribution.* Preference should initially be given for programmes in areas with high levels of youth unemployment.
- *Additionality.* Efforts should be made to ensure that employment under the programme is additional to existing employment. Following the Italian experience (Caroleo and Pastore, 2000), one way of doing this is to make employers' participation conditional on not having made employees in the same job redundant for economic reasons within a recent period of time (perhaps six months or a year) prior to taking on the new young workers under the programme. Similarly, continued participation (i.e. to receive a new group of trainees) on the programme should be conditional on the employer retaining a fixed proportion (perhaps two-thirds) of the ex-participants once they have finished the programme. This, possibly in combination with the modification below, would replace the existing condition for participating on art. 59 programmes which provides a subsidy for employers for one half of the contract period.
- *Subsidy.* On art. 59 programmes, it is preferable to provide a 50% subsidy for the entire duration of the programme rather than a 100% subsidy for half the

employment period. In this way, employers may terminate contracts, which prove unsatisfactory, without having to pay a financial penalty.

- *Monitoring.* Programme implementation needs to be carefully monitored. An important element of this is the setting of targets. A target participation rate for the programme could be established locally. A target post-programme placement rate should be established based on existing outflow rates from the local unemployment register. Further finance to the local employment office for subsequent programmes may be made conditional on the reaching of this target.
- *Evaluation.* Provision for the net impact evaluation of the youth programmes should be introduced. This would involve a sample survey of young people to be carried out nationally, comparing participants on programmes with non-participants. An inexpensive way of doing this would be to include additional questions on active labour market programmes in the labour force survey questionnaire on past participation in ALMPs.

Promotion of Self-employment. Existing legislation provides the basis for the development of a programme for the self-employment of (more educated) young people. Effective support to business start-ups requires the provision of a range of services, such as: (i) access to finance; (ii) access to a workspace; (iii) and training in business related skills.

(i) Various alternatives exist. Art. 54 of the UPEPA provides one source of finance for unemployment benefit recipients. Establishment of guarantee funds in favour of prospective young entrepreneurs is another possibility. An amendment to the Banking

Act could provide the possibility for pieces of industrial property (trademarks, geographical origin indexes, industrial samples, usable models) to be accepted as a guarantee by banks, for giving small loans targeted at development and implementation of the piece of industrial property itself.

(ii) The provision of an initially free space in a business incubator is extremely useful. In the longer term, with the development particularly of the computer network in Universities, these institutions could be used as centres for business incubators.

(iii) Financial support for training for self-employment could be envisaged under the existing ALM programmes, extending them also to those who have already started their own business.

Financing ALMP. There is a basic question of how to organise the financing of ALMP. One possibility is to separate the financing of ALMP from the financing of passive policy, for instance establishing an ALMP fund financially and administratively independent of the Unemployment Protection. The basic purpose of such a division would be to establish a fixed amount of support for ALMP, which is independent of the amount of unemployment benefits paid out. Under the present system, in practice, as unemployment and consequently the need for ALMP increases, the amount of funds available actually fall since a greater proportion of the fund is taken to pay unemployment benefits. The creation of an independent entity will serve two further purposes. First, it should make the incoming and the outgoing flows more transparent. Second, being an independent entity, the ALMP fund will be eligible for participation in fund-raising for financing specific programs.

The division of the use of social contributions may also be considered. It seems reasonable to devote the employers' part of the social security contribution for ALMP and the employees' part for passive measures. In any case, ALMP should not be a residual value of the passive expenses. Another possibility would be to restructure the tax and social security burden in various possible steps. Firstly, it would be useful to increase the minimum wage whilst at the same time reducing (employer and employee) social security contributions as a percentage of the wage. This would have the effect of reducing social contribution evasion in as much as this, at least in large part, concerns undeclared wages paid in excess of the minimum wage. A second possibility would include decreasing by half the social security contribution of employers employing young people (up to 24 for high school graduates and up to 28 for University graduates) thereby lowering the cost of hiring young people.

7. Conclusions

ALMP is an important instrument for the tackling of youth unemployment in Bulgaria. In turn, as noted, among others, in Nesporova (1999), employment promotion of youth is of key importance for Bulgaria as well as other transition countries also for demographic factors. The dependency rate is already very high in the area and if young people do not join the labour force they lose employability with negative consequences in terms of serious labour shortages and unsustainable social security funding in the near future.

The ongoing socially costly reform programmes and the maintenance of monetary stability may be necessary conditions to improve the macroeconomic framework and attract investment from abroad, but they are not the best way to reduce unemployment at least in the short run. Therefore, optimising the implementation of ALMP measures and making them more effective is of the utmost immediate importance.

However, Active Labour Market Policy, particularly as regards programmes targeted specifically at young people, is still in its infancy in Bulgaria. More and better targeting is certainly required. Detailed information and analysis of the youth unemployment problem is a necessary preliminary step for improving the degree of effectiveness of the measures adopted. This paper attempts to bridge this gap. We suggest that non-employed young people, including unemployed and discouraged workers, i.e. jobless workers not involved in education, are a more appropriate target group for the policy than the more restricted group consisting of the registered unemployed. Moreover, young people with low educational attainment and with little or no work experience and/or professional qualification, especially if residing in the highest unemployment regions should be the main beneficiaries of youth employment measures.

We quantify the relevance of each of these groups and consider long and short term measures to tackle the various institutional and financial constraints to improve ALMP programmes in Bulgaria. A better coordination of public, such as educational institutions and employment offices, and private institutions, such as employers and employers' organisations, operating in the labour market is the most obvious and urgent requirement. Another weak point is the low level of training of the staff of the employment offices. Finally, mentoring for students and unemployed, job search

assistance for the registered unemployed, the creation of information and business support centres are all relevant elements which could be introduced.

All these forms of interventions need funding however. Separating the financing of active and passive policies provides a way out of the very apparent problem arising because active expenditure is in effect a residual from the fund once obligations concerning unemployment benefits have been satisfied. Aid from abroad to finance specific programmes targeted at young people may also ease the financial constraints. Finally, increasing the minimum wage and reducing the social security contribution of employers employing young people could be a further measure to reduce the disadvantage of young workers and increase their probability of job finding.

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Tables and Figures

Table 1 – The Unemployment Rate, the Employment/Population Ratio and the Non-Employment rate by Age and Educational Level, December 2000

	Unemployment rate ¹		Employment-Population Ratio		Non-employment rate ³	
	Youth (15-24)	Adult (25-64)	Youth (15-24)	Adult (25-64)	Youth (15-24)	Adult (25-64)
Primary or below	59.7	38.0	5.5	17.5	88.3	63.1
Lower secondary	47.0	24.8	6.9	36.7	69.3	40.0
Upper secondary or above	29.7	11.0	29.2	69.2	39.9	16.6
Average	34.2	14.4	18.3	57.7	51.9	23.4

Note: ¹ The unemployment rate is defined as the unemployed divided by the labour force for each group; ² The employment- population reports the employed divided by the total population for that age/education group; ³ The non-employment rate reports $(u + d)/(u + d + e)$ for each group where u is unemployment, d is discouraged workers and e is employment.

Source: own calculations from LFS data (Dec. 2000).

Table 2 – Total and youth unemployment by education (in %)

	Composition of unemployment		
	Youth	Adult	Total
Lower secondary or below	57.3	54.5	55.0
Secondary general	11.5	7.2	7.9
Secondary technical	27.7	31.0	30.5
Upper secondary or above	3.5	7.2	6.6
Total	100	100	100

Source: own calculations from Monthly Unemployment Registers, NES (Jan. 2001).

Table 3 – Total and youth unemployment by professional qualifications (in %)

Composition of unemployment		
	Youth	Total
Workers	19.4	24.2
Specialists	14.9	17.7
Non qualified	66.4	58.0
Total	100	100

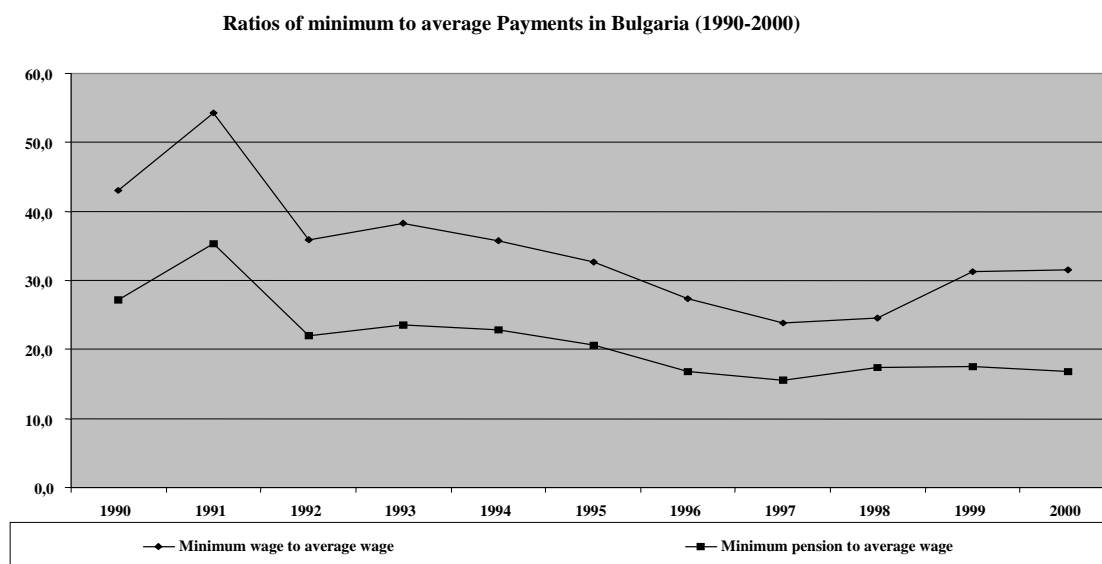
Source: own calculations from Monthly Unemployment Registers, NES (Jan. 2001).

Table 4 – Reasons of unemployment for young and adult workers (in %)

Composition of unemployment			
	Youth	Adult	Total
Job losers	17.1	71.9	60.3
Job leavers (incl. Retirements)	1.9	3.9	3.5
Seasonal or temporary work	9.8	13.7	12.9
School (University) leavers	28.6	1.7	7.4
Compulsory military service	27.0	2.2	7.4
Others	15.6	6.7	8.5
Total	100	100	100

Source: own calculations from LFS data (Dec. 2000).

Fig. 1



Source: own calculations based on data from the Ministry of Labour (2001).

Table 5 – Non wage Components to Labour Costs in Bulgaria

	Paid by employers	Paid by employees	Total
Social security contributions	0.37	0.02	0.39
Health care contributions	0.05	0.01	0.06
Contributions to unemployment fund	0.04	0.01	0.05
Total	0.46	0.04	0.50

Source: own elaboration based on World Bank (2001) and on Ministry of Labour (2001) data on health care contributions.

Table 6 – Employment structure by age (Dec. 2000)

Sector	15-24	Adults	Total
Agriculture, forestry and fishing	8,0	8,3	8,3
Mining and quarrying	0,8	1,6	1,5
Manufacturing	25,5	24,9	25,0
Electricity, gas and water supply	1,0	2,3	2,2
Construction	4,4	5,9	5,7
Trade and Repair	23,2	14,6	15,3
Hotels and restaurants	13,8	3,8	4,6
Transport and communications	5,5	8,4	8,2
Financial intermediation, real estate, renting and business activity	1,0	1,2	1,1
Public administration	3,4	3,1	3,1
Compulsory social security	5,1	7,8	7,5
Education	2,2	8,3	7,8
Health and social work	2,4	6,3	6,0
Other community, social and personal service activities	3,4	3,1	3,2
Unknown	0,4	0,4	0,4
Total	100,0	100,0	100,0

Source: own elaboration on LFS data.

Table 7 – Composition of expenditure on ALMP (in %)

	1999	2000
Employment services	39.2	49.3
Training	2.7	2.6
Youth programmes	1.1	2.4
Employment subsidies	56.9	45.6
Total	100	100

Source: NES.

Table 8 – State Expenditure on, and Participation in, Labour Market Policies in Bulgaria, 1999-2000.

Programme	1999					2000				
	Up to 24	Over 24	Total included	Total amount (000 BGN)	Funds per capita (BGN)	Up to 24	Over 24	Total included	Total amount (000 BGN)	Funds per capita (BGN)
Persons receiving benefit under RCM 100/98 and RCM 141/2000r. - incl. art. 1 ¹	0	25 092	25 092	25 082,38	1000	0	9 171	9 171	9 172,79	1000
Persons receiving benefit under RCM 100/98 and RCM 141/2000r. - art. 6 of RCM 100/98 and art. 5 of RCM 141 ¹	0	9 713	9 713	9 712,00	1000	0	562	562	496,00	883
Unemployed included in qualification courses		16 573	16 573	1 602,40	97		13 037	13 037	1 193,80	92
Employed included in qualification courses		765	765	54,19	71		390	390	36,33	93
Newly included in qualification courses for released from the military forces		0					147	147	5,74	39
Newly included under Art. 59	1444	281	1 725	659,82	383	2720	369	3 089	1 212,95	393
Newly included under the conditions of art.60 /disabled people ²	0	88	88	33,64	382	0	205	205	76,33	372
Included in National temporary employment programme	8818	54 372	63 190	24 378,34	386	2779	16 763	19 542	6 619,14	339
Included in temporary employment programme – winter	2240	13 761	16 001	5 789,87	362	2618	15 791	18 409	8 473,11	460
Included in other specialized programmes (under art. 53)	39	314	353	134,96	382	42	334	376	51,89	138
Included in occupational associations – under Art. 56	747	3 708	4 455	2 555,52	574	747	4 683	5 430	4 521,49	833
Included in other programmes (under art. 78 – flexible forms of employment)	0	0	0	0,00	0	67	610	677	204,51	302
Included in programme for education, vocational training and employment (art. 79)	186	110	296	36,94	125	104	89	193	45,54	236
Included in "Quick Start" programme ²	0	24	24	0,00	0	0	125	125	4,34	35
Under Art. 61 – non full-time working hours	492	2 592	3 084	492,86	160	733	3 535	4 268	710,34	166
Under Art. 62 – for long-term unemployed	42	642	684	154,39	226	93	1 283	1 376	312,41	227
Under Art. 63 – for the first 5 employed persons	21	153	174	23,69	136	45	191	236	47,77	202
Newly included unemployed under Art. 55 /territorial mobility/ - total	168	702	870	55,93	64	188	761	949	99,80	105
Unemployed who received assistance for economic activity under Art. 54	11	2 955	2 966	2 214,14	747	16	2 377	2 393	1 992,53	833
Regional programmes for increasing employment - art. 79 ²	0	146	146	11,759	81	0	9 544	9 544	1231,387	129
"From social assistance to employment" programme	400	5 184	5 584	0	0	412	5 689	6 101	0	
"Start your own business" programme		511	511	40,885	80					
All programmes	14 608	137 686	152 294	73 033,7	480	10 564	85 656	96 220	36 508,2	379

Note: ¹ Young workers are not monitored separately; ² No data is available;

Source: own elaboration on NES data.

Table 9 – Individual impact of ALMPs on employment by age in Bulgaria

Programmes	Less than 30	Prime Age	Older than 44
Temporary employment	0.060**	-0.048	0.064***
Training – Retraining, with guaranteed job	0.172***	0.020	0.093**
Training – Retraining with non-guaranteed job	0.033	0.113*	0.267***
Subsidised Employment	0.403***	0.393***	0.237
Job Associations	0.112	0.129*	0.084
Self employment	0.500***	0.295***	0.560***

Note: One, two and three asterisks indicate statistical significance at 10, 5 and 1 percent levels respectively in a two tailed test.

Source: Walsh *et al.* (2001, Table 4.4).