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## 1. Conceptual Framework

The authors of this report adopt the definitions of social exclusion and social inclusion in accordance with the concept of the European Union (EU) set forth in the Joint Report on Social Inclusion 2004, namely:

- **Social exclusion:** Social exclusion is a process whereby certain individuals are pushed to the edge of society and prevented from participating fully by virtue of their poverty, or lack of basic competencies and lifelong learning opportunities, or as a result of discrimination. This distances them from job, income and education opportunities as well as social and community networks and activities. They have little access to power and decision-making bodies and thus often feeling powerless and unable to take control over the decisions that affect their day to day lives.
  - **Social inclusion:** Social inclusion is a process which ensures that those at risk of poverty and social exclusion gain the opportunities and resources necessary to participate fully in economic, social and cultural life and to enjoy a standard of living and well-being that is considered normal in the society in which they live. It ensures that they have greater participation in decision making which affects their lives and access to their fundamental rights.
- In this respect we accept that social inclusion policy is a process aimed at achieving a better quality of life for those at risk of poverty and social exclusion. It is important to note here that **the economic capacity of a country is not the only factor contributing to what the social inclusion potential is or will be. Political commitment also plays a crucial role.** The arguments in favor of this are two. Firstly, in Bulgaria there are a large number of strategies (close to 200) and most of them relate to social inclusion. Regardless of that fact, the actual results are far from the expected. Secondly, if quality of life was only contingent on the extent of economic development, there would not be a need to draft strategies and set priorities in the area of social inclusion. Even this report would not be necessary. From this perspective:
- **Sustainable economic growth, stable macroeconomic environment and public funds are important pre-requisites for implementing the social inclusion priorities.** The economic growth rate should be maintained and accelerated, employment should be stimulated and quality of employment should be improved, the currency board should be kept in place in order to guarantee financial stability. But although an important factor, economic development is not the only means of achieving social progress, in most cases it is not even the most important one.
  - **Fast economic growth does not in itself result in social inclusion,** additional measures are necessary, but what is most important is the mainstreaming of the quality of life issue.
  - **Appropriate allocation of existing resources is key.** It is a small excuse to say that resources are scarce or productivity low; on the contrary, there are enough funds, but they can be distributed more effectively. The EU funds provide additional opportunities which are not being used in that respect.
  - **In its budget policy the government should commit to establishing stable structures and support mechanisms** for social and economic development and the practice of “reinsuring” the revenues should be overcome in exchange of reforming and priority financing for health care and education systems.
  - **An integrated approach is necessary,** which addresses poverty and social exclusion as problems related to the functioning of economic and social institutions (market, government sector, civil society, family, etc). Such radical change implies three things: *firstly*, the institutions should be assessed in terms of their “inclusion” function; *secondly*, the quality of life issue should be integrated in their mission and *thirdly*, if they do not perform their inclusion function effectively, they should be reformed;
  - **Democratization of institutions is an important part of their reform,** this entails a recognition of the right and role of the stakeholders (social partners, civic organizations, individual citizens) to participate directly and to influence the decision-making process when it affects their lives.

We believe that social exclusion could be overcome in a reasonably short time. What is needed however are *bold, prioritized (by sphere) and well-targeted (to the target groups) measures*. Governments prefer to focus on everything and at the end of the day they achieve very little or nothing. This is why prioritizing is key. And to the extent that social inclusion is a matter to be integrated in all public policies, several sectors could be identified where progress is achievable in a short period of time and where tangible results could be attained. This is why we are of the opinion that:

- Priority social inclusion policy sectors are: **education, health-care, labor market and anti-poverty policy**.
- Of these sectors there is **none „that is more important than the most important“** and all are pillars of a consistent social inclusion policy.
- Activities should take place **simultaneously in all four sectors**, regardless of the fact that the results in each sector will become visible in different time periods.
- **Target groups** that the measures should be directed at are the following: children, unemployed, working poor, illiterate people, economically active under-qualified and undereducated people, homeless, people who live alone without relatives and family, families with many children, single parents, pensioners, Roma families, people with disabilities.

## 2. Challenges

Wide public support should be sought in the combat against poverty and social exclusion. The responsibilities need to be divided among state institutions, employers and the non-governmental sector. In this way social policy will really be productive. Raising public awareness and establishing an understanding of social inclusion as an issue that is in the interest of society as whole entails recognizing the rights of vulnerable persons to live in a dignified way and be involved in public life. It is not sufficient to put this right into the Constitution, its protection is up to the politicians and the political institutions, which are tasked with finding solutions to the problems as they logically occur and to bear the ensuing consequences.

In this respect modern Bulgarian society is faced with a number of challenges. Without focusing specifically on the demographic crisis, thought to be a fundamental challenge in most European countries, we see the following challenges as most important:

(1) **Economic growth which does not translate into poverty reduction.** The low degree of socialization of economic growth is being reinforced not only by neo-liberal policies, uncontrolled accumulation of capital and growing profit, but also by the lack of trust in the social systems and the protection mechanisms. The trend of increasing polarization and drastic inequality in society on the one hand, and underdeveloped social security systems and restricted access to education and health care, on the other, pose a high risk of “recurrent poverty”.

(2) **Low labor remuneration as a share of the GDP.** Labor compensation as a share of the GDP has been dropping in the years of transition and economic reforms and reached 32-34% in the past couple of years – the lowest percentage in the EU. This problem became a focal point of discussion and debate among social partners. These discussions usually take different forms, they are in favor of certain economic interests and not based on principles and values. The unbiased Eurostat data show that productivity in Bulgaria measured based on PPP<sup>1</sup> is about 36% of West European levels, whereas labor income (based on PPP) is about 20% of that level. In fact Bulgaria has a reserve for increasing labor compensation. Income increase however is given up in favor of minimizing macroeconomic risks, given the situation of a Currency Board.

(3) **Fiscal policy based on the principle of “reinsuring the revenues”.** In a situation of deep social disparities the government pursues a consistent tax policy which contributes to inequality and does not provide solutions to the problems of poverty and low incomes. The tendency of flattening the tax scales with any passed year logically led to the introduction of a flat tax of 10% on personal income without a non-taxable amount. A purely institutional problem like the “collection of taxes” was replaced by the notion of “reinsuring the revenues”. The relatively

1 Purchasing power parity – measures the prices in different countries and transforms the values into a joint arbitrary currency called «purchasing power standard» (PPS).

high universal VAT rate of 20% together with the constant increase of excise tax and the expansion of its coverage resulted in a ratio between direct and indirect taxes that is contrary to the usual in European practice. Only the revenues from VAT and excise tax in the 2008 Budget amount to 71.6% of the total revenues (in Austria they are 25%). Undoubtedly, this exerts pressure on consumption and is a burden to the ordinary citizens. “The reversed tax structure” in Bulgaria is a paradox in terms of policy – money of poor taxpayers is used to finance programs for their own social inclusion.

(4) **Sharp increase of the cost of living** (and of some of its components in particular, e.g. food and energy), which is not being compensated by the

increase of incomes. For 18 years now it has not been possible to restore the real value of labor remuneration and pensions. The purchasing power of the average salary has dropped by 41.1%, and of the average pension by 39.1%. What is of even bigger concern is the fact that the price of basic food products and energy sources went up, and those are the two most important expense items for Bulgarian households and especially for the low income households whose consumption and expenses are mostly for food and energy. Due to the low elasticity of this type of expenses this becomes a serious burden for the budgets of poor households and practically makes it impossible for them to afford other things like education, leisure, transport, etc.

**Changes in purchasing power of average salary (AS) and pension (AP) with regards to some goods and services in the period 1990-2007 <sup>2</sup>**

<b>Goods and services</b>	Changes in the purchasing power of AS (%)	Changes in the purchasing power of AP (%)
Dobrudza bread	- 60.2	- 58.8
Yogurt	- 66.7	- 65.6
Milk	- 60.8	- 59.5
Electricity	- 68.3	- 67.2
Liquid fuel for heating	- 68.9	- 67.7
Coal for heating	- 80.9	- 79.6
<b>Real Average Salary</b>	<b>- 41.1</b>	<b>-</b>
<b>Real Average Pension</b>	<b>-</b>	<b>- 39.1</b>

(5) **Deteriorated quality and quantity parameters of existing human resources.** The levels of economic activity and employment are relatively low, the problems with the “discouraged unemployed” are being ignored as well as the high share of school drop-outs who are a potential source of social exclusion. The resources of available “cheap, highly educated and qualified work force” are draining and gradually become a myth. There is a professional and qualification “depreciation” because the work force is not being reproduced in quality terms. There are no sufficient targeted and pro-active measures aimed at life-long learning, acquiring qualification adequate to the labor market needs both nationally and at company level. This increases the gap between the needs of the economy and the quality of

the work force and its employment adaptability, including from the point of view of flexible employment.

(6) **Growing division of the labor market in two main segments:** one which requires high qualification and offers high remuneration, and another one of low pay and non-typical employment, which results in current or future poverty. The desire to increase the labor market flexibility requires the development of adequate security systems and building bridges between the different social spheres and the employment status thus opening the local labor markets to the poor and unemployed. Flexible security (appropriately funded and managed) and active inclusion are key for strengthening solidarity and social cohesion, but it should be clear to everybody and there should be a social consensus in place that flexible security (in all its forms) has a high social cost and cannot be financed using neo-liberal instruments and conducting a restrictive policy.

<sup>2</sup> Source: Own calculations based on data of the NSI: salaries, Consumer Price Index, average prices and quantities of basic food and non-food products purchased by the households; data from the National Insurance Institute about the pensions 1990 - 2007

(7) **High disease incidence and negative assessment of the health status of the population.** There is high disease incidence which is not fully and publicly monitored. The haphazard monitoring efforts do not provide a clear picture of this dangerous phenomenon. Illnesses which were thought to be cured are coming back. Tuberculosis is revisiting. AIDS and Hepatitis C are no longer a chance occurrence on the health map of Bulgaria. High blood pressure and diabetes are no longer children's diseases. The comparison of the standardized mortality coefficients<sup>3</sup> for blood circulation diseases shows that for 2004 Bulgaria ranks first among all EU member-states. Given a mortality rate from the above causes in the EU of 342.16 for men and 224.94 for women, in Bulgaria those indicators are respectively 840.52 for men and 559.95 for women. Bulgaria takes one of the first places in Europe in terms of mortality and spread of socially significant diseases.

(8) **Diverse and sustainable poverty profile.** The category of the poor in Bulgaria is not a homogeneous group with a clear-cut social profile. What the poor have in common are the deprivation and hopelessness, but otherwise it is a diverse group of people with different education, gender, ethnicity, age, religion. In Bulgaria apart from the pensioners and unemployed who face the highest risk of poverty, some employed also fall into the trap of poverty due to their low or irregularly paid salaries. There are still groups that are permanently excluded and there is a persistent danger of reproducing the inequality in life prospects from one generation to the next (inherited poverty). The poverty risk for the unemployed is extremely high – from 33.3% in 2001 it rose to 37.9% in 2007<sup>4</sup>. The Roma in Bulgaria continue to be exposed to several poverty risk factors – low education, unemployment, bad housing and living conditions, remote rural areas, extended families<sup>5</sup>. According to sociologists<sup>6</sup> the general trend of maintaining high poverty indexes in Bulgaria is a symptom for the formation of a durable “culture of poverty”. Its ability to reproduce to

the next generation poses a serious risk of “second generation poverty” which would be a new challenge for modern Bulgaria.

(9) **Regional disparities in the quality of life.** The territorial contrasts are reinforced by the unequal distribution of investments and as a whole they continue to be an obstacle to the overall economic growth. The map of poverty in Bulgaria shows drastic differences in terms of geography. The relative share of the poor by municipality varies from 1.8% in the capital Sofia to 53.8% in the Municipality of Boinitsa, Vidin District. The poverty profile in the cities and in the rural areas is quite different. Urban poverty is characterized by lack of money, whereas rural poverty – by lack of employment, low quality and lack of access to education, health care and social services. In the rural areas the in-kind consumption continues to form a significant share of the total consumption at the expense of income from labor remuneration or entrepreneurship.

(10) **Inefficient use of public resources and low adequacy of social transfers.** There are very sharp contrasts in the capacity of the individual social systems and instruments to influence poverty reduction. The pensions as a main social transfer have a key importance in poverty reduction in Bulgaria regardless of their low nominal value. This is because they have a relatively high share in the total income of households – 22.1% against 47.7% relative share of labor incomes<sup>7</sup>. The remaining social transfers have insignificant influence on poverty reduction. Data from 2007 show that poverty levels before social transfers drop from 40.5% to 17.2% when social transfers are included, and after all other social transfers – it drops to 14.1%<sup>8</sup>. This demonstrates both the low level of social compensation, assistance and family allowances, and the ineffective targeting of funds to the poorest social groups.

### 3. Education

The establishment of an accessible, inclusive and good quality educational environment should undoubtedly be an obligation of every state. It is equally evident that the solution of the problems in the education system in terms of social inclu-

3 Source: Health for Everybody – statistical data from the Regional Bureau of the World Health Organization for Europe, 2008.

4 NSI. Laeken indicators: Results of 3rd Round. 2007

5 Bulgaria – The Challenges of Poverty, NSI, 2003

6 ASA, Dynamics of Poverty in Bulgaria.

7 NSI, Household budgets in the period 1999-2007

8 NSI. Laeken indicators: Results of 3rd Round. 2007

sion is a complex issue. Usually, two approaches are employed. The first is to solve all the problems of the system at the same time. The second one is to put the focus on one or several problems, which are the most important.

This report relies on the second approach. The rationale – everybody has an opinion on the issue of education and there is rarely agreement as to which of the measures proposed by the different stakeholders to choose. This is why the historical experience gives grounds and provides arguments to focus on solving one of the many problems.

This problem is the problem of early school dropping-out not only because access to good education for all children and youth, including children from poor families, rural areas or of Roma origin, should be a priority in any social inclusion strategy in South-Eastern Europe, but also because Bulgaria has made no progress in curbing this problematic trend.

Data shows that the net enrollment rates remain relatively stable and are particularly low in the 3-6 age group (kindergarten) and the 15-18 age group (secondary education). An average of 2-3% of the students do not complete their education. Obviously changes are necessary.

Measures could be taken in the following areas:

(1) **Changes in the funding of the educational system.** The funds allocated for education are trifling given the needs and the high expectations to the system. The delegated budgets will give more powers and flexibility to the headmasters, but will not solve the problem with the chronic underfunding of the system. Problems like leaking ceilings, cold classrooms, dilapidated sports facilities will remain unsolved.

(2) **Improving the preparedness of the students for the educational system.** It is categorically necessary to ensure universal access to nurseries, kindergartens and pre-school education. Research data shows that the cognitive and intellectual abilities of children are formed in the first three years of their life. All measures taken after that age would be less effective. In this respect it is necessary to:

- Review available municipal property and the opportunities for it to be used for building new kindergartens.
- The state should cover part of the kindergarten fees for children from 3 to 5. This is how the issue of the compulsory pre-school education is arranged.
- Kindergarten enrollment should be made compulsory and not voluntary as it is now as per the Law on National Education. Parents may waive that right, but should be obliged to send their children to these educational institutions. This is a categorical requirement for children with special educational needs.
- Children from poor families should be exempt from paying fees by force of a decision of the National Association of Municipalities (recommendation to the municipal councils) or the Law on Local Taxes and Fees.

(3) **Improving the economic situation of families with children.** The material status of families is the most significant factor impeding them to send their children to school. The reason – the parents do not have the needed financial resources to cover the costs (food, transport, clothing, school materials). According to data from surveys on school drop-out the lack of funds to cover the cost of going to school is cited as the main reason for leaving school by 69.9% of the parents, and poverty in the family is seen as the main cause for early drop-out by 50% of the teachers. Other contributing factors are child labor (especially for older students) and the need for children to help out at home. All expert assessments show that poor children are the biggest percentage of drop-outs. It is necessary to:

- Provide guarantees for the universal right of family benefits for all children or significantly improved access to family benefits.
- Expand the in-kind family benefits when the specific needs of the children are identified.
- Granting family and social benefits to be conditional. Parents should not only be obliged to send their child to school, but also to take good care of the child, take him/her regularly to the doctor, not subject him/her to violence.
- Provide free breakfast to all students up to 8<sup>th</sup> instead of 4<sup>th</sup> grade, increase the per-pupil cost for food.
- Partially or fully cover the canteen fee for children from economically disadvantaged families.

(4) **Improving the quality of school environment.** The quality of school environment does not only make it easier for children to learn. Nice schools and modern teaching environment affect the children's willingness or unwillingness to go to school, spark an interest in learning and moves education up the value system of students and their parents.

(5) **Free teaching materials for children up to 16 years of age.** Given that education is compulsory by law, and school education is free, this legal provision should be financially provided for. The cost of teaching materials should be included in the per-pupil operating cost.

(6) **Attention should be paid to children who find it hard to cope** with the curriculum or have a so called "intellectual barrier" (do not speak the language well, are not prepared for school, etc). No matter how much investment is put into improving the school environment, there will always be a group of students who are unable to make full use of it. A good support mechanism for children from economically disadvantaged families, children with low grades, children with learning disabilities could be the so called full-day classes with lunch provided. "Catch up" programs should be developed taking into account the type of difficulties the students have. In this way the school facilities and teachers' time will be more efficiently used as well.

(7) **Improving the quality of the existing and building new sports facilities in schools.** In this way children will have a good time in school and form a positive attitude to attending school.

(8) **Strengthening the cooperation between child protection directorates and schools** in the cases of truancy or when parents do not let their children go to school. It is appropriate to introduce administrative, property or even penal sanctions against such parents along with measures to link the right to and the amount of family benefits to school attendance. Closer cooperation is also needed in the cases of parents' neglect, family conflicts, etc. For this purpose it is necessary to increase the powers of social workers and child protection authorities because many times parents although not openly stopping the child from going to school do not mind it if they don't attend.

(9) **Improving the social status and motivation of Bulgarian teachers.** The motivation of teachers also affects school drop-out rates. The factors which could contribute to the motivation of teachers are: higher salaries, better opportunities for career development, access to resources for individual improvement and skill acquisition, better school facilities.

(10) **Drastic improvement of school discipline and control over the performance of headmasters and teachers** by regional inspectorates, but also better public control over the performance of regional inspectorates and supervising functions of the Ministry of Science and Culture.

#### 4. Health Care

**Access to adequate health care is a priority for every social inclusion strategy.** The right to health care is a fundamental human right and no one should be deprived of it based on their personal income, property, residence or anything else. The overall approach we take is the so called **solidarity principle** which entails that health care should be guaranteed by the state. A key provision of the Rome Treaty for the establishment of the EU sets forth the obligation of the state to provide equal access to high quality health care services for all citizens regardless of where they live.

(1) International experience shows that the chosen health care model should correspond to the following:

- the level of economic development;
- the level of society's ethics;
- political commitment to health issues;
- a practically tested conceptual model.

The Bulgarian experience significantly diverts from the above requirements. Eight years later the outcomes of the health reform, carried out under the strong pressure of the International Financial Institutions, are on the one hand dissatisfaction with the providers of health care services, shortages of specialized staff and constant social tension in hospitals and emergency units; on the other hand total discontent and helplessness of the patients trying to find their way in the labyrinth of:

- „the reformed“ outpatient health care,
- „the underfunded“ clinical paths in the hospitals and
- „the market luxury“ of the dental services.

(2) **The two main disadvantages of the present health care system are inefficiency and unfairness.** *Inefficiency* – due to the squander of qualified labor, the existing distorted incentives which do not promote good qualification and practices and result in overconsumption in some sectors and limited access to others. *Unfairness* – due to the unequal treatment of the different categories of patients, disproportionally low volume of medical care and high quality health services for aged or immobilized patients, and for people living in small villages. Some medical specialists and hospitals are also treated in an unfair way mainly through privileges and direct or indirect subsidies.

(3) **Hence the other problems in the health care system:** big and growing inequality in labor remuneration for outpatient and inpatient health care, underfunding in a situation of increasing expenses for hospital treatment, restricted access to specialized medical services and at the same time misappropriation of the National Health Fund payments – overpricing of medicines and incomplete medical services. To a very great extent these problems stem from the power disbalance in the system. In fact the system is organized around the doctors and their interests and it is managed in a non-transparent way without taking into consideration the interests of patients. In such an environment the creation of a market for health services and the reformation of the system to serve the public interest becomes impossible and corruption naturally ensues. In turn the above problems reinforce the social exclusion and result in low living standards for Bulgarian households and serious challenges for the social protection systems.

(4) **The health care reform led to a significant financial pressure on the households,** especially given the deteriorating health status of the population. Official NSI data<sup>9</sup> shows that the relative share of the expenses for health care in the overall expense structure of households is clearly increasing after the reforms were introduced. In the period 1995-1999 the relative share of the expenses for health care was 1.9-2.9% of the total expenses. In 2000 it grew to 3.6%, and in 2007 it reached 4.7%. The low incomes of the population further impede the access to health care. This applies especially to the poor and vulnerable social

groups. The unemployed who are not entitled to benefits and are not in the social assistance programs are left out of the groups of people whose health insurance is paid by the state budget or from other sources. Most of them cannot afford the 6% health insurance payments or the commercialized medical services. The representatives of ethnic minorities are another group whose access to health care is restricted.

(5) **Very insufficient funds in the NHIF to cover the price of medicines.** According to data of the European Federation of the Pharmaceutical Industry Bulgarian patients, as compared to those in the other European countries, pay a relatively high proportion of the price of medicines out of their pockets – 56%, i.e. only 44% are covered by the NHIF. The average proportion in the EU is 18 to 82%. The government not only could not find a way to increase the funds for medicines or to expend them in a more efficient way, but introduced the additional burden of 20% VAT on the price of medicines. The medicine policy is accompanied by constant crises, related to the lack of or shortages of life-saving medicines. It is paradoxical for a country whose Constitution defines it as “social” to cite “fiscal” or “commercial” reasons for the unequal access to modern treatment and quality medicines. By default this limited access (given the low average incomes) leads to secondary poverty and permanent social exclusion.

(6) Apart from the health insurance payments a part of the population has **significant additional expenses for health services** like:

- **additional regulated payments** – a user fee for every visit to the GP or specialized doctor, as well as for hospital treatment. This restricts the access especially in the cases when the treatment requires complex diagnostic efforts and multiple visits to the doctor.
- **additional payments for outpatient care** - the rationing of specialized treatment force the patients to pay for tests.
- the availability of specialized and expensive tests does not meet the needs. **Waiting lists** are formed and those who cannot wait have to pay.
- **additional payments for inpatient care** – for medicines, supplies, tests, food.
- **unregulated payments** in the form of donations, “gratitude”, etc. Expert assessments estimate that those payments amount to about

<sup>9</sup> National Statistical Institute. Survey of the Budget of Households, 2004

15 billion BGN. These are additional resources which are forcibly being invested in the system, but it is also a corruption potential which compromises the entire health care reform.

All of the above leads to the conclusion that the poor, if they want to receive treatment, become even poorer, and if they do not receive treatment, become sicker.

(7) **The shift from budget funding to health insurance funding** left a number of gaps and challenges. The current model of organization and functioning of the health care system violates many economic, social and ethical principles, and the government abdicates from its constitutional responsibility for the nation's health.

Funding of hospital care in BGN/ml <sup>10</sup>

Source	2004	2005	2006	2007
NHF	328,0	478,4	614,0	680,2
MH	373,0	300,0	95,0	100,0
Municipalities	51,0	-	-	45,0
Other agencies	101,0	53,0	59,0	59,6
Additional funds	-	45,0	-	-
NHF Reserve	-	-	104,0	114,8
<b>Total</b>	<b>853,0</b>	<b>876,4</b>	<b>872,0</b>	<b>999,6</b>
<b>Number of clinical paths</b>	-	120	299	299

As the data show the funding of hospitals is decreasing – the number of clinical paths goes up, but the total financial resources are going down in relative terms. In practice the NHIF funds about 60% of the cost of the clinical paths. Hence the paradox – hospitals which have more patients, have more debts. There is also another dangerous trend – gradual shift to the better funded clinical paths and refusal to treat the “cheaper” ones (the real reasons for the refusal are concealed). On the other hand, certain illnesses and diagnoses are not included in clinical paths, there are no funds for emergency medical services and primary care in hospitals. The lack of sufficient funding makes it impossible to renovate the obsolete facilities and to buy modern diagnostic equipment and to run tests. In the meantime the registration of medical hospitals as per the Commercial Act continues and the Boards of Directors are a crib for government and municipal bureaucrats.

(8) **Being aware of the many deteriorating problems with the access to and satisfaction with the primary medical care, we believe that it is necessary to lay down a system of indicators for evaluating and comparing the access disparities** based on geographic, time,

organizational and financial, demographic, health and socio-cultural factors. Applying such a system for assessment and analysis of the access of different social groups will facilitate the formulation of strategies and policies aimed at control and intervention for improving the end results and effectiveness of the primary care and protecting the rights of patients. We support the policy of guaranteed package of basic health services and believe that the scope of the package in accordance with the mandatory health insurance and the national health map shall be determined in consultations with the social partners, the National Association of Municipalities and representatives of the Patients Organizations.

(9) Based on the understanding that a **fundamental change of the model is impossible** and that such a change might cause even bigger shake-ups to the system, we propose the following **essential improvements**:

- **Allocation of more funds for health care – not less than 6% of the GDP (compared to 4.2% now)**, with a focus on prophylaxis and outpatient care based on actually performed services. The capita-tion principle is ineffective not only in terms of spending the limited resources, but also in terms of curbing competitiveness.

10 Data of the Ministry of Health and NHF

- **Emergency medical care and inpatient care** should be an integrated system with no other alternative but public organization. Since the structures in this sphere will remain regional monopolies, competitiveness here could be at team or personal level. Labor compensation should correspond to the qualification, work hours and number of patients and be higher than that in the non-emergency sectors.
- **Improving outpatient care should by all means entail valuing the clinical paths** and covering all diagnoses. If this does not take place, we cannot expect to have quality medical services meeting the established standards and good practices on the one hand, and on the other – the supply and resource shortages will continue which in turn will further depress the labor compensations.
- **No compulsory complementary health insurance.** It will not result in improvements to the scope of health care, but will lead to more people being left out of the system. It will not improve the quality of care as well, because the services will be delivered in the same medical facilities and by the same people. The publicized emergence of “competing health insurance funds” where contributions could be made, the so called second insurance pillar, may only lead to even larger wastes in spending the limited health money.
- **More transparency in the management of the system** through strengthening the involvement of patients and their organizations in the processes of decision-making, monitoring and evaluation of its performance. The current NHIF system does not allow for actual participation of the patients in the decision-making process.
- **The financial incentives for medical workers and doctors** should be targeted at rural areas in the form of bonuses, benefits, transportation and accommodation money, etc. This will greatly contribute to overcoming the regional disparities in the access to health care and guaranteeing a minimal package of health services.
- **Conclusion of an annual agreement between the Ministry of Health, the trade unions and employers** in the health sector on the cost of labor for the providers of medical services before the signing of the National

Framework Agreement. In this way there will be guarantees for the inter-linkage between the volume and quality of the performed medical services and the opportunities for fair remuneration for the highly qualified work of the doctors and specialized medical staff.

- **Adoption of a special law on the registration and funding** of the medical facilities. Health care is a priority social sector in any modern country and should not be treated as any other business activity functioning based on market principles. In this respect there should be alternative funding sources different from NHIF, including budget allocations.
- **Opening health and dental practices in all schools** with the funds being provided by the Ministry of Health budget, and not from the municipal budgets. For this purpose the funding regulations should be drafted and amended in such a way so as to stimulate the medical professionals to take those “unattractive” positions – school doctor, dentist, nurse.

## 5. Labor Market

### 5.1. More and better jobs

Achieving full employment is a key objective whose achievement will contribute to attaining most other objectives of the social policy: inclusive society, poverty reduction, providing jobs for everybody, active social state.

In this context Bulgaria is one of the EU member-states which made significant progress in improving the labor market. The Bulgarian economy is no longer burdened by the high unemployment of the early 90ies, today the unemployment rate is even lower than the average in Europe. The employment rate is steadily increasing, with the number of employed having gone up by at least 300 000 people for the past three years.

And still in a European perspective the level of economic activity and employment in Bulgaria is not high enough. To a very great extent this is due to the fact that there are still groups who find it difficult to participate in the labor market. Those are the long-term unemployed, undereducated people, people with disabilities, young people with no work experience and first job seekers, older workers with obsolete knowledge and skills, single parents and mothers with babies, people with family duties, the

economically inactive persons. Those groups have been identified and outlined in all strategic documents on the issue, including the National Reform Program, the National Employment Promotion Plans, The Updated Employment Strategy, etc.

Therefore efforts are needed to increase the labor supply – both on the part of the unemployed, and on the part of people who are not part of the work force. This is why labor market initiatives are extremely important.

(1) **Shifting the focus of labor market policy from subsidized employment to qualification and training.** It could be argued that the education and qualification level of the people who are currently unemployed does not meet the requirements of the market. Data shows that in June 2005 the total number of unemployed was 441 000 and that 16 000 unemployed were competing for one vacancy. Now in June 2008 the registered unemployed are 221 000 and 8 unemployed are competing for one vacancy. The number of unemployed has dropped by half – and so has the pressure on the labor market. Hence the pressure on the market is mechanically lowered – those who are qualified can find a job, and those whose skills do not meet the requirements of the employers remain unemployed.

(2) **Applying a regional approach in the planning and implementation of labor market initiatives.** The pressure on the labor market varies. Labor initiatives should adapt to this phenomenon and be targeted at the underdeveloped labor markets where unemployment is higher and the pressure bigger. For instance by the middle of 2008 funds disbursed by the regional employment offices in Sofia for different programs and measures amount to 9% of all funds. The average unemployment rate in those areas however is only 2.7%.

(3) **Employment promotion legislation should better incorporate the principle of equal opportunities and equal treatment.** For example art. 23 of the Employment Promotion Act provides for a ban for employers to set gender, age, ethnicity, nationality and health criteria for the vacant positions. Not all of the requirements of Directive 2000/43/EU (e.g. race) and Directive 2000/78/EU of the Council (e.g. religion and beliefs) have been included. Family status, place of residence and social status are also omitted.

(4) **Intermediary services performed by the employment offices should be subject of quality control.** In this line of thought the processes of providing public services should be certified as per some of the known quality standards (e.g. ISO 9001).

(5) **It is necessary to establish a system for monitoring, evaluating and forecasting the needs of local labor markets.** The idea for this initiative is not new, but so far such a system for regular surveys has not been introduced. It will make it easier to draft programs and measures for employment promotion and will increase their effectiveness and efficiency. A typical example is the program Professional Training for the Needs of the Tourism Sector where only 2 people enrolled as of the beginning of 2008. This mechanism will also provide much more concrete rationale for the annual National Employment Promotion Plans.

(6) **Employment promotion legislation should be oriented more to target groups and less to programs and measures.** For the most part the Employment Promotion Act describes the services performed by the employment offices and the measures available to employers and job seekers. Undoubtedly this is necessary because it provides the legal grounds for delivering the services. At the same time the Act needs to be modified in at least four main directions:

- To set forth clearly and exhaustively all vulnerable groups on the labor market. Such an attempt was made in the additional provisions of the law where more than 10 groups are outlined. The group of people who are not part of the labor force is omitted however. It turns out that if they do not register in the employment offices, the labor market initiatives will not reach them in any way.
- To define the obligations, rules and procedures based on which the officials in the employment offices provide the so called “labor intermediation” for vulnerable persons on the labor market. Those more than 10 special groups have quite different needs. The approach of the employment officials to first time job seekers who do not have any work experience is one, and it is completely different when a disabled person is concerned.
- To define labor market integration measures for disabled persons, aged workers, mothers

and persons with family duties. At this stage those groups are mainly covered by programs, including “ Supporting Motherhood, Assistants for People with Disabilities, National Program for Employment and Training for People with Permanent Disabilities. These are just a few of the good practices and they can be legally regulated as measures. This will ensure sustainability of the positive effects.

- To define measures for integration and re-integration on the labor market of people who are not part of the labor force and the discouraged. It does not matter that those people are not in the group of the registered *unemployed*. What matters is that they *do not have a job* and this is obvious without having to refer to European and international classifications. Identifying those people who remain unreachable for labor initiatives is only the first step in integrating them in the labor market.

### 5.2. New Approach to Employment Adaptability of People with Disabilities

Increasing employment is not only a matter of labor market policy, but is also an issue related to macroeconomic policies, education system and health care, infrastructure, business development, innovations and investments, and research and development.

This is why it is of key importance to have a clear understanding of the sustainable and constructive link between the macroeconomic growth policies and the human resource development policies.

In the context of an inclusive labor market, investing in the knowledge and skills of the vulnerable groups is too important and should not be underestimated. For those groups subsidized (secondary) employment is a temporary solution, the way out of poverty is to drastically improve their chances, their human and social capital. This is a focal point of the life long learning concept. Its role in increasing the employment adaptability of vulnerable persons is undoubted.

Life long learning outside the educational system is a wide-spread practice in the EU member-states. The most recent Eurostat data show that close to 17% of Europeans are involved in some form of extracurricular education. For Bulgaria this percentage is 10 times lower – 1.7%. The com-

parison shows that only 2.6% of the unemployed have participated in such learning forms. In the EU this percentage is about 22%.

No additional analysis is needed to identify the problems that the vulnerable groups are facing on the labor market. Generally, when no specific vacancy is concerned, the first filtering criterion set by the employers are the basic competencies. Those are requirements for digital competencies and proficiency in working with modern technologies, foreign language, computer skills, willingness to learn, communicative skills, skills for individual organization of work, etc. Such skills are built in a good school and from team work experience, which most of the vulnerable persons are lacking.

The second barrier is the requirement to present documented evidence not only for completed education, but also for language proficiency, computer skills, professional qualification and specialization. Such evidence cannot be obtained by the unemployed. For them the training costs, the transportation expenses and the inability to attend for family reasons could all be problematic. Some motivational factors also come to the fore, because such trainings do not automatically guarantee a job.

In this respect there two types of challenges which need to be addressed. The first one is related to the scope of training, and the second to the extent of which the training corresponds to the requirements of the labor market.

Overcoming those two challenges has a lot to do with finding an answer to the question “who is responsible for life long learning?” As far as the objectives of the Lisbon Strategy and the requirements for growth and employment, the answer is that the responsibility should be shared between the state, the employers and the workers. But the needs of vulnerable groups are not clearly addressed in this scheme of things.

In this context it is obvious that the state should bear the responsibility for encouraging and co-financing the involvement of vulnerable groups in life long learning. Market mechanisms alone could not adequately alleviate the risk of social exclusion for vulnerable groups. The marketing strategies of training centers are to provide their services to wealthier clients. There are grounds to even claim that they behave in an elitist manner.

This is why the state supported by the social partners should expand the opportunities for peo-

ple who are alienated from the labor market to increase their employment adaptability:

(1) **It is necessary to look for ways to co-finance the life long learning forms for representatives of vulnerable groups.** It is hardly the amount of BGN500 which is now being allocated for qualification and training per unemployed that can ensure the needed duration or quality of education.

(2) **Initiatives like students loans guaranteed by the state are among the most wide-spread forms of stimulating life long learning for youth.** The recently adopted Students Loan Act has not yet produced results. Such instruments need to be encouraged though.

(3) **It is useful to consider the opportunity of providing small grants (fellowships) for the unemployed to cover their professional training in a selected training center.** The resources for that could be under the Operational Program “Human Resources Development” with the active involvement of the social partners – nationally and by industry.

(4) **Training for vulnerable persons on the labor market should be officially recognized as a basic public service.** This entails a requirement for high quality based on international standards. Such requirements should be put in place as regards to the employment offices and should be set by law.

(5) **The main objective of training and life long learning for vulnerable groups is to facilitate the transition from unemployment to employment.** This is why the training for vulnerable groups should have at least two main characteristics: a) targeted at the market needs and b) high quality. The involvement of the stakeholders including the social partners within the framework of the National Consultative Council of Professional Qualification of the Labor Force in the development of the national policy in this sphere is a condition for achieving the former. As far as the latter is concerned more efforts are needed. The most realistic option at this stage is to develop unified methodologies for providing training to the unemployed in line with the European Reference Framework of Basic Skills to be Provided in Life Long Learning. The methodologies should be an attachment to the already existing guidelines for organizing professional qualification trainings and to be set as a criteria for eligibility of project proposals submitted by the training centers.

### 5.3. The Challenge of Minimum Wage

According to neo-classical, liberal economic theory labor demand is a function of labor cost. Therefore if wages would be increased via non-market mechanisms, then employment would drop.

This theoretical axiom is cleverly used by some Bulgarian economists who were quick to advocate the immediate abolishment of the minimum wage.

The arguments in favor: By abolishing the minimum wage the labor market will become more flexible and business will not have to rely on distorted information about the cost of labor. Should there be a minimum wage and entrepreneurs decide to hire it is assumed that they would rather violate labor legislation, i.e. the employment created would remain undeclared. Apart from that the minimum wage is presented as an obstacle to free negotiations between the employer and the worker. The existence of a minimum wage is supposed to be a barrier to integrating vulnerable groups into the labor market – youth, people with disabilities, aged persons – because what they could produce would bring less revenue than the cost of their hiring. And finally, the minimum wage is seen as almost a supernatural power instrument for the government to take more and more money from the businesses and re-allocate revenues to the state budget or to the family budget of the worker, respectively.

Given all the above arguments, some Bulgarian economists propose that the minimum wage be abolished. If not abolished it should not be attributed any social functions, because it does not have such capacity.

At the same time, they do not take into consideration the fact that such arguments would only be valid in a situation of ideal competition which is far from the situation the Bulgarian economy is currently in. Also, a number of empirical analyses by prominent ILO researchers prove that there is no direct correlation between the minimum wage and its increase, and the decrease of employment. On the other hand, it does have a significant impact on reducing poverty for the low-paid workers.

This only proves that the minimum wage does not only have an important social function, but it performs it as well.

In conclusion on this issue, the reason why so much attention is paid to such arguments is not so much their economic rationale, but the fact that

they resonate in the political platforms. The dissemination of such ideas may have an adverse effect on industrial relations.

This is why the first urgent task is **to debunk the claims of those who say that the minimum wage is only the cost of labor and nothing else**. The minimum wage is indeed the cost of labor but not only that:

- Firstly, it has a social function and should be seen as a minimum level of pay, fixed in such a way so as to satisfy the minimum needs of workers and their families in the light of the predominant economic and social circumstances. The very fact that just a few years ago Great Britain – the country with the most Liberal government – introduced a minimum hourly wage is significant in itself and does not need further comment.
- Secondly, it should be set in accordance to the objective circumstances and this is why the cooperation with the social partners should not be neglected. To fix a minimum wage based on exaggerated and unreal criteria is as dangerous, as it is to not take the cost of labor and productivity into account.

This is why a policy designed to create an inclusive labor market should provide guarantees for an **adequate minimum income for everybody** selling their labor. This could be done by taking three simple and realistic steps:

- **Ratification of ILO Convention № 131 concerning minimum wage fixing**. Although it dates back to 1970 the Convention is ratified by 50 countries, among which are four of the most developed EU member-states – France, Spain, Portugal, The Netherlands. The most recent ratifications are from 2006 – Ukraine and Montenegro and 2007 – Kirgizstan. The Convention is ratified by almost all Balkan countries - Bosnia and Herzegovina, Macedonia, Montenegro, Slovenia, Serbia, Romania, as well as by Latvia, Lithuania, Malta, Moldova, Armenia, Azerbaijan. Once the provisions of the Convention are made part of the Bulgarian legislation, this will set forth once and for all a requirement when fixing the minimum wage to take into account not only economic factors, but also the needs of the workers and their families, namely:
  - the cost of living;
  - the level of insurance compensations;
  - living standards of the other social groups.

- **Ratification of the European Social Charter granting the right of fair remuneration**. Bulgaria joined the Charter in June 2000 but did not recognize the right of workers to remuneration which would make it possible for workers and their families to maintain an acceptable standard of living. And if at the beginning of the century this decision was justified, today the situation is different. In 2000 Bulgaria was in a complicated economic situation. Today however the labor market and the public finances are in as good a shape as ever.
- **Amendments to the legislation on minimum wage fixing by complying with the principle of tripartite cooperation**. At the moment the amount of the minimum wage is fixed by the Council of Ministers in accordance with the Labor Code. However, there is no procedure providing for prior negotiations with the social partners. Usually, they are informed what the amount will be in October or November the previous year when the state budget is debated. This is unacceptable for a country which respects the traditions of tripartite cooperation. It should be understood that this is not an appeal to significantly increase the minimum wage. On the contrary – this is an appeal to fix it by taking into account the interests and opinions of all stakeholders. The opposite would only reinforce the disastrous image of Bulgaria which is cited as the only EU member-state where the minimum wage is set depending on the budget restrictions.

#### 5.4. Stop Tax Competition

As of the beginning of 2006 a radical change in the philosophy of taxation has been taking place in Bulgaria. The authorities are persistently looking for ways to reduce taxes for legal entities and individuals. The arguments in favor of the package of tax reforms are the need to attract more direct foreign investments, to create a more favorable business environment, to encourage innovations and the legitimate business, and to restrict the “grey” economy. The following measures were taken to achieve that:

- In 2007 the corporate tax was decreased from 15 to 10%;
- For the period 2006 – 2007 the total insurance payments were decreased by 9 points and dropped from 42.7% to 33.7% of the income of a third category worker.

- Introduction of a flat tax or a proportional tax scale, which replaced the existing progressive tax scale for individuals.

This is a typical example of tax competition. The theory is that governments usually resort to such measures for two reasons: firstly, to attract more capital in the economy and secondly, to prevent the drain of capital from the economy. It is a matter of interpretation whether the strategy is successful, but it should be noted that in 2007 new direct foreign investments amounted to 6.1 billion Euro – almost 10 times more than in 1998. On the other hand though, the direct investments are mainly focused in three sectors - 38.4% in real estate, 28.7% in financial services and 13.1% in construction. The good news is that those are the three most dynamically developing economic sectors. In the first quarter of 2008 construction registered value added growth of 13.5%, and the financial services and real estate a total of 19.7%. The bad news is however that none of these sectors is in the group of hi-tech sectors, i.e. does not produce high technologies or knowledge about high technologies. This is why their contribution to an overall increase of productivity is low by default.

On the surface one might think that this issue is a matter of a different discussion. Tax competition or as it is otherwise known “tax dumping” is nothing else but a conscious refusal of the state to generate revenues for the national budget. This however needs then to be compensated and the way to do this is twofold. Unfortunately, both options have a very negative effect on real and available income for hired labor.

The first way is to allocate less public resources for social needs. This undoubtedly refers to the remunerations in the public sector. Data about the execution of the state budget as of June 2008 shows that BGN 868.9 thousand was allocated for salaries, which is 14.3% more than the same month the previous year. The aggregate inflation for the period however is 14.7% which means that in reality the budget expenses for labor remuneration have not gone up, they have gone down. To a large extent this is due to the restrictive policy of labor remuneration in the budget sector. An illustration of this policy is the fact that indexation of the salaries takes place in the middle and not the beginning of the year. Such actions are justified with the need to link the increase of the labor remuneration in the public sector with labor productiv-

ity. And if this is reasonable with regards to the enterprises in the real sector, it is deprived of any rationale in budget organizations and activities.

The second way is using the instruments of the tax and insurance policy to recapture more and more from the household income. This is one of the hidden objectives of the flat tax in the way it was implemented in Bulgaria – without non-taxable amount. It was initially known that close to two thirds of the employed and the self-employed pay insurance on a gross income in the interval between one and two salaries, i.e. up to BGN 440. It was clear that those people will incur losses due to the introduction of the flat tax and that their tax debt will grow. There is no force that can make the business compensate such a loss. The business would do it for highly qualified work force, for specialists with modern skills and abundant experience. The case was different however. The majority of people who were harmed by the flat tax are in low-productivity sectors where the work force turnover is high and there is shortage of staff.

The other evidence lies in the insurance policy. It is of no great significance that the total insurance payments were decreased by 9 points as compared to 2005 since the decrease is for the employers only. The percentage of the gross revenues which the business should pay for their employees dropped by 9.55 points, whereas the share of the personal installments of the workers grew by 0.55%. This is a result from the changed ratio of insurance payments. From 65% to 35% in 2005 it increased to 60% to 40% in 2008 respectively for the insurer and the insured. The effect of this is that the burden for financing the insurance systems gradually shifted from the business to the workers. For instance, the estimated revenues from insurance payments to the Insurance Fund made by the employers are 2.3% lower than the collected amounts in 2007. The estimated revenues from personal insurance payments however are 16.9%.

It is evident that tax competition has a very negative impact on hired labor. But in the future tax dumping may turn out to have unpredictable consequences. Today the official argument is that the economy is currently attracting investments and capitals. Soon we will have to figure out what to do to keep capital in the country. Finding the answer to this question will not be easy, because it is hardly possible to have lower taxes.

From the point of view of social inclusion policy it would be best if tax competition does not happen at the expense of workers and employees. And as it turns out at the expense of those who are low-paid. For this purpose the following measures would be applicable:

(1) **Introduction of a non-taxable amount with proportional taxation.** The flat tax in practice means that the wealthier pay less taxes. It is not possible to persuade people that giving up the progressive scale and introducing the flat tax does not affect them. Instead of making promises, the only course of action is to take measures that this will not happen.

(2) **The preferences for people with disabilities to be increased parallel with the increase of the minimum wage.** At the moment the tax base for people with permanent disabilities is decreased by BGN 660 which is three minimum wages. It is better if the three-wages rule is legally set rather than set forth as an absolute number.

(3) **Introduction of tax exemptions for single parents, families with many children, preferences for unemployed who are starting their own business, etc.** If we really want to have an inclusive labor market, we need to apply tax mechanisms to create conditions for involving as many people as possible in it. It may be true that such an approach will make the administration of taxes more complicated, but after all the public servants should work in the interest of society.

(4) **Discontinue the process of shifting the responsibility for financing the insurance funds to the insured.** In fact even now the payments of employers form about 63% of the revenues from insurance installments, given that their contribution was 80% when the reform was started.

(5) **Adoption of a more flexible mechanism for indexation of the salaries in the budget sector, which ensures real growth.** It is a good idea for the indexation to take place at the beginning, and not the middle of the year. If possible, the increase should happen at two stages – for instance in March and October. What matters is the purpose and the purpose is to guarantee real growth, and not an increase for the sake of increase.

(6) **The indexation of the salaries in the budget sector to be done based on clear, objective criteria and priorities agreed with the social partners.** Currently, it is claimed that the budget salaries are increased in synchronization with the labor productivity and individual performance. No one knows however what these terms mean. In both cases it is about subjective assessment and nothing more. The professional qualification does not factor in the process of determining the remuneration, the emphasis is put on the experience and position. The average increase is the same for all organizations and activities regardless of whether the salaries there lag behind or are with higher priority compared to others.

### 5.5. Life Cycle Work Approach

Guideline 18 of the Integrated Guidelines for Growth and Jobs of the Lisbon Strategy provides that the policy of EU member-states be in line with the so called “life cycle work approach”. This approach is expected to contribute to integrating more and more people in the labor market given the demographic challenges and the expected “shrinking” of the work force. This is to happen by solving three problems: (a) Overcoming the existing differences in the employment of men and women; (b) overcoming the barriers to participation in the labor market for youth through facilitating the transition from school to employment; and (c) prolonging working life for older workers.

The Lisbon Strategy has the ambitious goal for the employment rate for women in member-states to reach 60% by 2010. This is so, because accidentally or not, the employment of women is not equal to that of men. One of the main reasons for this phenomenon is the fact that women need to more often make the hard choice between “work” and “family”. It is necessary to achieve a better balance between family and professional duties, because practice shows that problems in reconciling family life and work result in excluding mothers from the labor market and thus decreases family income. Taking care of sick family members or children in most cases is a burden that is frequently taken by women. In this respect single parents and parents of many children turn out to be in a very unfavorable situation.

It can not be denied that Bulgaria is one of the EU member-states which has a very progressive legislation in this area and which made a lot of efforts to improve

the balance between work and family life of mothers and women. It is not by accident that the employment rate for women is close to the Lisbon target. As of March 2008 it is 58.4%. Despite of that, more efforts should be put in the following areas:

- (1) **Improving the organization and access to public services in the community** for families with children and families with dependent members (people with disabilities, sick people, etc).
- (2) **Providing incentives to fathers for childcare** and change of the existing stereotypes regarding the role of husbands in childcare and family duties.
- (3) **More flexible working hours.** It is necessary to review the current labor and insurance legislation as to whether it provides opportunities for reconciling work and family obligations.

Young people are one of the groups in the labor market which in all member-states encounters more difficulties in its labor participation. In some countries youth unemployment is almost two times higher than the average. The situation of youth is especially bad for youth from low-income families. They are much more likely to inherit all the vulnerabilities of their parents, including low education and qualification, unemployment and lifestyle.

The issue of youth labor participation is frequently underestimated. It should be noted that the ILO definition about youth vulnerability does not only include their difficulties in labor market integration. There is also vulnerability when youth are employed in low-paid jobs, in difficult and hazardous working conditions, without employment contracts and benefits. This is why employment policy targeted at creating an inclusive labor market should take into consideration both elements. Measures are feasible in the following areas:

- (1) **Improvement of labor participation for youth** should be a priority at the employment policy strategic level.
- (2) **The Employment Promotion Act should provide for jobless youth to be supported within a short period of time.** For instance, within 3 months from the registration, young people who are not entitled to unemployment benefits (they do not have 9 months of insurance service) should be supported by employment measures and training.

(3) **Labor participation of youth is directly linked with the state of the professional training system.** The chances of young people to integrate into the labor market are much higher, if they have evidence of professional qualification. This is why it is necessary:

- To consider **expanding the apprenticeship practices.** In this case no new position is open and the business will be more likely to use the opportunities provided by the Employment Promotion Act. If after the apprenticeship period the employer is satisfied with the performance of the young person, then they can hire.
- To **expand the scope of the professional training** for jobless people. At present the most widely offered trainings are those for acquiring professional qualification of first degree, class A. In other words, these are professional trainings for routine activities and in unchanging conditions. At the same time, employers lack qualified personnel for more complex activities. Instead of importing from abroad, they could train their own personnel.

(4) **Strict control over hiring minors, compliance with the provisions of the labor legislation and the rules on safe working conditions.** Young people are the group most at risk of exploitation by incorrect businesses. Consciously or not, they tend to work in the grey economy without contracts and insurance. Because of their age they are more likely to work in hazardous and unsafe conditions and to risk their health. Such practices are very harmful and the benefits quite transient.

In recent years the attention of analysts and decision-makers is focusing on the issue of aging population. At the EU level this issue is associated with problems like the sustainability of pensions, the risk for economic growth, the shrinking workforce. This is why member-states are trying to increase the labor participation of aged workers. It is not by accident that one of the targets of the Lisbon Strategy is for the employment level of aged people to reach 50% in 2010.

In this respect coordinated efforts are needed in terms of employment and social protection policies for the market to overcome these demographic challenges in order to: 1) increase the number of years that one person spends in the labor market and 2) ensure that the number of people on long-term social benefits to remain stable in the future.

There are at least three successful groups of practices for stimulating labor participation of older people. The first one is related to offering incentives to businesses to hire older workers. The second one entails more investment in improving the employment adaptability of old people. The third one is managing the organization and conditions of work so that older workers are able to maintain their productivity given their diminished physical capacity. Possible measures in this direction are:

(1) **With regards to the incentives for employers to hire more aged people, more of the so called 50+ Programs could be developed with flexible work hours.** In Bulgaria there is a program “In Support of Retiring” and the employers can make use of incentives in hiring unemployed women above 50 and unemployed men above 55. The work however is full-day. It would be useful to diversify the measures and create opportunities for half-time positions.

(2) **With regards to improving the employment adaptability of aged workers the Operational Program Human Resources development has a great potential.** The opportunities that the European Social Fund provides should be used. Improving the qualification of older people along with that of the young people should be made a priority when drafting the annual indicative program for fund allocation.

(3) **The effectiveness of incentives for improving working conditions in the enterprises is mostly associated with the opportunity to allocate sufficient resources for financing these activities.** The Working Conditions Fund has a leading role in that respect. It would not be a problem to allocate funds in the annual budget of the Fund for prolonging the working life. In any case however, the funds allocated for the Fund by the national budget are quite insufficient. Operational Program Human Resources Development also provides opportunities in that respect.

## 6. Anti-Poverty Policies

The main problem with poverty reduction policies in Bulgaria is that they rely mainly on a specific approach known as the **“trickle down” approach**, actively promoted by the World Bank. This approach seriously restricts the objectives and instruments of poverty reduction policies, and puts

the emphasis on economic growth as a key tool in fighting poverty. The objectives of anti-poverty policies are limited to alleviating extreme deprivation (material and not) that the poor are experiencing and to stimulating them to participate in the labor market. In the past years the experience in Bulgaria categorically refuted the effectiveness of this approach. **Economic growth and participation on the labor market do not adequately affect poverty.** The vision as to what anti-poverty objectives should be and how to achieve them should be changed. It cannot be assumed that the achievement of these objectives will always be a result of economic growth. Obviously, some of the vulnerable groups and even some other groups (young people, older people) will permanently be excluded from economic progress.

For these reasons every anti-poverty strategy should be based on the following:

- Focusing on the insufficient effectiveness of the trickle down approach as the main instrument of poverty reduction.
- Promoting as a separate strategic line for policy improvement the independent nature of the problems and hence formulating purely “social objectives”.
- Proposing areas of expanding the objectives and diversification of the applied mechanisms and instruments.

Expanding the objectives and applying more and more diverse instruments will have an effect in two directions, i.e. apart from reducing the extreme deprivation of the poor create a favorable environment. This means:

- **preventive measures against poverty** which minimize the risk of poverty in the occurrence of poverty generating factors – e.g. job change, change of the health or family status;
- **recognizing and encouraging the personal involvement** of all citizens in the formation of integrated communities;
- the goal of such policies should not only be to reduce poverty, but to **provide a life with dignity** and to support the very foundation of the democratic society which is otherwise eroded.

The main strategic line in expanding the policy instruments is to build capacity and create the prerequisites for the active participation of the poor in the process of overcoming their negative situation. The focal point of the concept is to provide new op-

opportunities to the poor to be able to live the life they would like to. This is realized in three directions:

- increasing the economic chances of the poor by providing them with **access to resources for economic activity**;
- empowerment of the poor through **involving them in the decision making process** (mostly formulation and assessment of the poverty reduction policies);
- improving the effectiveness of the **existing social protection nets**.

Public consensus and political will are of paramount importance in order to solve the problems, **improve the mechanisms of primary and secondary distribution** with a view of achieving more social justice. A bold, but not infeasible idea is to change the priorities for budget fund disbursement set forth in the National Budget Act for the respective year by outlining:

- the areas where most funds will be allocated and
- the groups whose quality of life improvement is most important for the state.

A fundamental principle is to support the **right of everybody to a minimum income** and the introduction of an adequate scheme of determining it. Special techniques of setting standard budgets based on the participation of all stakeholders, i.e. those who need such income and are (or could be) its users, are being currently developed. *Standard budgets* are multi functional – poverty assessment, income policy formulation (minimum social standards), poverty prevention (support for banks and households to avoid bad debt, etc).

Drafting and **guaranteeing minimum social standards** for all government protected payments need to take into consideration minimum wage, minimum pension for insurance service and age, guaranteed minimum income, etc. as well as their update based on the *official poverty line* and the cost of living dynamics. Methodologically important is also the issue of using the national, and not the harmonized index of consumer prices in the process of planning and assessment of the expenses for social transfers – pensions, benefits, compensations. The determining factor in this case is the national consumption pattern (with its specific features), and not the one serving only for comparison.

The **full ratification of the key international documents** like the European Social Charter, Convention 102 of ILO is a necessary condition and an

additional mechanism for applying European social inclusion instruments and policies. The national social security systems should be guaranteed in terms of universal access and publicly agreed scope, and the development of the three-pillar system of social insurance should only lead to a better mix of social effectiveness and economic reason. The system of *Laeken indicators* which forms the basis of the method of coordination between the social systems of the EU member-states should be fully applied and statistically supported. Such an important indicator as “permanent poverty” is not yet monitored by the NSI.

A **radical change in the scope of social work** is necessary in order to meet all the emerging needs. There is an understanding in Bulgaria that social work is predominantly about social assistance (material). It is more and more needed to introduce other areas of social work. This refers mostly to supporting families in crisis, including and especially activities to support and protect children in situations of a family crisis. It is necessary to expand the current scope of social work by including activities like “*crisis intervention*”. This type of social work could start by appointing social workers specializing in crisis intervention in the schools. Such changes make it necessary to adequately adapt the duration, content and scope of the social worker’s education.

**Improving the monitoring of poverty and social exclusion** dynamics by employing special methods making it possible to involve the poor themselves in studying poverty. On the one hand, this makes sure that they participate in evaluating the poverty reduction policies and on the other this approach makes it possible to establish direct contacts between the decision-makers and poor. In essence, this method results in intensifying the assessment of the policies implemented.

In this respect it will be very useful to introduce the practice of **poverty proofing** for key changes in the policies and legislation. It is of great significance both in terms of the poverty, and the development of the country as a whole, to apply such poverty proofing to the system of the European Structural Funds. This would provide additional opportunities for targeted and effective use of the European funds for solving such important national problems as poverty and social exclusion.

Led by the understanding that companies and enterprises are an integral part of human society, and not simply a component of the economic system, the

authors of this report strongly support the recommendations of the European Commission and the European Economic and Social Council to popularize and **develop corporate social responsibility**. In our opinion it will unveil new dimensions of social solidarity, open up additional resources for regional municipal and community development, create opportunities for reconciling work and personal life, and this is an important condition for the success of the policies aimed at fighting poverty and social exclusion.

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About the authors:

*Duhomir Vladimirov Minev* is director of the department “Sociology of Organizations and Politics” in the Institute of Sociology of the Bulgarian Academy of Sciences and chairman of the Anti-Poverty Information Centre in Sofia. He holds a PhD in economics and is author of numerous books and articles in the field of economics, anti-poverty policy and implementation of social reforms.

*Lyuben Nenchev Tomev* is director of the Institute for Social and Trade Union Research (ISTUR) in Sofia since 1999. He holds a PhD in economics and specialized comparative industrial relations from Oxford University. He participated in more than 25 research projects (incl. with international participation) and is author of more than 35 publications.

*Dragomir Draganov* is acting director of the department “Policies and Strategies” in the Ministry of Labor and Social Policy in Sofia since 2008. He studied Sociology at the University of National and World Economics in Sofia and works in the field of anti-poverty policy, social inclusion, earned income policy and integration of people with disabilities.