




T3.4.11 Country report:

Results Section 1. Institutional context

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In this section, we briefly describe the main features of the Bulgarian labour market, the active and passive labour market policies, the family and autonomy policies, and the educational system.

1. National Labour Market

Over the last 25 years Bulgaria experiences serious difficulties with respect to the adaptation of labour market policies to the processes in the economy and society.

The restructuring of the economy in the 90s of the 20th century is associated with intense ejection of the workforce outside the labour market - a strong downsize in the number of employees, a growing rate of general and registered unemployment, increasing migration, a high share of the grey economy and high and growing regional disparities. A series of surveys indicate unemployment as a major problem in society, and alarming data on the level of youth unemployment characterized the entire decade of 90ies¹. This trend continued in waves in the new century as well.

The capacity of the labour market for the whole period is shrinking – simultaneously reducing the size of the economically active population and the number of jobs, i.e. the employed. Thus the sources of the labour market stagnation are both in the labour supply and in the labour demand. The labour market dynamics reveals that the national economy cannot ensure adequate usage of the even continuously shrinking employment potential of the economically active population. The reason is that the economy is not functioning at the level of its potential.

A major role in the reduction of the number of jobs played a number of factors including downturns (that occurred long before the crisis of 2008); the deregulation and deindustrialization trends (closure of some industries); the relatively low level of investments, and the elimination of hidden unemployment, characteristic of the previous period of industrialization. The dynamics of vacancies was strongly influenced as well by the pension policy in particular – the increase in the retirement age. The delayed retirement increase the duration of the working life of the employees and delay the release of jobs for new generations entering the labour market.

Due to these changes the capacity of the labour market to absorb the proposed workforce proved relatively low (during most of the period, the unemployment rate was relatively high), although there was a significant reduction in labour demand due to the emigration and the demographic trends, both producing declining number of new generations).

¹ UNDP. 1998. Human Development Report Bulgaria, available at: <http://hdr.undp.org/en/content/general-human-development-report-bulgaria-1997>, p. 41



Basic characteristics of the current Bulgarian labour market are:

a) Labor incomes: minimum and average wage

In Bulgaria, there is a statutory minimum wage which amount is determined by the Council of Ministers on the basis of consultations with nationally representative organizations of social partners.


Levels of wages are low not just relatively (the lowest in the EU), but also absolutely - which can be seen in the ratio between the average salary (and even more - low pay) and the cost of living (much of salaries are below the cost of living). Tracing the relationship between labor income and labour productivity, one finds that there is a huge lag in the dynamics of labor income from the dynamics of labor productivity in Bulgaria throughout the whole previous period of 25 years. According to experts evaluations, the period 1998–2009 was characterized by parallel growth both in real salaries and actual GDP, “thus the formed in 1997 just over 2 times lag in the average real wage behind the actual GDP per capita is maintained” (Ninov 2011, 3). In particular, Bulgaria has about 45% of the average labor productivity in the EU, but the level of the minimum wage is around 20% of the average minimum wage in the Member States and the average remuneration is about 10% of the average for the Member States. The earnings levels explain the existence of the so-called “working poor, i.e. people who have jobs but due to the low remuneration live in poverty. That is why the labour market inclusion (participation in employment) does not guarantee youth social inclusion and this more or less determines their behavior – their main reaction to this context is to move to grey economy² or emigrate in looking for higher incomes. As Eurofound reported youth, due to their occupational and social status, are more likely to enter non-formal employment relations upon the request of their employers³.

The deregulation of the labor market, in a pronounced non-compliance with the European practices, transformed the whole period of transition, in particular and especially its first half, into a collapse of the established social and economic rights, or as A. Sen (Sen 2003) says—into a collapse of entitlements. The trap of low income leads to the reluctance of large groups of people to be involved in this labor market: some of them emigrate, others undertake their own business, which often does not increase income but increases the freedom of decision making, third dive in the shadow economy and fourth are the so-called discouraged.

b) Specific sectoral structure of employment. The main sectors that accumulate about 70% of employment are sectors with low levels of labor productivity (like trade and repair of motor vehicles, hotels and restaurants; agriculture forestry and fishing, etc). Attractive sectors with high added value such as IT-sector, financing and insurance

² According to F. Scheider (Schneider, 2015), with 30.6% Bulgaria has the highest level of grey economy in comparison to 31 European countries.

³ Eurofound. 2014. *Mapping youth transitions in Europe*. Luxembourg: Publications Office of the European Union



together form only 5-6% of the total employment. Thus the sectoral structure of the economy generates low effective employment.

c) **Regional structure of employment with growing regional disparities.** The regional differences in the labor market are drastic for the scale of the country, which is the result of two mutually linked factors - weak or non-existent economic activity and depopulation of small towns and villages. The regional disparities, the concentration of the economic activity in several areas is one of the most serious problems of the country's development in its various aspects - economic, social, demographic. Taking into account the regional disparities, our sampling was focused on two out of six NUTS 2 regions in Bulgaria, namely the Northwestern and Southwestern region. More specifically, we choose respectively Montana district and Sofia (capital) district. *Montana and Sofia are very different in terms of the labor market.* In Montana district labor market situation is characterized by low employment and high unemployment rates, relatively low wages, and stagnating entrepreneurship activity. In 2014, the employment rate (15-64) was 56% which is by 5 p.p. below the national average (61%). The unemployment rate was 16.3% - significantly higher than the average for the country (11.4%). In 2014, the average wage was 75% of the national average, but in 2005 this ratio was 85%. This is to show that during the last decade the average earnings in the region were lagging behind the average.

d) **The organizational scale of business and structure of employment, concentrated in micro and small enterprises.** Unlike Western economies where employment is generated mostly by small and medium enterprises, in Bulgaria the situation is somewhat different. Business statistics shows that the major share of employment is held by micro-enterprises, where the average number of employees is 2 people; followed by small enterprises, whose average number of employees is about 20 people. Thus the micro and small enterprises hold over 50% of employment. Large enterprises that generate secure and stable employment average to about 2.5 enterprises per municipality. Given the business concentration, the majority of municipalities lack not only big enterprises to support regional development and employment, but even medium enterprises.

e) **Qualification differences of employment and unemployment.** The picture is neither surprising, nor is unknown. Employment rates of specialists with higher education are at levels of about 80% especially in periods of economic recovery and on the reverse - the unemployment rate is moving at a rate of about 3%, which fits into a natural rate of unemployment associated with the natural movement of labor force and frictional problems. In the category of employees with secondary vocational education the level of employment and unemployment is around the average for the total economy. In the category with primary education the level of employment is about 20-25%; the employment rate for persons with below primary education level the employment is about 10% and is generated mainly by programs for subsidized employment. At the same time due to the limited opportunity for adequate professional



development of specialists with higher education, many of them are employed at jobs requiring a low level of education.


f) **Age structure of employment.** It seems that the employment rates closely follow the life cycle phases and for objective and subjective reasons, the lower the levels of employment, respectively the higher the levels of unemployment both of the youth age groups and the groups of "older workers", near retirement age.

2. Active and Passive Labour Market Policies

During the 90ies, policies in Bulgaria responded mainly in passive measures, trying to achieve low benefit levels and adapting the regulatory framework so as to reduce the flow of registered unemployed. Social policies consisted of palliative and reactive measures, and despite the recognition of unemployment as the main problem of society, the expenditure for the administrative support of the Employment Agency and for serving job seekers was strongly understated. In 2000, the relative shares of the expenditure for employment services and administrative support of the system in relation to the country's GDP was 0.09% (Austria - 0.14%; Belgium - 0.14%; Canada - 0.17%; Denmark - 0.12%; France - 0.18%; Germany - 0.23%; Netherlands - 0.26%; UK - 0.13%; Sweden - 0.23% at much lower unemployment rates).

After 2000, in connection with the EU integration process, there are attempts for a shift to active measures in labour market policies based on various programmes and interventions aimed at different target groups. A series of documents try to identify problems and to propose measures for their solution through resource mobilization: Human Resource Development Strategy (2000-2006); National Economic Development Plan - for 2000-2006; Government Program "People are the Wealth of Bulgaria" (2001.); Employment Promotion Act (2002; 2003); The Joint Assessment Paper of Employment Priorities of the Republic of Bulgaria (2002); "A New Strategy for Social Policy" (2002); Employment Strategy (2004-2010; 2008-2015); National Action Plan for Employment (annually); National Reform Programme (2007-2009, updated every year) and so forth.

All of them envisage development of active social policy (which affects the causes rather than the consequences), a differentiated approach to various social groups and opportunities for each of them to resolve problems in compliance with the requirement for optimizing social spending efficiency. In 2002 and 2003, a number of programs were launched such as "From Social Benefits to Employment", "Improving Employability and Fostering Entrepreneurship of Young People", "Assistance for Retirement", "Labour Market Initiatives", "Employment of People with Disabilities Programme", "Employment of Teachers in the Education of Children with Disabilities Programme", etc. In that period, active labour market policy was primarily funded by the state budget. However, it was recognized that despite the alignment of policy contents and labour legislation in conformity with the European and international



requirements, the problems in the labour market were not solved, and coverage of the unemployed by the active labour policies remained low.

The Employment Strategy (2004-2010) drafted in 2003, identified youth unemployment as a major problem and posed the need to prevent and reduce youth unemployment (incl. providing an opportunity for a new start within six months for unemployed youth with a deadline in 2007) primarily by development of "active labour market policy aimed at the full social and economic integration of vulnerable groups on the labour market."


In Bulgaria, a number of programs, projects and schemes started to operate with time that tried to solve the problems associated with unemployment of various target groups. Many of the active interventions in the Eurostat⁴ classification are available since 2002. After 2010, the proportion of measures intended for young unemployed increased. In 2013 the implementation of the European Youth Guarantee began in Bulgaria and in 2014 special measures supporting young people were launched under the Youth Employment Initiative. In this sense it could be claimed that unemployed young people gradually became one of the main target groups of the undertaken political impacts.

However, data shows that since 2008, the coverage of active labour market policies in Bulgaria has been declining. From more than 252 thousand entrants per year, for the last decade the number of new entrants fell to less than 100 thousand, i.e. more than two times. The sharpest decrease is observed with regard to training measures, where the number of entrants fell more than 4 times. The number of entrants in direct job creation measures, which in principle have the largest share in active labour market measures in Bulgaria (almost 80% of the total funding in 2013), has decreased from more than 140 thousand to 70 thousand, i.e. two times.

The main reasons for this sharp decrease are the series of political decisions taken after 2008 toward reducing the funding from national budget to active labour market policies with a view to compensating the cuts through the European Social Fund (ESF) funding. Data shows that expenditure on ALMP from the national budget has decreased approximately 3.8 times for a decade (2005-2014) – from BGN 135 mln. in 2005 to BGN 36 mln. in 2014. However, the funding from the ESF was unable to compensate the cuts until 2013 and ALMP policies remained underfinanced for long periods of time, even during the economic crisis (2010-2012).

The budget cuts were accompanied by staff cuts in the National Employment Agency. In 2004, the total number of employees including labour mediators was 3 141. Ten years later, they are only 2 397, i.e. by more than 30 percent lower despite the growing number of registered unemployed. These political decisions weakened the capacity of public employment services to counteract the negative effects of the crisis on Bulgarian labour market and to adapt its structure and portfolio of services to changing economic

⁴ Eurostat. 2015. Labour market policy qualitative report: BG 2013, date of extraction: 29.07.2015



and social circumstances. As a result, the overall efficiency of public employment services has been decreased.

The active labour market policy in Bulgaria has been criticized by the European Commission and the Council in the context of the review of progress regarding the EU Europe 2020 Strategy. Since 2012, the need for reform of the public employment services and active employment policies has been highlighted in the context of the problems facing by the labour market. For example, in its report on macroeconomic imbalances of 2016, the authorities of the European Commission indicate that active labour market policies in Bulgaria are not sufficiently prioritized and focused, especially with regard to the most vulnerable groups in the labour market, including young people. Among the problems are highlighted the poor programs' and measures' design, the lack of adequate funding, strong dependence on the European Social Fund, insufficient scope of services, etc.⁵

These trends are accompanied by weak income protection of the unemployed. Currently, in order to receive cash unemployment benefits, individuals should have at least 9 months of insurance against the unemployment risk during the last 15 months. In addition, they should be registered as unemployed with the public employment offices and should not perform work for which they are subject to compulsory social security.

These eligibility conditions suggest that the most of the young people, especially those upon leaving the educational system, are excluded from the unemployment protection system due to lack of sufficient contributory service (at least 9 out the last 15 months). Young unemployed can register themselves with the public employment offices where they can receive information about the available vacancies.

As a result of the rules introduced, less than one-third of the registered unemployed have a right to unemployment benefits. The share of youth unemployment benefit recipients is even smaller. Data shows that youth represent approximately 20% to 23% of the total number of people insured against unemployment but their share in total number of unemployment benefit recipients is much lower – it varies between 9.5% and 16.3% during the period 2004-2014⁶.


The unemployment protection system in Bulgaria has a limited coverage and low adequacy. The European Commission's services underline that "The unemployment benefits coverage is particularly low, hindering the effectiveness of activation measures"⁷. In addition it is noted that only 24% of short-term unemployed receive benefits compared to 37% EU average.

The low amount of the unemployment benefit is a result mainly due to the fact that many employees receive low salaries, i.e. are "working poor". Low salaries increase the

⁵ European Commission. 2016. *Country Report Bulgaria 2016. Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*, Brussels, 26.2.2016, SWD(2016) 72 final, available at: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_bulgaria_en.pdf, p. 38-39.

⁶ National Social Security Institute. 2015. *Demography, Economy and Social Insurance 2014 (time series)*, Sofia: National Social Security Institute, p. 197, and authors' calculations.

⁷ European Commission. 2016. *Country Report Bulgaria 2016. Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*, Brussels, 26.2.2016, SWD(2016) 72 final, available at: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_bulgaria_en.pdf, p. 32



probability of falling into the so-called “unemployment trap”⁸ as a situation where unemployed prefer to keep their social benefits instead to get into employment and to start working. In that regard, data shows that in Bulgaria the unemployment trap is among the highest in the EU. For instance, in 2013 it is 81.6% compared to 76.4% for the EU. This is not due to high unemployment benefits but to low earnings – a fact proved by the very high at-risk-of-poverty rate for unemployed⁹. In 2014, each second unemployed lived below the poverty threshold – a situation indicating not only the inadequacy of the unemployment benefits but the limited access to them.

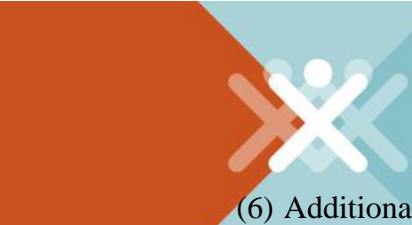
Nevertheless, data shows that since 2004 the support to jobless youth has been refocused toward passive measures. In 2013, 52% of all youth participants enter out-of-work income maintenance and support compared to 21% in 2004. In its turn, the share of participants in active labour market measures fell from 79% in 2004 to 41% in 2013. The reduction was partly compensated by the increased contribution of active labour market services but in general the support to young people to get a job or return to employment remained weak.

The direct consequences of these trends with regard to support to jobless youth could be summarized as follows:

- (1) Insufficient coverage of public employment services towards jobless youth.
- (2) Incapacity of public employment services to reach all sub-groups within the group of jobless youth, especially economically inactive and long-term unemployed;
- (3) Incapacity of public employment services to offer youth ALMP participants personalized services;
- (4) Underfinancing of public employment services creates sort of competition between ALMP beneficiaries (youth, long-term unemployed, low skilled, etc.) – should the support to youth is intensified, this will lead to lower support to other groups in need;
- (5) There are many measures under the main policy axes: training, employment provision and employer incentives. A large part of these measures are fragmented, i.e. include one and the same or similar activity, but are distributed according to: (1) a project principle, or on the basis of the source of financing (state budget or EU funding); (2) the entity implementing the measure (public or private organizations, NGOs, etc.); (3) the target group; (4) the principle of budget annuality. This impedes the conduction of comprehensive assessments of the existing public policies.

⁸ The unemployment trap measures the percentage of gross earnings which is taxed away through higher tax and social security contributions and the withdrawal of unemployment, and other, benefits when an unemployed person returns to employment. It is calculated for single persons without children earning 67% of the average wage when in work, as follows: Unemployment Trap (%) = $100 * (1 - ((\text{Net employment income}) - (\text{Net unemployment income})) / \text{Gross employment incomes})$. For details, see: http://ec.europa.eu/eurostat/cache/metadata/en/earn_net_esms.htm.

⁹ Eurostat, At-risk-of poverty rate by most frequent activity status, % [tessi124], available at: <http://ec.europa.eu/eurostat>



(6) Additional difficulties arise with regard to existing information and data, and conducted impact assessments: the information on what happens when the young people after leaving the interventions is scarce or not available.

(7) Meanwhile, the attention towards the youth unemployment in the country grows bigger. Bulgaria is trying to follow and participate in the European initiatives aimed at reducing youth unemployment. But these political intentions remain within the limited framework of the active labour market measures while the ALMP have to compensate for both: dysfunctions of the education system and non-existence of working places.

3. Family policies


There are numerous studies proving the importance of the early years for later development. A study in the UK found that, by the age of three years, children from disadvantaged backgrounds were already educationally up to a year behind children from more privileged homes” (Centre for Longitudinal Studies, Disadvantaged Children up to a Year Behind by the Age of Three. London, Institute of Education, 2007)

Data for Bulgaria shows that the impact of family policies in the country is exceptionally low, and in some cases it is not and positive. Family policies, not only do not substantially affect income inequality (as a whole and for childcare), but slightly offset the negative difference between disposable income and the amount of the cost of living. Moreover, some policies are oriented towards cost containment support to families with children. In 2002, a radical reform of the family benefits system was introduced. The most important change was that some of the family benefits, previously granted regardless of the family income, were made subject to mean-testing. This political decision has transformed the universalistic nature of the family benefits system and has channeled the public support towards the families with the lowest incomes.

Additionally, since the introduction of the reform, the adequacy of the family benefits (both in terms of their coverage and amounts) has been weakened. For example, the ratio of the income threshold used for the mean-testing and the average monetary income per household member has been decreasing since the start year of the reform – in 2003 the income threshold constituted 145% of the average monetary income per household member and in 2014 this ratio was approximately 89%.

The result is that the number of children receiving mean-tested family benefits has been decreasing since the beginning of the reform. Data shows that in 2005 more than 911 thousand children received monthly family benefits but in 2014 the number of benefit recipients was approximately 778 thousand. The difference (more than 133 thousand children) is too big to be explained only with the decreasing fertility rates and demographic changes.

In addition to that fact, the amount of the monthly child benefits for long time periods had not followed the changes in the cost of living. Despite the fact that the family benefit amounts should be determined annually by the Budget Law, their amounts



remained unchanged for the period 2009-2015 with only one exception – in 2014 the amount of the benefit for the second child was increased from BGN 35 to BGN 50.

The direct consequence of this policy course is that fewer children receive support from the state and the incomes of family benefits recipients lag behind the dynamics of prices and the average income for the total population.

The inadequacy of family benefits result in higher child poverty rates and increases the vulnerability of families with children. In 2013 the child poverty was 31.7% by approximately 10 p.p. higher than the average for the country and by 6 p.p. higher compared to 2005.

The risk of poverty is the highest for single parents and families with many children. Almost 43% of single parents and their children and 80% of families with three children or more lived below the poverty line in 2013, respectively by 12 and 14 p.p. higher compared to 2005.

The family benefit system put at a disadvantageous position not only the most risky households. The most typical families – families composed of two parents and one child are also vulnerable. For the period 2005-2013 the risk of poverty for them rose by more than 5 p.p. – from 11% to 16%.

There is also the so-called "family taxation" where the annual tax on parents is reduced by BGN 420 lev for the first child, BGN 840 for two children and BGN 1260 with three or more children. Also tax relief for young families existed – the annual taxable deductible in the year incurred interest payments on a mortgage to buy a home.


From January 1, 2008 however the country introduced a flat tax at a rate of 10% without untaxed minimum income and the tax relief for families with children were abolished. From January 1, 2015 the tax relief for families with children was recovered. Annual taxable income should be reduced by BGN 200 for a child; with BGN 400 – for two children and with BGN 600 - with three children. It also introduces tax relief for a disabled child - the annual tax base is reduced by BGN 2000 for each child.

In 2014 was introduced the so-called "tax relief for incomes exceeding minimum wage". Tax relief in the amount of tax payable to persons who: (1) during the year have gained only employment income; (2) the amount of such income does not exceed 12 monthly minimum wages (no additional monthly salary gained seniority and experience for the year). The tax relief was abolished in 2015.

Following this contradictory developments, from the end of 2015 a new process to consider adequate family policy in the country started (including the Bulgarian National Network for Children in partnership with different institutions and organization).

4. Autonomy policies

In Bulgaria public policies to support the autonomy of young people are very low developed. Therefore we will focus on the state support of the most vulnerable groups and those at high risk of social exclusion.



Undoubtedly the most important feature of the socio-economic situation of Bulgaria are high and sustain levels of poverty, including child poverty. Eurostat data for 2012 (EC 2014, 9) indicates that as far as poverty is concerned, Bulgaria is at the extreme and at a large distance from the EU average. Forty-nine point three percent 49,3% is the share of population at-risk-of poverty or social exclusion¹⁰. Moreover, the level of absolute poverty (material deprivation) significantly exceeds the level of relative poverty, which means that a large number (share) of people, incl. young people and children, are living in conditions of profound material deprivation. Material deprivation damages irreparably the health and lives of people, including and especially the health and lives of children, it prevents access to basic goods and services, which results in malnutrition (incl. of pregnant mothers and small children), poor health, high mortality, poor education, limited and poor individual and public prospects.

Such peculiarities of the Bulgarian context emerged long before the crisis of 2008 and remained until now. To respond to these peculiarities of the Bulgarian context the current social policy is of the type ‘last resort’. It tries to support the survival of various vulnerable groups, putting them in competition with each other. It includes various benefits, such as: child allowances (17 euro monthly per child), monthly non beneficiary social pension for old-age (approximately 58 euro per month); heating support, disability pension and integration, support in extreme cases, etc., all of which have plenty of eligibility conditions and many bureaucratic procedures to be followed. In general, social assistance is at very low levels and provides survival at the extremes of existence.

Along with the continuously noted low efficiency of social transfers, a decorative welfare system has been established, based on the so-called ‘guaranteed minimum income’ (33,23 euro per month per person), which is actually a tool to calculate the differentiated amounts of payments for social assistance depending on the category of the recipient. Its legal definition states that the minimum guaranteed income is “legally defined amount, which is used as a basis for determining the social assistance in order to ensure a minimum income to meet the basic living needs of individuals according to age, marital status, health status, and property” (Social Assistance Act), while in practice, it is determined annually by the Council of Ministers “according to the state’s financial ability.” Based on the guaranteed minimum income, differentiated minimum incomes are calculated, different for different categories groups of people, depending on their age, marital status, disability, employment, and school attendance.

What is more, the right to the very low minimum incomes of people able to work is strictly subordinated to the idea that they should work irrespective of whether jobs are available and/or what the quality of the possible employment is. Thus, the links between benefits and activation measures are strong and multi-dimensional. Inside the social assistance system, minimum income schemes subordinate categories/groups of people on the basis of deserving and not undeserving poor. Non-disabled people at labor working age and without disability are at the bottom of the ladder. Thus, for people up

¹⁰ AROPE, defined as the share of the population in at least one of the following three conditions: (1) at risk of poverty, meaning below the poverty threshold; (2) in a situation of severe material deprivation; (3) living in a household with very low work intensity.

to 65 years old (young people included), non-disabled and living alone, the differentiated minimum income is 73% of the guaranteed minimum income—that is 47,45 BGN (around 25 Euro) monthly.

Meanwhile, the very application for social support for unemployed people is conditional on their registration with the employment offices and on their willingness to participate in employment programs, training courses or municipal administration programs to provide social services, jenvironmental programs and programs for community work for not less than 14 days, 4 hours per day. In this way, social policy performs disciplining and sanctioning functions.

Unlike the poverty line, which is continuously increasing over the years, the differentiated minimum income remains unchanged. So the means of social assistance to vulnerable groups fail to lead to a real reduction in the effects of poverty.

Table 5: Poverty indicators

Year	2008	2009	2010	2011	2012	2013	2014
Guaranteed minimum income – GMI (BGN per month)	55	65	65	65	65	65	65
Minimum wage (BGN per month)	220	240	240	240 /270	270 /290	310	340
Poverty line (BGN per month)	21 1 2 .3	27 7 6 . 5	29 9 5 . 0	31 8 3 . 8	33 7 9 . 7	35 8 5 . 9	37 2 3 . 7

Source: National Statistical Institute

5. Educational system

In Bulgaria schooling to 16 years of age compulsory. The educational process is organized as follows:

- Initial stage of the basic educational level 7-11 years old



- Primary education 11-15 years old
- Secondary education 15-19 years old (20 years old if the secondary education is specialized)
- High education

Major problems of the educational system are the high number of drop-outs and the low quality of education.

Considering the specifics of context it could be expected that educational policies seek to neutralize to some extent the negative impact of the context (described above) on the formation of human capital. But the data do not support such an expectation. Main arguments for this assertion are lower share of education expenditure to GDP (well below the EU average); negligible rate of their growth; the rapid increase in the share of private expenditure on education in total costs and compared with growth of public spending.

Those indicators and especially the last indicator outline obvious dissonance between education policies and the particularities of the context (income distribution). This conclusion is confirmed by data from the Programme for International Student Assessment (PISA)¹¹.


The low share and increase spending on education is associated with lower quality of education. This relationship can be manifested clearly in low pay of employees in education, where despite certain promotions, salaries remain low in comparison with other sectors (police, defense). The greatest shortage of university graduates arose in education as well.

2012 PISA data show that 39.6% of 15 year olds in Bulgaria are illiterate and have very low skills to read. Below the critical minimum in mathematics were 43.8% and in the natural sciences, the proportion of students with low achievements is 36.9. These results place Bulgarian pupils in Grade 9 in the last place in the EU in math and reading, and on the penultimate place in natural sciences.

The results strongly correlated with socio-economic status of the family of the student. Around 39.5% of Bulgarian children with poor results in mathematics come from low-income families. This percentage is higher than the average for the survey (37%) share of children who come from disadvantaged groups with lower scores in mathematics. Average for the study, the proportion of children from higher social (income) groups with lower scores is 10%, which means a difference of 27 percentage points. In Bulgaria this share is about 18%. This is probably due to the fact that the literacy of children is influenced not only by inequalities and low income families, but additionally by the low quality of education due to which children from families with relatively high incomes show poor results.

The analyzes point out that low levels of reading ability and numeracy are prerequisites for harder job (greater likelihood of unemployment) or finding poor, unskilled and

¹¹ PISA began in 2000 and every three years assesses children from 43 countries



poorly paid jobs, poor health (which can be combined with limited access to adequate health care) and a high probability of occurrence of other dimensions of social exclusion. The high share of illiterate population is a prerequisite for economic slowdown, and perhaps - and less demand for labor.

The study also found that pre-school education (as measured by the cost kindergartens) is a significant factor for the normal formation of human capital. Data show that among children who have demonstrated knowledge in the critical minimum in mathematics, 41 percent had no preschool education; 30 percent had less than one year of preschool education and 20% had more than two years preschool training.

Extremely important conclusion from the study is that the damages that an individual has suffered in the formation of human capital could hardly be recovered later on - children with low reading remain with the deficit as adults, and 61% of those who are affected most by low levels of literacy, according to PISA, remain unchanged at a higher age (the next study).


In light of this data, educational policies (in particular - the share of spending on education, the pace of their growth, trends in the ratio between public and private expenditure on education by levels of education, including public financing of private and public schools) cannot be assessed as socio-inclusive:

In fact, education has been transformed from a public good into a market service which violates the principle of equal access. Private schools captured not only professional degrees and forms of education such as universities, vocational schools, but kindergartens as well. And equal access is a problem not just for young people from poor families but for middle class families, as well.

Additionally, the high dropout rates are generated by poverty and social exclusion of entire segments of the labor market and public life. This problem should be tackled through policies aimed at the labor market as well as through policies on social assistance. For Bulgaria this problem is extremely serious and complicated since it is quite ethnic selective.

In any case, young people grown up in such milieu have to be supported by ALMP. Thus ALMP aimed at reducing youth unemployment often have a compensatory function with regard the educational system and seek for improving those skills and competences which in principle have to be acquired within the educational system. This problem is discussed mainly within the framework of the broken links between education and business needs. However, this recourse is rather limited and reduces the problem to the level of the question whether there are well qualified youths having particular skills and competences.

In fact, active labour market policies have to compensate not only existing educational deficits, they often have to play the role of a corrective mechanism with wide coverage. It is true particularly regarding the inactive youth with low or without education – to be effective, active labour market measures need to replicate the whole process of the institutional socialization, which once have failed. In principle, it is hard to believe that



this objective could be achieved only through active labour market policies. Probably this is one of the explanations why active labour market measures achieve different levels of effectiveness depending on their target groups (sub-groups among the group of jobless youth). Measures which target group contains better educated youth are assessed to be more successful. In other words – active labour market measures create the so-called “creaming effect”, i.e. they help those young people who could find a job themselves, thanks to their education and competences, in case appropriate vacancies exist.