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Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

Analysis of the causes, factors and trends for the formation and scope of the group of so-called "in-work poverty". Recommendations and proposals for legislative changes to limit this phenomenon.

(Document developed on a proposal by

the Chairman of the 49th National Assembly)

Sofia
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On the basis of a letter from the Chairman of the 49th National Assembly (ref. number AD-49-350-06-235/28.08.2023), it was proposed to the Economic and Social Council (ESC) on the basis of Article 5 (1) of the Law for ESC to develop "Analysis of the causes, factors and trends for the formation and scope of the group of so-called "in-work poverty". Recommendations and proposals for legislative changes to limit this phenomenon".

On the basis of Article 13(1)(7) of the ESC Rules of Procedure, the President of the ESC allocated to the Committee on Labour, Income, Standards and Industrial Relations the development of the project (by letter ref. Prk-RD-11-88/22.12.2023).

The Committee had two meetings on 31 January and 12 February 2024, adopting the draft analysis.

Atanas Katzarchev, member of the Group II ESC, was appointed rapporteur.

At its plenary session held on 23 February 2024, the Economic and Social Council adopted this analysis.

1. Main conclusions and recommendations

The conceptual framework for overcoming the "in-work poverty" syndrome should be implemented in compliance with a fundamental principle – the dignity of the person is directly and inseparably linked to work (and in this sense, the European and Bulgarian legislation regulates in detail the framework for working), so as to eliminate precarious work, poor working conditions, pay under the existential minimum, as they are a blow to the dignity of the person. Decent pay should be considered solely with the economic parameters of individual achievements and social progress, with the nature and working conditions, with the objectively existing consumer, living and social standards in the country.

From this point of view, the present analysis is devoted to examining the certain characteristics in the country, which may be characterised as generating and aggravating the phenomenon of working poor.

The conclusions are:

1.1. The ESC points out that the main factor is the low level of income in certain regions, economic sectors and positions, according to education, experience and qualifications, and the state of the labour market, respectively, the disproportionate increase in the prices of basic goods and services in relation to income compensation.

1.2. ESC recommends reviewing the implementation of the objectives set, the approaches and policies directly relevant to poverty reduction – employment and income policy, tax and insurance burden, education, health, provision of quality and affordable social services, ensuring sustainability and adequacy of social benefits, maternity, childcare, accessibility to the labour market of people with disabilities, housing, and regional policy, etc. The regional view of poverty also reveals significant differences, which should be considered both in identifying the factors generating poverty and in implementing policies to address it. The multisectoral and social policies undertaken so far have not produced the desired results to achieve the objectives of poverty reduction.

1.3. ESC stresses that employment alone does not help to escape the poverty trap. Employment rates have increased over the past 10 years, but there is no reduction in in-work poverty rates. Thus, in 2022, Bulgaria had 10 % working poor (compared to 7.2 % in 2013) with an employment rate of 54.2 % (vs. 46.9 % in 2013). On the other hand, the general trend for Europe is not in line with that in Bulgaria – the increase in employment leads to a decrease in the working poor.[1] This means that the distribution of earnings among employees can be explained by their individual characteristics and labour market specificities, as well as by other factors. Thus, poverty among them can manifest itself not only when they are temporarily or hourly employed, but also in the case of full-time permanent contracts.

[1] Analysis on "Analysis of the state of play of wages in Bulgaria – conclusions and recommendations", ESC, 2022

1.4. The ESC is aware that there is too much time lag between the year of the income survey and the year in which the data on working poor are analysed (the reference year of income is 2021, the year of the survey is 2022). The officially published data of the National Statistical Institute on the methodology of European Income and Living Conditions Survey (EU-SILC) are used to present the analysis. The 2021 income is used to measure poverty per reference year. Hence, the nominal increase in average wages in 2023. (estimated around 14-15 %), as well as the growth of minimum wage in 2024, are not reflected. In addition, several budget sectors have remained underfunded, where workers are underpaid. In the end, these dynamic processes are not expected to bring about a significant change in trends in the share of working poor.

1.5. The working mode and the form of employment are criteria that significantly influence the formation of the category of working poor. The risk of poverty for permanent workers (8.6 % in 2022)[2] is four times lower than those in temporary employment (34.7 % in 2022 at risk of poverty in temporary employment).

1.6. The underemployment factor in Bulgaria has no significant impact on poverty, as according to official statistics, only 2-3 % of employed people are part-time[3]. Underemployment is not attractive due to the low level of pay. Paradoxically, instead of seeking to limit working time, there is an attitude towards a voluntary increase in working time, as long as this leads to slightly higher incomes in absolute terms.

1.7. The ESC must emphasise that the level of vocational education is an important factor in limiting the working poor. Statistics show that an increase in the educational attainment level is reducing the opportunities to fall into the category of working poor. In Bulgaria, 35.6 % of workers with lower secondary or lower education are working poor; accordingly, a much smaller share of people with secondary education (8.4 %) and with higher education (3.0 %) fall into the category.

1.8. The risk of in-work poverty changes with the structure of the household. Having children, pensioners, and people with specific needs in the household increases the risk that a household with working members will fall below the poverty line. The risk of poverty is highest for households with one working and children (22.0 % working poor in this type of households). A high share of working poor (12.1 %) is also found in Bulgarian households composed of a) working alone and b) two or more workers with children. The lowest concentration of working poor in Bulgaria is found in households with two or more workers without children (5.2 %). Compared to households of two workers but dependent family members, there are twice the reported working poor.

[2] Eurostat, EU-SILC survey [ilc_iw05], Table 7. (see annex)

[3] Employed persons and employment rates of the population aged 15 and over in 2022, https://nsi.bg

1.9. The ESC finds the direct link between low education and skills levels and low-paid employment and the increase in the risk of poverty, as many of these jobs are precarious and generally of low quality. They also open the so-called low-paid labour trap – i.e., people find themselves in a situation where they choose between unemployment and low pay. On the one hand, low-paid jobs can provide opportunities for jobseekers, but they also lead to low levels of productivity and under-utilisation of workers' skills, limiting the economic growth and prosperity of the country. The latest available data are for 2018 and they show that in Bulgaria the overall level of low-paid workers is equivalent to 21.4 %, or about 670 thousand persons.[4]

1.10. Low income is a factor contributing to the phenomenon of working poor. Employment must be a vector to lift people out of poverty, but this is only true if decent working conditions are in place (including adequate wages, job stability and safe working conditions). Thus, the link between employment and poverty depends to a large extent on the state of the labour market and income policy.

1.11. The minimum wage is below the necessary means of living. With a high level of discouraged unemployed and negative demographic processes, 1 worker on average accounts for 1.5 non-workers. This means that in Bulgaria minimum wage workers can fall into the risk zone and be considered poor.

1.12. The ESC notes that the net minimum wage for the country in recent years has remained above the poverty line but does not correlate with the cost of living. In implementing the Strategy for Combating Poverty and Social Exclusion, the government took the first step by adopting a formal poverty line (Eurostat). However, it should be followed by the second, also important step – the adoption of a methodology/mechanism for updating minimum payments, for which a working group of the Ministry of Labour and Social Policy has been set up.

1.13. In addition to continuous upskilling and skills in line with labour market needs, collective bargaining is an important tool to tackle low-paid work and in-work poverty. For employees covered by an enterprise-level of collective agreements, the average gross monthly salary is 18.6 % more than the same salary of those not covered. In the case of annual salaries, the increase was 22.4 % in the case of collective agreements at enterprise level compared to those not covered by the collective agreements.

1.14. The processes that have taken place in recent years give us reason to believe that the "working poor" are not only a highly risky contingent, but they form already a well-established model of lifestyle. This is mainly due to the low level of pay. Competitiveness resulting from social dumping and the low cost of the workforce has only short-term advantages and it has no future in an economy based on knowledge and lifelong learning – at the heart of the Lisbon Strategy.

1.15. ESC considers that greater attention needs to be paid to digital transformation processes and the green transition, as well as their impact on the labour market. With the discontinuation of coal mines and thermal power plants, the structure of the

[4] Analysis on "The demographic and socio-economic situation of planning areas – state of play and development prospects", ESC, 2022

workforce is expected to change. Employees have a skill set suitable for coal mining and coal-fired power generation. In addition, they will need reskilling, upskilling and basic qualifications to meet the needs of the labour market. To what extent, this workforce will be realised on the labour market and will preserve labour income is a topic of further research and analysis.

1.16. The ESC recommends policies to promote the local economy that support economic diversification/job creation, the development of new economic sectors, the creation and development of enterprises, with the aim of shifting to new jobs after the phasing out of coal energy sectors and the creation of regional transport links for the future development of the economy.

1.17. The ESC also recognises another problem related to the entry of AI and new technologies into the labour market. With the introduction of new information technologies, jobs will be lost, and this will lead to even more serious pay gaps.[5]

1.18. The ESC warns that the low wage of labour creates additional nonnegligible negative effects on the whole of society, generating conditions for the rise of crime, the shadow economy, indebtedness, and loss of property (homeless people), addictions, diseases and ultimately asocialisation, leading to additional public costs and worsening public health.

The ESC, based on the analysis, to reduce the contingent of the "working poor" and the negative effect on society recommends several directions for the fight against the working poor as follows:

- **Regulatory framework:**
  - regulating what poverty is and related legal definitions (what household income is included, poverty line threshold, etc.), methodologies and methodologies for measuring it (basic household expenditure);
  - regulating the measurement of cost of living/minimum of life linked to the poverty measurement methodology;
  - obliging the construction and maintenance of up-to-date, correct, and complete household registers below the poverty line.

- **Minimum wage (DIRECTIVE (EU) 2022/2041 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL)– principles, rules, and methodology for setting it. Update its functional link and adequacy with:**
  - The cost of living/living minimum;
  - the overall level of wages and their distribution;
  - the rate of wage growth;
  - long-term productivity levels at national level and development.

[5] Opinion, The role of artificial intelligence in the management of human capital and working conditions of digital platform workers in Bulgaria (COVID-19 – a catalyst for digital transformation in Bulgaria), ESC, 2023

- **Social policy:**
  - Adequate social assistance policy and programmes, which should cover at least 30 % of the living minimum;
  - Review and supplement the legal framework for the registration of the unemployed, as there is no information in the country after the second year;
  - Study of the reasons why people fall into the category of unemployed or long-term unemployed.

- **Employment policy**
  - Encouraging employers to create new jobs;
  - Education programmes for qualification or retraining financed by the state budget;
  - Encouraging employers to provide additional social benefits to workers (food, transport, clothing, improvement of working conditions, etc.);
  - review and reduce tertiary education requirements for certain positions;
  - Payment of health contributions by the state to the unemployed until the second year;
  - Increase benefits in the event of job cuts.

- **Educational programmes**
  - Introduction of vocational training in secondary education;
  - Additional courses (up to two years) for acquiring occupations in secondary education;
  - Encouraging employers to invest in educational programmes or educational establishments for workers related to their activities);
  - Free primary and secondary education – elimination of any kind of additional payments directly or indirectly linked to the learning process;
  - Under certain (and from the labour market) conditions that education in higher public schools is free of fees for students, full-time studies accepted under state order. (Article 53(3) of the Constitution of the Republic of Bulgaria).

- **Health insurance policy**
  - Health insurance – must guarantee effective equal access to medicines and medical services;
  - Health insurance contributions should be borne by the employer when the person is reinstated to work by the court.

- **Tax policy**
  - We recommend reviewing the impact of the tax burden on the income of the working poor;
  - Tax incentives for employers related to training, social benefits, improvement of working conditions, etc. directly related to the worker or workplace.

- **Social dialogue and collective bargaining**
  - ESC recommends stepping up work to transpose the EU directive on an adequate minimum wage and promoting collective bargaining;
  - Regarding **collective bargaining**, which is one of the instruments for reducing in-work poverty, the National Institute for Conciliation and Arbitration should first be able to examine the scope of employees covered by sectoral/branch collective agreements and by collective agreements at municipal level. There is currently a lack of information on the implementation of sectoral/branch collective agreements, and it is impossible to identify the number of employees covered by the collective agreements at municipal level.
  - Bulgaria should prepare an action plan to promote collective bargaining to comply with Article 4(2) of the EU directive on an adequate minimum wage and promoting collective bargaining. The preparation and final adoption of the Action Plan should be carried out through consultations and in tripartite cooperation with the social partners.

- **Social partnership**
  - Strengthening the role of social dialogue in state regulatory bodies, especially in those directly relevant to living standards, such as State Energy Regulatory Commission, municipalities, and other state agencies.

- **Programs to support the start-up of a micro (family) business**
  - European programmes where grants are awarded at the start of a project;
  - National grant programmes for projects involving vocational and technological training, initial investment, legal aid, etc.
  - Complementary financing, including lending, guarantee schemes and venture capital, directly linked to the creation of resilience or rapid growth of microbiome.
  - Exemption from state and local taxes and fees for a period of up to 3 years.
  - Provision of state or municipal real estate for the purposes of the project for a period of up to 3 years – business incubators.
  - Providing a link with applied science at the start of microbiome.

/signed/

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