Short Time Working Arrangements as a Measure for Staff Retaining during Economic Crisis

Chief Assit. Prof. Todor Todorov, Ph.D.
UNWE, Department “Human Resources and Social Protection”

Summary: The present article deals with the problems of the labour market in Bulgaria in times of economic crisis. It aims at presenting a study on the regulation, implementation and the results achieved through the application of the short time working arrangements existing in Bulgaria in the light of similar initiatives, undertaken at EU level. Consecutively there are analysed and assessed the European context with respect to the design and implementation of partial activity schemes in EU and the Member States, the economic situation and the labour market in Bulgaria as a prerequisite for the implementation of measures, aimed at preserving jobs in companies during economic downturn and, last but not least, the application of short time working arrangements in the country. Recommendations are formulated for the modification of the existing partial activity schemes in Bulgaria with respect to increasing their efficiency.

Key words: short time working; employment; crisis.

JEL: J28, J63.

Introduction

Short time working arrangements (in some countries also known as “partial unemployment”, “partial activity” or “temporary lay-offs”) consist of temporary reduction in the working time duration caused by reduced economic activity of companies. As a result of the application of such schemes, partial reduction in the normal working week duration or temporary lay-offs are observed, while at the same time the labour contract relationship between employee and employer remains in force. The decline in remuneration level due to reduced working hours is partially or entirely offset by state subsidies, paid directly to the worker or the company itself. In some countries public subsidies are supplemented by payments on part of employers or joint social partner funds, usually based on collective agreements at either sectoral or corporate level.

The purpose of this article is to analyze the regulations, implementation and results of the short time working arrangements that exist in Bulgaria, in the context of the EU active employment policy in this area. The main tasks set for implementation of the stated purpose include research, analysis and assessment of: European context related to development and application of partial
activity schemes in the EU and the individual Member States; economic and labour market situation in Bulgaria as prerequisites for applying measures aimed at preserving jobs in the companies in times of economic downturn; short time working arrangements applied in Bulgaria.

1. European policy context

Over the last three years the European Union has witnessed unprecedented in their intensity anti-crisis measures, undertaken in individual Member States. Some of the initiatives are aimed at limiting the negative effects of the economic downturn on the labour market and providing income support to those in need. In many European countries the short time working arrangements are among the main instruments used to tackle the effects of the current crisis on the labour market and the social development. According to the Annual Review of the National Reform Programmes (Cambridge, 2009) a key issue in relation to the effectiveness of such initiatives to promote partial activity schemes is the duration of their application. Additionally, the above-said report states that “Unless economic activity does pick up noticeably, there is a significant risk that the unemployment situation will worsen in the coming months as extended durations of short time work may become unsustainable for many businesses. Short time working arrangements should therefore be well targeted, remain temporary and be reviewed on a regular basis with respect to eligibility. The timing of this measure in the perspective of the exit strategies of the crisis needs to be addressed.” (Council of the European Union, 2009, 5).

Since the autumn of 2008 the short time working arrangements have been among the most important measures, initiated by the EU Member States in response to the economic crisis and aimed at preserving the existing jobs by increasing the internal flexibility in companies. A comparison among the measures, undertaken in the individual countries within the EU, show that despite the differences observed in the institutional and financial regulations of these schemes, most of the countries have adopted similar approach in their organization and application: introduction of new or amendment of already existing schemes by increasing the number of hours authorized; extension of measures in terms of both economic sectors covered and final beneficiaries; increasing the level of financial benefits; strengthening the role of (re)training in the overall package of measures.

The development of short time working arrangements has also received support at European level as one of the priorities put forward at the European Summit of May 2009, dedicated to employment issues. The European Commission Communication “A Shared Commitment for Employment” to the European Parliament and Council of the European Union of June 2009, proposed the implementation of effective schemes by the Member States, supported by the European Social Fund (ESF), intended “to maintain viable employment and optimize the impact of temporary short time working arrangements and training while avoiding negative spill-overs” (Commission of the European Communities, 2009, 5). The application of partial activity schemes in individual Member States is also subject to monitoring at EU level through discussions in the EU Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) and the Employment Committee (EMCO).

Regarding the impact and benefits of short time working arrangements, it has been rec-
ognized at EU level, that they have significantly contributed to cushioning the impact of the crisis on the labour market and have had a positive effect on the social cohesion through maintaining jobs and preventing mass lay-offs. In addition, such schemes have contributed to minimizing the social and psychological consequences of job loss for workers. Partial activity schemes are also considered to have had a positive impact on future competitiveness as they allow companies to retain their human capital, so when the economy recovers they may quickly restore their previous production levels and avoid costly recruitment procedures. Moreover, the combination of short time working arrangements with training and retraining initiatives has been found useful for maintaining and improving the labour skills of workers during the crisis with a view to protecting their employability and thus responding to long-term challenges on the labour market.

However, EU support to the development of short time working arrangements has been conditional upon the avoidance of dead-weight and other adverse effects and upon improvements in efficiency and fairness of the implementation of the measures. Recommendations formulated to Member States by the Employment Committee and the European Commission\(^1\) can be summarised as follows:

- Review regularly eligibility criteria for firms, ensuring that this type of measure is well targeted and used for cyclical purposes in sustainable firms and sectors only, and not on a very large scale.
- Limit the timeframe of the use of such measures to ensure sustainability.
- Extension of the coverage to temporary and fixed-term workers and complement short time working arrangements with labour market policies focusing on labour market “outsiders”\(^2\).
- Facilitate the combination of short time working arrangements with relevant training, which is known to be difficult to implement in practice, through improved targeting and guidance for such measures.
- Explore the potential role of social partners in the design and implementation of such measures.

2. Social and economic prerequisites for application of short time working arrangements in Bulgaria

2.1. Economic situation

According to the flash estimates of the National Statistical Institute (NSI) at the end of 2010 the Bulgarian economy has continued to grow – during the fourth quarter of the last year it was registered an economic growth of 2.1 % compared to the previous quarter and 2.8 % on an annual basis, as the real GDP growth for 2010 was 0.2 %. On a quarterly basis for the period October-De-

---

\(^1\) See in particular:
- The Employment Committee’s contribution to the informal Employment Summit - Analysis carried out by the EMCO on short time working arrangements (26 May 2009).

\(^2\) Outsiders (unlike the insiders on the labour market, whose positions are protected by the Labour legislation due to their seniority, bargaining power of the unions of which they are members, as well as a result of their long working experience) are unable to enjoy protections on the labour market – they are either unemployed or employed under fixed employment contracts, while in some countries they work in the “grey” economy.
December 2010 GDP increased for a third consecutive quarter. Gross value added increased by 0.2% compared to the fourth quarter of 2009. The industrial sector accelerated its growth and registered an increase both with respect to the previous three-month period and on an annual basis, by 6.7 and 6.1% respectively, while the value added in agriculture and that in the service sector decreased respectively by 3.4 and 4.1% on a year-on-year basis.

According to business surveys conducted by NSI in February 2011 the total Business Climate Indicator3 climbed up by 2.7 percentage points compared to the previous month and by 8.5 points compared to a year earlier, thus surpassing by 9.3 points its lowest value for the last two years. Although the business climate indicator is still 8.3 points short of its long-term average level, there exist optimistic attitudes in all sectors of the economy, as the expectations are for an increase both in prices and employment.

However, in the industrial sector the production activity is still assessed as decreased and the production assurance with orders remains at its level from the preceding months. In the short term, managers continue to have positive expectations about the activity. The main problems for business development in the industrial sector continue to be the uncertain economic environment and insufficient demand. According to the estimates of the entrepreneurs in the construction sector, this construction activity is decreased as compared to the previous month; however, forecasts for the next three months are favourable due to shifting of opinions from maintaining of activity to increase of the activity. The uncertain economic environment and financial problems have remained the major factors limiting the activity in the sector. In the service sector, the estimates and expectations of managers about the business situation of enterprises observed are more favourable compared to the previous month. The opinions about the present and expected demand for services are also improved. The uncertain economic environment and competition in the branch are among the main factors limiting the activity of enterprises in the sector.

2.2. Labour market

In Bulgaria, in 2009 the financial and economic crisis interrupted the upward trend in employment, which had started in 2002. The reduced activity of companies following the economic downturn had a negative effect on the dynamics of labour market indicators, especially since the middle of 2009. The decreased revenues and the limited financing opportunities made employers seek ways to reduce their labour costs. Until the beginning of the second quarter of 2009 entrepreneurs strived to retain their staff, anticipating that the economy would recover rapidly and return to its positive development trend of previous years. During these months employers tried to optimise their labour resource by introducing short-time working arrangements, an opportunity which soon exhausted its potential to impact positively on the economic situation of enterprises, leading to a sharp increase of lay-offs in the second half of 2009.

The delay in the effect of the economic crisis on the Bulgarian labour market for a period between one and two quarters, depending

---

3 The total Business Climate Indicator is a weighted average of four branch business climate indicators: in industry, construction, retail trade and service sector.
on the economic sector, led to enterprise restructuring and determined the rapid decline in employment since the beginning of 2010 – according to data from the Labour Force Survey conducted by the NSI, during the last year the employment rate for people between 15 and 64 years of age dropped to 59.7 %, which was 2.9 percentage points lower compared to 2009. According to preliminary NSI data, the annual decrease in the number of workers under labour contracts for 2010 in the private sector was 14.4 %, while in the public sector this percentage was only 5.8 %. This actually means that despite the intense processes of staff optimization that took place within the public administration in the context of government efforts to limit the budget deficit, estimated to 3.8 % of GDP for 2010 according to preliminary NSI data, the private sector was most severely affected by the negative impacts of the economic crisis on employment in the country. For the past year, the sharpest decline in the number of employees was registered in the industrial sector (15.6 % on an annual basis), despite the positive trends in the level of revenues in the enterprises as a result of increased external demand and export turnover. The sectors with the largest absolute decline in employment were those of the manufacturing and construction. For the service sector the observed reduction in the number of employees for the same period was 13.5 %, as the most affected sectors here were “wholesale and retail trade, repair of motor vehicles and motorcycles” and “accommodation and food service activities”.

A decrease in employment levels for all age groups without exception was observed during 2010. The sharpest decline in the employment rate was registered amongst individuals between 25 and 34 years of age (4.4 points on an annual basis), primarily due to employers’ practice of laying off mostly young people and retaining their older and more experienced staff in times of economic downturn. The educational structure of employed people reveals that workers having secondary vocational education are those most affected by reduced activity of enterprises during economic crisis.

In 2010, the average number of unemployed was 348 thousand and the unemployment rate rose by 3.4 points compared to 2009 to reach 10.2 %. For men, the increase in unemployment rate (by 3.9 points) was greater than that for women (by 2.9 points). The youth unemployment rate (for individuals between 15 and 24 years of age) was 23.2 %. Long-term unemployed (for more than one year) were 161.7 thousand or 46.5 % of all unemployed, while the long-term unemployment rate was 4.8 % (respectively 5.1 % for men and 4.4 % for women).

According to National Employment Agency data, in January 2011 unemployment continued its upward trend from the end of the previous year, due to higher inflow of unemployed persons (67.5 % compared to December 2010) in connection with the termination of seasonal or subsidized employment. With the implementation of labour market related programs, the outflow also increased (30.3 %), as the higher activity on the primary market also contributed to this regard. The unemployment rate on an annual basis has reported a decrease of 0.1 points. The unemployment rate in February remained at the level of the previous month, by which the year-on-year decrease reached 0.5 points. These developments were supported by the decrease in newly registered unemployed with 43.8 %
compared to January, and the lower outflow (-11.7 %) due to subsidized employment programs that have started in the previous month. Primary market has continued to recover, while an increase in labour demand has been registered.

Wages continued their accelerated growth in nominal terms, reaching 10.4 % in the last quarter of 2010 compared to the same period of 2009. However, the average salaries in 2010 have slowed down their annual growth rate to 6.3 %, the sectors of services and construction having the greatest impact in this respect, while wages in the industrial sector followed an accelerated growth rate. The process of adjustment of labour costs, according to recent developments, was influenced mostly by employment reduction, which contributed to increased productivity and lower unit labour costs.

The overall situation on the labour market and especially the last finding raise serious concerns about the inability of many companies to tackle the negative effects of the crisis without undertaking (in some cases mass) lay-offs of their workers. In this context, the short time working arrangements effectiveness in Bulgaria proves crucial in the efforts to maintain existing jobs in times of economic downturn.

3. Assessment of partial activity schemes in Bulgaria

for payment of compensations to workers in sectors “Industry” and “Services”

The opportunity to introduce short time working arrangements was first presented to employers by the 2006 amendments in the legal basis in Bulgaria. More specifically, the Labour Code Art.138a allowed employers to transfer part or all of their staff to short time working arrangements (with 50 % working time reduction at the most, for a period up to three months on a yearly basis), after reaching an agreement with representatives of trade unions and employees.

In response to the challenges of the economic crisis, the 2009 National Employment Action Plan for the first time envisaged the introduction of measures aimed at preserving jobs in companies affected by the crisis and facing reduced demand for their products and services. The particular rules for granting financial support to employers willing to retain their staff during economic downturn by introducing short time working arrangements, and using subsidies for partial compensation of their employees’ reduced earnings, are specified in a Government Decree № 44 of 19 February 2009.4 Employers operating entirely or predominantly in the sectors of industry and services, sub-sectors B, C, D, E, F, G, H, I, J5 according to the 2008 Classification of Economic Activities (CEA)

---

4 Government decree No 44 of 19 February 2009 for determination of the terms and conditions for payment of compensations to workers for whom partial working activity has been introduced, in the economic sectors “Industry” and “Services”, as effective from 27.02.2009, publ. State Newspaper, issue.16 of 27 February 2009, amended SN, issue 2 of 8 January 2010.

5 According to NSI data, in 2010 in Bulgaria 1 953.6 thousand people were employed in these economic activities, which practically means that the potential target group of the short time working activity schemes amounts to 64 % of the total number of employed in the country.
are allowed to introduce short time working arrangements for six months at the most and receive government subsidy from the State Budget for each employee transferred to partial activity leading to a reduction of his working hours by a maximum 50 %, on a monthly basis. Each employee whose salary falls as a result of the new organisation of the production process is entitled to receive a relatively modest partial compensation for loss of earnings of up to BGN 120, equalling half of the minimum wage for the country, in addition to his reduced monthly salary, thus receiving altogether between 59 and 78 % of the pre-short time working arrangement amount (see Table 1 below). Eligible employers under Decree № 44 should have introduced partial activity schemes for at least two months and for 5 % of their staff. The duration of the period for provision of financial support was originally set to a maximum of three, but was extended to four consecutive months annually with the 2010 amendments of Decree № 44. The financial resources for the implementation of the described measure come from the active employment policy resources allocated in the State Budget, and amount to BGN 6 753 081 for 2009 and BGN 3 000 000 for 2010.

Table 1. Average monthly salaries of employees under labour contract in 2010 by economic activities

<table>
<thead>
<tr>
<th>2008 CEA code and name of economic activity</th>
<th>Remuneration before introduction of partial activity schemes</th>
<th>Remuneration after introduction of partial activity schemes</th>
<th>Remuneration decrease after introduction of partial activity schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. Mining and quarrying</td>
<td>1015</td>
<td>627</td>
<td>38 %</td>
</tr>
<tr>
<td>C. Manufacturing</td>
<td>564</td>
<td>402</td>
<td>29 %</td>
</tr>
<tr>
<td>D. Electricity, gas, steam and air conditioning supply</td>
<td>1371</td>
<td>805</td>
<td>41 %</td>
</tr>
<tr>
<td>E. Water supply, sewerage, waste management and remediation activities</td>
<td>635</td>
<td>438</td>
<td>31 %</td>
</tr>
<tr>
<td>F. Construction</td>
<td>573</td>
<td>406</td>
<td>29 %</td>
</tr>
<tr>
<td>G. Wholesale and retail trade; repair of motor vehicles and motorcycles</td>
<td>491</td>
<td>365</td>
<td>26 %</td>
</tr>
<tr>
<td>H. Transportation and storage</td>
<td>710</td>
<td>475</td>
<td>33 %</td>
</tr>
<tr>
<td>I. Accommodation and food service activities</td>
<td>424</td>
<td>332</td>
<td>22 %</td>
</tr>
<tr>
<td>J. Information and communication</td>
<td>1266</td>
<td>753</td>
<td>41 %</td>
</tr>
</tbody>
</table>

Source: NSI (preliminary data) and author’s own calculations
The implementation of the anti-crisis measure regulated by Government Decree № 44 started in February 2009 – two application rounds, for receiving short time working arrangement allowances, were run up to the end of September 2009, allowing 531 employers and 19,485 employees to take advantage of the measure, receiving allowances amounting to BGN 5,793.7 thousand. After the conclusion of the measure’s implementation, 12,820 workers kept their jobs. In 2010, the execution of the initiative continued – during the year another 6,382 workers in 251 companies were approved under Decree № 44 while 6,188 of them actually received short time working arrangement compensations to their monthly salary for 4 months amounting to 50% of the minimum wage. The financial resources spent reached BGN 2,461,939. The National Employment Action Plan for 2011 does not provide for implementation of Government Decree № 44/2009 during the current year.

Irrespective of the fact, that during both years of implementation of the decree, the target values for the number of workers covered by the initiative were reached, the percentage of workers participating in short time working arrangements as a share of the total number of employed in Bulgaria was more than twice as low as the figure registered in other EU Member States (as France for example\(^6\)) for the same period. Nevertheless, the implementation of the measure in our country as a whole supported employers in their efforts to retain their core staff, while some of the enterprises exited the programme early after receiving new orders and partial or full restoring of their production volumes.

3.2. Procedure “Adaptability” within OP “Human Resources Development”

Given the pressure exerted on Bulgaria by the European Commission to bring down the

<table>
<thead>
<tr>
<th>Implementation indicators</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of workers included in training courses for acquiring new or increasing the level of existing vocational qualification</td>
<td>42,000</td>
</tr>
<tr>
<td>Number of workers who have used financial resources for transportation to their working place</td>
<td>8,400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Achievement indicators</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of workers who have acquired new or increased the level of existing vocational qualification</td>
<td>33,600</td>
</tr>
<tr>
<td>Share of workers who have kept their job upon conclusion of the encouragement measures</td>
<td>80%</td>
</tr>
</tbody>
</table>

Table 2. Indicators laid down in OPHRD Adaptability Programme

Source: Terms of Reference: OPHRD, Adaptability Procedure, Budget Line BG051PO001-2.1.12

the budget deficit and reduce Government expenses, the effective absorption of the financial resources under the ESF Operational Programme Human Resources Development 2007-2013 (OPHRD) becomes crucial for tackling the negative effects of the economic downturn. In this respect, the Adaptability Programme within OPHRD is addressed to workers occupied in companies operating in the above-mentioned economic sub-sectors and activities, who have not received allowances under Government Decree № 44. They are allowed to apply under the OPHRD scheme in question and upon approval to receive additional resources in the form of vouchers for vocational qualification for the period of short time working arrangement, as well as a monthly allowance up to a maximum of BGN 176 for the period of training, which cannot exceed six months. For the same period trainees are also granted resources for transportation from and to their work place in cases where the training is conducted elsewhere. The total budget of the Programme was initially set to BGN 90 million for the period of its implementation 2009-2012.

The purpose of Adaptability Programme is to reduce mass dismissals by employers and resignation by workers who, due to economic reasons, cannot earn their full salary. Employers on their part receive the opportunity to retain their staff who they will need again once the economy recovers and market demand improves. This operation also falls within the basic priorities of 2009 labour market policy, namely to ensure stable employment through encouraging short time working arrangements and lifelong learning. The programme builds upon the anti-crisis measures, implemented under Decree № 44 expanding its scope in the context of the targets laid down in OPHRD.

The implementation and achievement indicators specified in the terms of reference of the Adaptability Programme are related to the number of trainees, individuals who have received money for transport, number of workers acquiring higher vocational qualifications and share of workers who have kept their job upon conclusion of the measures – the reference values of the indicators are provided in Table 2 below.

The actual results of the implementation of procedure “Adaptability” indicate that the participation in vocational training, conducted during the time not engaged with work activities, as an obligatory condition for eligibility under the procedure, to a certain extent discourages workers and their employers to take advantage of the opportunities provided by the initiative. And regardless of the fact that through participation in training for acquiring new or increasing the existing level of vocational qualification, the workers will be able to update and further develop their professional knowledge and skills or acquire new ones, which will help them keep their present job or find a new one in the future, the expressed interest in operation “Adaptability” until the present moment is very limited. Until the end of September 2010, only 638 workers, who had been transferred to partial activity, were included in training courses under the Programme during the time not engaged with work activities. Of them 345 people have completed their training, while resources for transportation were granted to 34 persons. Furthermore, the National Employment Action Plan for 2011 sets a reduced budget for the procedure of BGN 10 million for the entire period of its implementation and an indicative budget of BGN 4 million for the current year, which is a direct consequence of the low level of absorption of financial resources under the
Articles

operation. In view of the results achieved by the Adaptability Programme presented above, it can be concluded that, at least for the present moment, its contribution to the implementation of the measures, aimed at introducing short time working arrangements in Bulgaria is highly limited.

Conclusion

Undoubtedly, short time working arrangements are among the measures, which have a serious potential for cushioning the negative impact of the current financial and economic crisis on the labour market, while in a number of EU countries these schemes are among the main initiatives used for tackling the negative effects of the economic downturn on the society. In Bulgaria, the results of the implementation of partial activity schemes until the present moment cannot be described as satisfactory. And if this is not entirely true for the regulated by Government Decree № 44/2009 intervention for stimulating employment through short time working arrangements, due to the full absorption of the financial resources provided for and the fulfilment of the targets regarding the number of persons covered by partial activity schemes, the observations in connection to the implementation of procedure “Adaptability” within OPDHR are extremely discouraging. A main issue here appears to be the lack of possibility to effectively combine short time working arrangements with adequate training an retraining courses. The steps which can be undertaken for increasing the effectiveness of “Adaptability” scheme, may be directed towards reviewing and amending the eligibility criteria for workers under the procedure, possible expansion of the coverage of the initiative onto workers employed under short-term labour contracts, as well as searching for cooperation with the social partners for the effective implementation of short time working arrangements in the companies.

Bibliography

1. Labor Code, effective as from 01.01.1987, last amendment SN, issue 18 of 1 March 2011.

2. Government Decree № 44 of 19 February 2009 for determination of the terms and conditions for payment of compensations to workers for whom partial working activity has been introduced, in the economic sectors “Industry” and “Services”, as effective from 27.02.2009, publ. SN, issue 16 of 27 February 2009, amended SN, issue 2 of 8 January 2010.


http://www.minfin.bg/document/9228:2

http://www.minfin.bg/document/8698:1


http://www.mutual-learning-employment.net/uploads/ModuleXtender/PeerReviews/83/Host_Country_Paper_France_FINAL.pdf


19. European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, The Mutual Learning Programme, Peer review on ‘Employment measures to tackle the economic downturn: Short time work-
http://www.mutual-learning-employment.net/uploads/ModuleXtender/
PeerReviews/83/EUROPEAN_COMMISSION_French_Peer_Review_Paper_-_STWA.pdf


http://www.mutual-learning-employment.net/uploads/ModuleXtender/
PeerReviews/83/France_Peer_Review_-_full_summary_.pdf