



REPUBLIC OF BULGARIA  
Ministry of Finance

# Europe 2020: NATIONAL REFORM PROGRAMME

2015 Update

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# EUROPE 2020: NATIONAL REFORM PROGRAMME

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## List of Abbreviations

EA	Employment Agency
CA	Customs Agency
PPA	Public Procurement Agency
ALMP	Active Labour Market Policies
BEH	Bulgarian Energy Holding
GDP	Gross Domestic Product
GAV	Gross Added Value
BNB	Bulgarian National Bank
IBEX	Independent Bulgarian Energy Exchange
GA	Grant Assistance
RES	Renewable Energy Sources
HEC	High Efficiency Cogeneration
RS	Renewable Sources
WSS	Water Supply and Sewerage
SJC	Supreme Judicial Council
SANS	State Agency for National Security
SIC	Social Insurance Code
LOD	Labour Office Directorate
SG	State Gazette
VAT	Value Added Tax
PLOC	Partnership under the Law on Obligations and Contracts
SFA	State Fund Agriculture
SER	State Educational Requirements (standards)
EAD	Sole-proprietor Shareholding Company
EBRD	European Bank for Reconstruction and Development
SFIS	Single Filing Information System
EC	European Commission
EC	European Community
UPEAS	Unified Portal for Electronic Administrative Services
EU	European Union
ESIF	European Structural and Investment Funds
ESO	Electricity System Operator
EU ETS	EU Emission Trading System or EU System for Trading Greenhouse Gas Emission Allowances
ESF	European Social Fund
ECB	European Central Bank
LPIT	Law on Personal Income Tax
LERS	Law on Energy from Renewable Sources
LHI	Law on Health Insurance
LAS	Law on Amendments and Supplements
LCIT	Law on Corporate Income Tax
LLTF	Law on Local Taxes and Fees
LEP	Law on Employment Promotion
LIP	Law on Investment Promotion
LPE	Law on Public Education
HIC	Health Insurance Contributions
LCCM	Law on Climate Change Mitigation
LPP	Law on Public Procurement
LVET	Law on Vocational Education and Training
LSA	Law on Social Assistance
LFA	Law on Family Allowances
LSE	Law on School Education
IAWP	Indicative Annual Working Programmes
ICT	Information and Communication Technologies
ISI	Information System for Insolvency
EWRC	Energy and Water Regulatory Commission
FEI	Final Energy Intensity
QES	Qualified Electronic Signature
SIC	Social Insurance Code
FSC	Financial Supervision Commission

MI	Ministry of Interior
MH	Ministry of Health
MIP	Ministry of Investment Planning
MII	Minimum insurance income
MSST	Minimum Social Security thresholds
MES	Ministry of Education and Science
MJ	Ministry of Justice
MW	Minimum Wage
CoM	Council of Ministers
SME	Small and Medium sized Enterprises
MLSP	Ministry of Labour and Social Policy
MF	Ministry of Finance
NRA	National Revenue Agency
NAVET	National Agency for Vocational Education and Training
NEC	National Electricity Company
NEMC	National Expert Medical Commission
NHM	National Health Map
NHIF	National Health Insurance Fund
R&D	Research and Development
NSSI	National Social Security Institute
NP	National Programme
NAPE	National Action Plan on Employment
NPIEYG	National Plan for Implementation of the European Youth Guarantee
NRM	National Road Map
NRP	National Reform Programme
LFS	Labour Force Survey
NA	National Assembly
NGIS	National Green Investment Scheme
NSI	National Statistical Institute
NRISRB	National Roma Integration Strategy of the Republic of Bulgaria
NT 1	National Target 1 "Reaching 76% employment of the population aged 20-64 by 2020"
NT 2	National Target 2 „ Investment in R&D in the amount of 1.5% of GDP in 2020"
NT 3	National Target 3 Climate-Energy Package: „Achieve a 16% share of renewable energy sources in the gross final consumption of energy, and increasing the energy efficiency by 25% by 2020"
NT 4	National Target 4 „11% share of the early school leavers by 2020 and a 36% share of the people aged 30-34 with higher education by 2020"
NT 5	National Target 5 „Reducing the number of people living in poverty by 260 thousand"
EIA	Environmental Impact Assessment
OP	Operational Programme
OPAC	Operational Programme "Administrative Capacity"
OPIC	Operational Programme „Innovations and Competitiveness"
OPE	Operational Programme „Environment"
ОПРКБИ	Operational Programme „Development of the Competitiveness of the Bulgarian Economy"
OPRD	Operational Programme „Regional Development"
OPHRD	Operational Programme „Human Resources Development"
OPT	Operational Programme "Transport"
pp.	percentage point
AAU	assigned amount unit
PEI	Primary Energy Intensity
TFP	Transitional and Final Provisions
PIC	Personal Identification Code
AQR	Assets Quality Review
MIP	Macroeconomic Imbalances Procedure
CoM Decree	Decree of the Council of Ministers
PIC	Pension Insurance Company
VET	Vocational Education and Training
SIP	Social Inclusion Project
WWTP	Waste Water Treatment Plants
ETR	Electricity Trading Rules
DLDP-ZP	Detailed Land Development Plan – Zoning Plans
PRBM	Plans for Rivers Basins Management

FDI	Foreign Direct Investments
CoM Decision	Decision of the Council of Ministers
SCF	Structural Funds and the Cohesion Fund
SNS	System of National Accounts
SEN	Special Educational Needs
CSR	Country Specific Recommendation
TEMC	Territorial Expert Medical Commission
CR	Commercial Register
BDIF	Bulgarian Deposit Insurance Fund
EERSF	Energy Efficiency and Renewable Sources Fund
SRF	Scientific Research Fund
HICP	Harmonised Index of Consumer Prices
CIPO	Centre for information and professional orientation
CPCOC	Centre for Prevention and Counteraction to Corruption and Organised Crime
CEMS	Centres for Emergency Medical Care
DESIREE	Project DESIREE GAS
EEN	European Enterprise Network
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
EU-SILC	EU statistics on income and living conditions
GHG	Greenhouse gases
IBR	Interconnector Bulgaria Romania
IGB	Interconnector Greece Bulgaria
NEET	Not in Education, Employment, or Training
RAE	Regulatory Authority for Energy Greece

**CSR 1**                    **Country-Specific Recommendation 1** “Reinforce the budgetary measures for 2014 in the light of the emerging gap relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, strengthen the budgetary strategy to ensure that the medium-term objective is reached and, thereafter, maintained. Ensure the capacity of the new fiscal council to fulfil its mandate. Implement a comprehensive tax strategy to strengthen tax collection, tackle the shadow economy and reduce compliance costs.”

**CSR 2**                    **Country-Specific Recommendation 2** “Adopt a long-term strategy for the pension system, proceeding with the planned annual increase in the statutory retirement age and setting out a mechanism to link the statutory retirement age to life expectancy in the long term, while phasing out early retirement options and equalising the statutory retirement age for men and women. Tighten eligibility criteria and procedures for the allocation of invalidity pensions, for example by taking better account of the remaining work capacity of applicants. Ensure cost effective provision of healthcare including by improving the pricing of healthcare services while linking hospitals' financing to outcomes, accelerating the optimisation of the hospital network and developing outpatient care.”

**CSR 3**                    **Country-Specific Recommendation 3** “Improve the efficiency of the Employment Agency by developing a performance monitoring system and better targeting the most vulnerable, such as low-skilled and elderly workers, the long-term unemployed and Roma. Extend the coverage and effectiveness of active labour market policies to match the profiles of jobseekers, and reach out to non-registered young people who are not in employment, education or training, in line with the objectives of a youth guarantee. Improve the effective coverage of unemployment benefits and social assistance and their links with activation measures. Take forward the comprehensive review of minimum thresholds for social security contributions so as to make sure that the system does not price the low-skilled out of the labour market. Establish, in consultation with social partners, transparent guidelines for the adjustment of the statutory minimum wages taking into account the impact on employment and competitiveness. In order to alleviate poverty, further improve the accessibility and effectiveness of social services and transfers for children and older people.”

**CSR 4**                    **Country-Specific Recommendation 4** “Adopt the School Education Act and pursue the reforms of vocational and higher education in order to increase the level and relevance of skills acquired at all levels, while fostering partnerships between educational institutions and business with a view to better aligning outcomes to labour market needs.

Strengthen the quality of vocational education and training institutions and improve access to lifelong learning. Step up efforts to improve access to quality inclusive pre-school and school education of disadvantaged children, in particular Roma, and implement strictly the rules linking the payment of child allowance to participation in education.”

**CSR 5**      **Country-Specific Recommendation 5** “Continue to improve the business environment, in particular for small and medium-sized enterprises, by cutting red tape, promoting e-government, streamlining insolvency procedures and implementing the legislation on late payments. Improve the public procurement system by enhancing administrative capacity, strengthening the ex ante checks performed by the Public Procurement Agency and taking concrete steps for the implementation of e-procurement. Enhance the quality and independence of the judiciary and step up the fight against corruption.”

**CSR 6**      **Country-Specific Recommendation 6** “Scale up the reform of the energy sector in order to increase competition, market efficiency and transparency, and energy efficiency, in particular by removing market barriers, reducing the weight of the regulated segment, stepping up efforts for the creation of a transparent wholesale market for electricity and gas, phasing out quotas, and strengthening the independence and administrative capacity of the energy regulator. Accelerate interconnector projects with neighbouring Member States and candidate countries, in particular for gas, and enhance the capacity to cope with disruptions.”





## Introduction

The 2015 update of the National Reform Programme (NRP) was prepared within the framework of the enhanced economic policies coordination in the European Union (EU) – the 2015 European Semester. The latter is the first semester during the mandate of the new European Commission (EC), which took up duty with an ambitious programme aimed at supporting job creation and urgent revival of economic growth in the EU.

In the 2015 Annual Growth Survey the Commission recommended three pillars, which shall serve as a basis for the economic and social policy: investments, structural reforms and fiscal responsibility. They are integrated in a growth-friendly approach, which allows a simultaneous impact on supply and demand. Member States shall mobilise financial resources for investment to enable these to reach the real economy and improve the investment environment, including by better public finance management.

The absence of political stability and economic predictability affected negatively both the main components of growth in 2014 and the progress in the implementation of key structural reforms. The newly elected government adopted an ambitious programme for reforms and modernisation of Bulgaria. The programme covers a very broad area, bringing up as priorities the reforms in the judiciary, health and pension systems, the changes in the education system, and the review of the energy sector. Social policy is among the main government priorities. Efforts are focused on supporting low income groups and creating employment in regions with high unemployment. The formula chosen by the government to strengthen the economy and enhance its growth capacity combines the ensuring of political and institutional stability with measures for overall improvement of the business environment, priority public funding towards sectors with high value added.

According to the technical evaluation of the progress in implementing the recommendations and the results from the in-depth reviews, published by the European Commission at the end of February 2015, Bulgaria is experiencing excessive macroeconomic imbalances, which require decisive policy measures and specific monitoring by the EC. The problems in the banking sector in 2014 are identified as the main reason for stepping up the procedure for Bulgaria. In the Commission's opinion, they are a sign of weaknesses in supervision and may have a significant impact on macroeconomic stability.

The 2015 Update of the National Reform Programme outlines measures addressing the Council's recommendations of 8 July 2014, and describes the progress under the national targets aimed at achieving the five headline targets of the "Europe 2020" Strategy. The document contains a separate section presenting the government's policy commitments in the five areas of the identified excessive macroeconomic imbalances, including the banking and the non-banking financial sector, labour market, and insolvency framework. When addressing the 2014 CSRs, the focus is on the implementation of large scale structural reforms, such as the pension and healthcare reforms, adoption of National strategy for strengthening the tax collection,

tackling the shadow economy and reducing the compliance costs, and strengthening the independence and administrative capacity of the energy regulator.

This update is in line with the priorities, objectives and measures included in the Government Programme for Sustainable Development of the Republic of Bulgaria (2014–2018), the Medium-term Budget Forecast (2016–2018) and the Convergence Programme of the Republic of Bulgaria (2015–2018). ■

# 1 Macroeconomic Framework

In 2014 the GDP growth accelerated to 1.7% compared to 1.1% in 2013. While in 2013 growth was export driven, in 2014 domestic demand was the key driver of growth.

Final consumption increased by 2.4% compared to a 1.3% decline in 2013. Its growth comprised the increase in real terms in household expenditure by 2% and of public consumption by 3.8%. The main factors contributing to the dynamics of consumption were the increase in the real disposable income of households, the higher number of people employed and the higher consumer confidence at the beginning of the year.

The 2.8% growth in fixed capital investment was formed of public investment. Like in 2013, in 2014 the public investment grew steadily, with a real increase of over 20%. The funds disbursed under EU operational programmes, including from national co-financing, were the main contributors to this increase. Private investments slowed down their decline compared to 2013 to 2.6%.

The marginal increase in external demand in 2014 resulted in a 2.2% growth in exports. At the same time, the improved domestic demand was the leading factor behind the growth in imports during the year. The latter reached 4.5%. As a result of these developments, the net exports had a negative contribution to growth.

The economic activity in the country also accelerated on the supply side. The gross value added (GVA) growth was 1.6% in 2014 compared to a 1.2% in 2013. Unlike the previous year, when the dynamics of services was determinant for the growth of GVA, in 2014 all sectors contributed to the reported growth. Following five consecutive years of decline in construction, in 2014 GVA in the sector increased by 1.4%. The reported growth was mainly due to the recovery in civil engineering.

In 2015 the growth of the Bulgarian economy is expected to slow down to 1.4% as a result of the lower contribution of public consumption and investments.

The favourable dynamics of employment, the increase in the real disposable income of households and the stabilisation of the internal environment observed since the beginning of 2015 will support the private consumption growth of 2.4% in 2015. Stabilisation of private investment is also envisaged (compared to reported declines in previous years). We assume that the decline in the real estate prices has already been overcome, and we expect that during the forecast period their increase will stimulate investments in this sector.

MAIN ECONOMIC INDICATORS	ACTUAL DATA		PROJECTIONS			
	2013	2014	2015	2016	2017	2018
<b>International environment</b>						
World real GDP (%)	3.3	3.3	3.5	3.7	3.8	3.8
EU28 real GDP (%)	0.0	1.3	1.6	1.8	1.9	1.9
USD/EUR exchange rate	1.33	1.33	1.11	1.10	1.10	1.10
Crude oil, Brent (USD, bbl)	108.9	98.9	61.5	68.8	74.4	77.8
Non-energy commodity prices (in USD, %)	-7.1	-4.6	-5.0	0.8	0.8	0.9
<b>Gross domestic product</b>						
Nominal GDP (mln BGN)	80 282	82 164	83 581	86 023	89 248	92 477
Real GDP growth (%)	1.1	1.7	1.4	1.7	2.3	2.1
Consumption	-1.3	2.4	2.0	2.6	3.0	2.6
Gross fixed capital formation	-0.1	2.8	1.8	1.5	2.9	3.2
Export of goods and services	9.2	2.2	2.8	3.1	3.4	3.6
Import of goods and services	4.9	3.8	3.6	4.0	4.4	4.4
<b>Labour market and prices</b>						
Employment growth (SNA, %)	-0.4	0.4	0.3	0.5	0.9	0.5
Unemployment rate (LFS, %)	12.9	11.4	10.8	10.2	9.4	9.0
Compensation per employee (%)	8.8	1.5	1.8	2.8	3.5	3.3
GDP deflator (%)	-0.8	0.6	0.3	1.2	1.4	1.5
Annual average HICP inflation (%)	0.4	-1.6	-0.6	1.8	1.9	2.0
<b>Balance of payments</b>						
Current account (% of GDP)			0.2	-0.4	-1.0	-1.5
Trade balance (% of GDP)			-8.5	-9.1	-9.9	-10.6
Foreign direct investments (% of GDP)			3.2	3.3	3.3	3.4
<b>Financial sector</b>						
Money M3 (%)	8.9	1.1	5.1	5.7	6.5	6.9
Corporate credit (%)	0.5	-10.8	2.6	3.0	3.8	4.2
Credit to households (%)	-0.2	-1.6	0.7	1.2	1.9	2.9

Note: As regards trade with goods and services, in the current forecast a technical migration from BPM5 to BPM6 based on data from ESA 2010 is made. Balance of payments data for 2013-2014 is not included in the table, since there was no official data under BPM 6th edition at the time of the elaboration of the forecast.

Following the expected recovery of the European and global economy, real exports of goods and services will increase by 2.8%. The dynamics of exports will also result in higher imports of raw materials used for the export. On the other hand, the expected slowdown in consumption and investment growth will have opposite effect on imports, limiting their growth to 3.6%. As a result of this, the negative contribution of net exports will decline to 0.6 pp. compared to 1.1 pp. in 2014. The current account balance will be slightly positive in 2015.

During the period 2016–2017 the economic growth will gradually accelerate to 2.3%, with private consumption and investment being the main contributors. Exports of goods and services will also increase under the influence of the demand of major trading partners. We expect that this development will result in accelerated growth in imports. Due to the negative trade balance, the current account will gradually worsen to a deficit of 1.5% of GDP in 2018. FDI are expected to stabilise at around 3% of GDP during the period 2015–2018.

In 2018 GDP growth is expected to slow down as a result of the lower increase in private consumption. The decreasing employment growth, due to unfavourable demographic trends in Bulgaria, will be the main factor for this development.

The average number of people employed is expected to increase by 0.3%, and the unemployment rate is expected to decrease to 10.8% in 2015. With the gradual acceleration of economic activity during the period 2016–2018, the employment growth is expected to reach 0.9% in 2017 before slowing down in 2018, and the unemployment rate is expected to gradually decrease to 9% at the end of the forecast horizon.

With the increase in employment in 2015, compensation of employees will continue to grow at a moderate pace. A more significant acceleration in income dynamics is expected during the period 2016–2018, following the higher economic activity and increased labour productivity in the country.

Since August 2013, annual inflation in Bulgaria has been negative. In 2014 deflation accelerated, and the HICP (eop) was -2%. The annual average HICP was also negative at -1.6%. The decline in international food and oil prices had a major influence on the side of external factors.

The change in the external assumptions regarding international commodity prices and the dynamics of the EUR/USD exchange rate resulted in revised expectations about the consumer prices developments in the country. The expected increase in prices of non-energy commodities in the international markets and the higher prices of imported durable goods (BGN denominated) will result in a 0.8% increase in CPI at the end of 2015. The annual average inflation, however, will remain negative due to the sizable decline in fuel prices at the end of the previous year and the beginning of the current year. The annual average HICP in 2015 is projected at -0.6%, and inflation is expected to turn positive during the period 2016–2018 (1.8–2%), assuming higher international oil prices in the coming years and recovery of domestic demand.

Credit to private sector will increase at a relatively slow pace during the period 2015–2018. At the end of 2015 its growth on an annual basis will be 1.9%, and by 2018 it will accelerate to 3.7%. During the entire period a trend of gradual increase of the contribution of loans to households will be observed, especially consumer loans which will follow the increasing private consumption contribution to economic growth.

According to the Ministry of Finance estimates, the potential GDP growth in 2014 was 1.8% and is expected to reach 1.9% in 2015. The gradual increase in total factor productivity will contribute to the progressive acceleration of growth throughout the period of the projection, and in 2018 the growth is expected to reach 2.2%. The positive dynamics of the labour market observed in 2014 resulted in a decline in the natural unemployment rate. Its gradual decline, along with an increase in the participation rate, will compensate for the reduction in the working age population and will lead to a positive contribution of labour as a factor of potential growth over the period of the projection. ■

## **2 Measures to Reduce Macroeconomic Imbalances**

### **2.1 Banking Sector**

#### **2.1.1 Insolvency of Banks**

In the middle of March 2015 a Law on Amendments and Supplements (LAS) to the Law on Bank Insolvency was tabled at the National Assembly (NA). The amendments aim at creating prerequisites for maximum protection of the public interest, in particular with regard to the assets of the Corporate Commercial Bank (CCB). The institute of the temporary trustee in bankruptcy was introduced. Unlike in commercial insolvency, the trustee would have more powers relating to the management and safeguarding of assets during the period between the withdrawal of the license and the court ruling on initiating insolvency proceedings. At the proposal of the Deposit Insurance Fund (DIF), two trustees were appointed by decision of the Sofia City Court of March 2015, and the powers of the conservators were terminated. It is envisaged that they shall report every week to the Minister of Finance, and that information on all activities in respect of claims, disposition actions, contract conclusion, etc. shall be published on the website of the Fund. In the event of non-compliance, trustees could be replaced.

The legislative amendments regulate the activities during the period between the revocation of the licence of the bank and the announcement of its bankruptcy.

#### **2.1.2 Assessment of compliance of the BNB supervisory practices with the Basel Core Principles for effective banking supervision – by the end of the second quarter of 2015**

In the summer of 2014 the Bulgarian National Bank (BNB) initiated an evaluation of the compliance of the supervision practices of the BNB with the Core Principles for Effective Banking Supervision of the Basel Committee on Banking Supervision. The first stage of the evaluation was completed on 31 March 2015 with the draft report “Bulgaria: Detailed Assessment of Observance with the Basel Core Principles for Effective Banking Supervision, March 2015”, prepared by the evaluation team of experts from the IMF / World Bank. The draft report is being finalised in accordance with the official procedures of the evaluating institutions (IMF and the World Bank) and is expected to be published during the second quarter of 2015.

The BNB will consider all findings and recommendations from the evaluation and will correspondingly proceed with changes in its internal procedures. In consultation with the Ministry of Finance, the BNB will propose amendments to the legislative framework, where appropriate.

### 2.1.3 Establishing a framework for recovery and restructuring of the credit institutions in Bulgaria – by the end of the third quarter of 2015

This will be achieved on the basis of implementing Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, also taking into account the existing regulatory framework and supervision architecture, and the structure of the banking sector in Bulgaria. To this end, a draft new Law was prepared with the participation of the BNB, FSC, MF and DIF, and is currently internally coordinated within the Ministry of Finance, before being sent for inter-institutional conformation in the beginning of May. The Ministry of Finance will table the draft law for approval by the Council of Ministers by the beginning of June **2015 at the latest**. The new law is expected to be approved by the National Assembly and become effective during the third quarter of 2015, and by September the relevant set of procedures and organisational structures for operationalising the framework for recovery and resolution of banks will be developed.

### 2.1.4 Asset quality review (AQR) and stress test of the entire banking sector

In direct cooperation with the relevant bodies in the EU a methodology for AQR based on the ECB methodology will be developed. Subsequent stress tests will be in line with the EU wide stress test envisaged for in 2016. The following actions will be performed to this end:

- Drafting the AQR methodology: **Second quarter of 2015 (Q2 2015)**
- Based on the new methodology and the new legislation adopted by the National Assembly, the BNB, in cooperation with the Ministry of Finance, will define the backstop mechanisms in case of potential capital shortfalls in individual credit institutions, identified by the AQR/stress tests exercise, and assuming that this shortfall cannot be covered from the market: **Third quarter of 2015 (Q3 2015)**
- A consultant for AQR who shall meet the highest world standards in the field of such services and will have experience in carrying out such assessments in another central bank or regulatory authority will be selected: **Third – fourth quarter of 2015 (Q3–Q4 2015)**
- Banks will be provided with a list of eligible and well experienced third-party companies. Banks will then select one company from the list, to work with, and will cover the expenses of its service (in keeping with the modalities of the exercise in 2014 in the Euro area in the run-up to the Single Supervisory Mechanism (SSM): **Third – fourth quarter of 2015 (Q3–Q4 2015)**
- Start of the AQR using end-2015 data: **First quarter of 2016 (Q1 2016)**
- AQR is completed and the results are submitted to the BNB for the purposes of the stress test: **Second quarter of 2016 (Q2 2016)**
- Stress test: **Third quarter (July) of 2016 (Q3 (July) 2016)**
- Defining the measures to be taken by banks to fill prospective capital shortfalls: **Second -third quarter (July) of 2016 (Q2-Q3 (July) 2016)**
- Defining the public communication strategy: **Second – third quarter (July) of 2016 (Q2–Q3 (July) 2016)**

- Announcing the results of the AQR and the stress test: **Third quarter (July) of 2016 (Q3 (July) 2016)**

The above list of measures and actions is consistent with the strategy of the Bulgarian authorities for dealing with exogenous shocks to the banking system, including developments from unfolding of risks and imbalances in the Euro area.

## 2.2 Non-banking Financial Sector

The Financial Supervision Commission is planning to take action mainly in terms of strengthening the supervision and legislation:

- The overall description of the ownership structure of pension funds will be completed by mid-2015 by conducting a review of the existing legislation governing related party transactions. Based on the findings from this review, amendments will be proposed to broaden the scope of the definition of “related parties” and “control”. In addition, the draft amendment to the SIC will result in full compliance with the requirements of Directive 2007/44/EC, and will introduce further requirements for identification of shareholders holding over 1% of the share capital of Pension Insurance Companies (PIC)<sup>1</sup>. Proposals for legal definitions of the terms “group”, “parent company” and “subsidiary” will be also prepared, thereby strengthening the rules restricting the ownership of pension insurance companies.
- By the end of September 2015 comprehensive review will be carried out of the legislation regulating the operations of pension funds, including risk management, internal audit and governance principles (including qualifications of managers, remuneration policy, issues relating to conflict of interest), and the required amendments to the corresponding provisions will be made in order to fully harmonise the Bulgarian legislation with the requirements of the European Legal Framework and to adapt the strict requirements of the “Solvency II” mechanism to the organisation and control of PICs;
- By the end of the third quarter of 2015 the implementation of the provisions under Directive 2009/138/EC (Solvency II) and Directive 2013/36/EC (CRD IV) will be completed. During the same period independent external institutions will be invited to make a review of the existing legislation on the powers of the FSC, in accordance with the rules of ESMA and EIOPA for strict and uniform enforcement of the EU legislation by the national regulators. Following this, proposals to strengthen supervision will be formulated. The findings in the Report on the Hearing of the Financial Supervision Commission in the Budget and Finance Committee on the operation of pension insurance companies<sup>2</sup>, and the forthcoming Report of the Ad hoc committee on examination of the financial state of the pension insurance companies and of the universal and professional funds managed by them will also be analysed.

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<sup>1</sup> The current legislation requires the approval of all shareholders intending to acquire shares that exceeding 10% of the share capital of the PICs; and the identification is made to the level of the beneficial owner, and the information is publicly available on the web site of the FSC.

<sup>2</sup> <http://parliament.bg/bs/parliamentarycommittees/members/2330/reports/ID/5207>



- By the end of 2015, after discussion with all stakeholders, a steering committee will be established to lead the review of the balance sheets of pension funds. The review will be conducted by an external independent institution/company, without prejudice to the existing legislation. As a second step, the steering committee will organise and perform an impact assessment (special stress test to assess the overall effect) of the entry into force of the proposed legislative changes on the operations and organisation of pension companies and the effects of the planned introduction of new investment restrictions on the capital market. Within the stress test a detailed analysis will be carried out of the changes in the investment regime and their effect on the funds' assets in the short and long term. The Committee will be chaired by the FSC jointly with the EIOPA and will comprise representatives of the MF and BNB. The opportunity is also envisaged for participation of observers from the European Securities and Markets Authority (ESMA) and the European Commission<sup>3</sup>. The Committee will discuss the stress test methodology and will draft the terms of reference for the review. It will discuss the financing, the possible results and the appropriate actions to be taken once the results of the review become clear. A clear communication strategy for recovering the confidence will also be adopted.
- By the end of 2015, FSC will review the current legislation concerning the assessment of pension fund assets and will propose changes that require a custodian bank to exercise daily control on the valuation of assets and liabilities of the pension fund, the size of net assets and the value of a single share of the fund.
- In 2016, a review of the insurance market will be initiated by carrying out due diligence and a review of the balance sheets of the insurance companies. This measure will be carried out by an external independent evaluator, without prejudice to the current legal rules.
- The results from the review will be available by the end of 2015 and the relevant actions will be undertaken.

## 2.3 Fiscal Policy

The fiscal policy outlined in the medium-term budgetary framework clearly defines the budgetary discipline as a fundamental commitment of the government, and fiscal parameters are prepared based on a conservative forecast of the key macroeconomic indicators, a realistic assessment of revenues and restrictive planning of expenditure.

The fiscal consolidation continues in the medium term by constantly reducing budget deficits from 2.8% of GDP in 2015 to 2.4% of GDP in 2016, 1.8% of GDP in 2017, and 1.3% of GDP in 2018. It will be achieved through cutting expenditure from 38.8% of GDP in 2015 to 37.5% of GDP in 2018 while keeping revenue at about 36% of GDP.

Revenue structure is projected to improve by increasing the tax revenue share in GDP in 2016 and 2017. The increase in 2016 revenue is due to both better-than-expected performance of

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<sup>3</sup> DG ECFIN and DG for Financial Stability, Financial Services and Capital Markets Union

key macroeconomic indicators (higher consumption, imports, inflation, average wage and employment) and improved tax collectability.

The decline in total expenditure in the medium term is due mainly to consolidation along intermediate consumption, in particular maintenance expenditures. They decrease consecutively by 0.1 pp in 2015 and further by 0.2 pp in 2016. In addition capital spending is planned to decrease by 0.4 pp in 2016. This is result of the launch of the new programming period and the related to it lower EU funds absorption. In 2015, additional savings have been ensured with the announced 10% cut in the central government wage fund. In view of the horizontal character of budget savings measures, their realisation is linked with the structural reforms and functional optimisation within the public sector.

Information about the specific consolidation measures within the medium-term budgetary trajectory is presented in the Convergence Programme of the Republic of Bulgaria for the period 2015–2018.

## 2.4 Labour market / Active labour market policies

A package of active labour market measures, which will enable the majority of unemployed to return more quickly to the labour market and to improve the balance between existing job vacancies and the qualifications of unemployed persons, by reducing the gap between existing and desired skills, which will ameliorate the matching process, is envisaged to be prepared and released by the **end of the third quarter of 2015**. Some of the active measures will be refined and focus on the most vulnerable groups (such as young people who are neither in employment, nor in education or training including registered as unemployed, low-skilled and elderly workers, people with disabilities, long-term unemployed and Roma), in order to use their potential. The following activities will be undertaken:

- Amendments to the Law on Employment Promotion (LEP) – provides for development of regionalization to increase the role of Regional Employment Committees, introducing activation activities for unemployed persons, increase the flexibility of the measures within the LEP and the role of the National Employment Action Plan, which will annually identify key parameters of the active employment policy, promoting trainings in activities with high added value, and will increase training quality. The changes that are associated with the development of the regionalization of the active labour market policy aim at improving its decentralization to better “reach” persons from vulnerable groups, and to solve the problems of the local labour markets. The amendments also provide for the inclusion of a new activity for activation that aims at increasing the economic activity of the population. This will allow persons outside the labour force who want to work and are not in education or training to be identified and to receive information services, counselling and psychological support. The ultimate goal of those activities is to stimulate individuals to register with the “Labour Office” Directorates (LODs) in order to benefit from the opportunities for involvement in training and employment. It also provides for changes to improve the quality of training provided through development of the system for forecasting the labour market needs as well as improving the selection criteria for training organizations and ex-

ternal monitoring of the quality of the training. Better regulation will create conditions for greater flexibility in the financing of measures, which promote employment in accordance with the priorities of the active labour market policy. Possibilities for providing targeted training for acquiring ICT knowledge and skills based on identified and defined needs of the sector will be explored. Measures and schemes for provision of training to persons whose qualifications do not apply in the labour market will be implemented. LEP amendments will regulate the financing of the dual training of persons outside the education system.

- Elaboration and adoption of concept paper for introduction of a system for employment through service vouchers. The main objective of the system is to provide new employment opportunities for unemployed persons including among vulnerable groups on the labour market, especially in regions where there is limited demand for labour.
- Activation of young people who are neither in employment nor in education or training (NEET) through implementation of activities such as:
  - Appointment of 100 youth mediators at the municipalities after their specialized training under a new activity within the component "Working with inactive persons" of "Activation of inactive" National program. The mediators will identify and activate inactive youth. By a preliminary assessment around 6000 young people is expected to be activated. By the end of April 2015 35 mediators with tertiary education will be trained to acquire specialized knowledge and skills on "Social work associate" profession. Training is tailored to their future activity. Then they will gradually train other mediators. Gradually the rest of the appointed mediators will be trained.
  - Implementation of a scheme under HRD OP for activation and integration into employment of young people aged up to 29, including young people who are not registered with the LODs and are neither in employment nor in education or training.
- A package of interventions targeted to increase the employment among the vulnerable groups on the labour market including unemployed youth, low skilled and elderly workers, people with disabilities, long-term unemployed and Roma.
  - Employment promotion on regional level among the vulnerable groups through elaboration and implementation of Regional programs for training and employment;
  - Provision of service package for labour market integration consisting of career guidance, motivational training, training for acquisition of key competences and vocational training, as well as inclusion in employment under projects implemented by the social partners;

- Implementation of new programs funded by the state budget aimed at providing training and employment for long-term unemployed, unemployed youth and elderly people;
- Implementation of schemes funded by HRD OP 2014-2020 aimed at providing opportunities for creating sustainable employment for low skilled unemployed, long-term unemployed and inactive persons including people with disabilities, unemployed aged over 54 and young people aged up to 29, through combination of measures for provision of adequate trainings including on-the-job training and various incentives for employers to create new jobs.
- Finalization of the National System for research and forecasting the needs for labour force with certain characteristics.
  - Conduction of Annual National Research among the employers by the Employment Agency to identify their needs for labour force with certain characteristics starting in 2015;
  - Presentation of a report with forecasts on the labour market development in Bulgaria and discussion on the report results with the stakeholders.
- Updating the methodology for monitoring of active programs and measures on the labour market in order to improve the targeting of employment policies in terms of target groups on the labour market.

By the end of 2015 activities will be planned to increase the level of participation in active labour market policy. Increasing the budget for ALMP (national and European funding) in order to achieve transition from unemployment to employment through better "reach" of disadvantaged groups will be considered. The following measures are to be implemented:

- In 2015 within the working group for preparation of the National Employment Action Plan for 2016 the optimization of public expenditure for active labour market policies will be discussed, taking into account the support from the European Social Fund.
- Increasing the ESF funds for active labour market policy for the period 2015-2017.
- Improving coordination between the various sources of funding of the active labour market policy. Options for better targeting of funding from both sources – national budget and European funding, will be discussed.

‣ **Improving the efficiency of the Employment Agency**

To strengthen the capacity of the Employment Agency (EA), in 2014 measures were taken to enhance the system for monitoring of activities, to improve mediation services by conducting labour exchanges, setting up information terminals for provision of e-services, conducting training events, consulting, etc.

The following **electronic services** were introduced:

- opportunity for employers to submit vacancy applications by electronic means,
- jobseekers can receive information about vacancies by SMS and e-mail,
- improved interface of the web site of the EA in order to facilitate its use by unemployed people with disabilities.

In order to facilitate the access to mediation services of unemployed individuals from remote locations, 54 remote workplaces were opened in 2014, and thus their total number reached 548. They operate under 80 labour offices on the territory of 154 municipalities.

**128 employment exchanges** were held, of which 48 were specialised, targeted at vulnerable groups – young people, Roma community, long-term unemployed and people aged over 50. As a result, 12,034 individuals started work, including 8,323 individuals (69%) registered at the LOD and 3,711 individuals (31%) without registration.

For the period January-September 2014, a total of 21,945 Roma were included in training and employment programs, and employment was provided for 9,842 of them (5,037 were provided with jobs on the primary market, and 4,805 were included in different employment programs and measures). In 2015 the remuneration of Roma mediators will be increased. They will be included in “National Programme for Training and Employment of Long-term Unemployed”, the regional programmes, “Improving the Quality of Services Provided by the Employment Agency to Citizens and Businesses with a Focus on Vulnerable Groups in the Labour Market” scheme under HRD OP, “Support for Employment” and other initiatives.

To promote motivation for work by identifying deficits of unemployed people and for acquisition of knowledge and skills for job search and presentation before employers, a total of 4,632 **Job Search Ateliers** were conducted during the year and 26,747 unemployed, most of whom from the employment policy target groups, took part in them. **Case managers** assisted the employment and social integration of 5,059 unemployed from the most vulnerable groups on the labour market (of whom 2,390 were long-term unemployed, and they accounted for 47% of the users of this service) by providing personal consultations and contacting social, health, educational and other institutions to overcome obstacles of different nature to starting work.

As a result of the active work of labour mediators, Roma mediators, case managers, psychologists and employment consultants providing services at the labour offices, remote workplaces, and job search ateliers or on the spot, in 2014 **161 thousand unemployed started work on the primary labour market** (this was by 22 thousand or 15.8% more than the previous year). About 120 thousands of them were from vulnerable groups.

In 2014, 3,020 **training events for EA staff** were held to improve the provision of services to clients (employers and jobseekers) in the employment system.

At the beginning of 2015 **additional measures** were undertaken for strengthening the capacity of the EA for the purpose of increasing the quality of services provided. As a result, the following was achieved:

- The process of opening **27 new remote workplaces** started.
- **107 employment exchanges** are being organised and held.
- The commissioning of **108 public information terminals** in each employment office has started.
- The number of **case managers will be increased by 21**, and the objective is a case manager to be employed in each labour office in each regional city.
- Five **career centres** are being developed (the total number is 10), and 30 consultants are expected to be trained to provide services in the area of career guidance.
- A **comprehensive mechanism for follow-up of the results** from the work of the Employment Agency at national, regional and local level will be introduced.
- An **action plan (road map)** for improving the quality of work within the EA system was developed, and the recommendations made by the experts in the public employment services and the EC were taken into account.

Criteria for selection of operations "Improving the quality and efficiency of public services for vulnerable groups on the labour market and employers" are developed and discussed. The scheme will be implemented with funding from the HRD OP 2014-2020. The operation aims to modernize the activity of the Employment Agency and the provision of better services for employers and job seekers. It will increase the capacity and effectiveness of the Agency and its structures regarding the implementation of active labor market policies by supporting the development of new or the improvement of existing services for job seekers and employers. The new services are intended to improve the performance of the Agency regarding activation and involvement in sustainable employment, with the main focus on inactive and vulnerable groups on the labor market, especially unemployed Roma, youth, low-skilled, long-term unemployed and elderly people. In addition, the operation will extend the range and effectiveness in finding workers with an appropriate profile corresponding to the requirements of the employers and vacancies and will improve the existing imbalances between supply and demand. The work of the social partners to analyze and forecast on sectoral and regional level will also contribute to overcome the identified disparities. The operation also aims to improve the system of monitoring of the implementation of active labor market policy, to upgrade the systems for control, and to develop and implement a model for measuring the effectiveness of the resources spent on the provision of services to vulnerable groups.

By the end of the second quarter of 2015 a plan for reform of the public employment services will be implemented in order to create additional capacity for implementation of activation policies. It will improve planning in the creation of new types of services, with a view to further improving the effectiveness of active labor market policies. The following measures are envisaged:

- Improving quality and efficiency of EA services through optimization of work organization and good setting of tools to improve the processes of segmentation, phasing, preparation of individual action plan etc., and through better targeting of programs

and measures for vulnerable groups on the labor market in order to achieve lasting results.

- Provision of quality services for the most vulnerable groups – inactive persons, Roma, low-skilled, long-term unemployed and elderly workers.
  - To work with inactive and unemployed, additional number of unemployed persons will be trained and employed as Roma mediators, psychologists and case managers in the LOD. The expected results of the activities of Roma mediators are activation of about 10 000 people. In 2015, 57 mediators, 34 psychologists and 30 case managers are expected to work. Depending on individual needs and problems identified, psychologists provide the unemployed with one or more psychological services: individual psychological counseling; group psychological counseling and conducting joint consultations with specialists from the consulting team/teams for unemployed from risk groups on the labor market and others.
  - consultation of unemployed by case managers who provide specialized services consisting of analyzing persons' needs and potential and the environmental conditions in which they are situated, identification of the main obstacles to employment and social integration, determination of an appropriate range of services for overcoming the identified obstacles, of institutions which provide the services, and of the conditions for access to these services and actions that must be undertaken by the persons in order to benefit from them. The case managers act as mediators between individuals and institutions which provide the appropriate social, health, educational and other services complementing effectively the mediation services provided by the Labour Offices.
  - The Employment Agency together with other institutions and stakeholders will participate in the implementation of the "Support a dream" Initiative of the President of the Republic of Bulgaria. The initiative aims at supporting the employment of young people deprived of parental care in order to prevent them from becoming NEETs.
  - Providing comprehensive services to the most vulnerable groups through the establishment of "Centers of employment and social assistance". A procedure for approval of selection criteria for HRD OP scheme has been started. Development of guidelines and a project that will apply for funding are envisaged. A contract for the provision of grant is expected to be signed within the second half of the year in accordance with the deadlines established. In line with the launching of the project activities, the corresponding results for the pursuance of the set project indicators will be achieved.

- Increasing the capacity of EA by:
  - Providing the necessary staff for quality performance of services;
  - Recurrent training and introduction of flexible working time for employees to provide mediation services and to manage programs and projects.

## 2.5 Regulatory framework for streamlining insolvency procedures and corporate deleveraging

For improvement of the existing regulatory framework for insolvency procedures, by the end of the third quarter of 2015 the working group set up by the Minister of Finance will adopt draft proposals for amendments to the Commercial Law. Once ready, the draft Act will be submitted for approval to the CoM according the standard procedure laid down in the Rules of the organisation of the Council of ministers and his administration. The proposed amendments are aimed at:

- Introduction of preventive procedures that will allow a debtor to continue his activity, while at the same time negotiates with his creditors with a view to avoiding the start of insolvency proceeding and declaration of insolvency.
- Introduction of expedited restructuring proceedings through a fast-track court approval procedure of pre-agreed agreements within the preventive procedure, which will be prepared. Options for further development of commercial departments within the existing courts will be discussed with the Supreme Judicial Council on.
- Introduction of a sound framework providing accurate directions for out-of-court debt restructuring, which will provide opportunities to use mediators in out-of-court restructurings and will guarantee a better balance between the need of simplification and decrease of the expenditures for the procedures and the need to ensure the legal protection of the rights of creditors and other relevant stakeholders.

### **Information for the number of the commercial cases and the average length of insolvency cases for 2014, broken down by courts**

In 2014, 15 commercial divisions function in total of 28 district courts on the territory of the country. 13 district courts do not have commercial divisions.

The total number of judges hearing commercial cases in 2014 is 205. Although commercial departments are not present in 13 district courts, judges hearing commercial cases are engaged in all 28 district courts.

The total number of the commercial cases heard in 2014 is 31 075. The largest number of cases is in the Sofia City Court – 19 211., followed by Varna, Plovdiv, Stara Zagora and Burgas with more than 1000 cases.

The average length of the insolvency cases that ended in 2014 is a little more than 5 months calculated from the initiation of the case until the rendering of the judgments under art.630,



respectively art.631 or art.632 of the Commercial Law. The longest period for hearing of cases is reported in Razgrad – 17 months and the shortest in Kardzhali – 1 month.

In addition, by the end of the third quarter of 2015 the government will adopt a road map for implementation of the Strategy for the Introduction of e-Governance and e-Justice in the Justice Sector (2014 – 2020). It will ensure the required interconnectivity between the courts with respect to the insolvency register and respectively the registration of insolvency. The implementation of the road map will start in the beginning of 2016.

In the beginning of 2015 a group of members of the Parliament submitted to the National Assembly a draft Law on the Personal Insolvency. The draft Law proposes the introduction of a legal framework for declaring bankruptcy of natural persons in order to find a solution for the problem of the large share of non-performing consumer and mortgage loans in relation to the consumer protection. In accordance with the Rules on the Organisation and Activity of the NA, the CoM and the respective responsible ministers will have the opportunity to state their positions on the draft Law, following the European good practices for decreasing of the high amount of liabilities.

The government will consider measures for improving the quality of the data from the Commercial Register by the end of 2015. A functioning system for exchange of data among the Bankruptcy Proceeding Information System (BPIS), the four court case management systems and the Commercial Register (CR) has been built under a project under OPAC “Improvement of the service to the citizens and the business through development of the information system of the Registry Agency Commercial Register.” There is still no sufficient data and sufficiently reliable information for insolvency that could allow a proper evaluation of the effectiveness of the legislative and application measures taken. In relation to the prepared draft of a new Law on Public Procurement, the possibility of binding the participation in public procurement procedures with the publication of the financial statements by the companies will be discussed. In addition, by the end of the third quarter of 2015, a working group will draft a proposal for amendment to the Law on Accounting, which will provide for higher fines for companies that do not comply with the obligation for timely publication of their financial statements.

A new draft Law on the Independent Financial Audit is also being prepared, transposing Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts. It aims to improve the control over statutory audit of corporate financial statements, to intensify the supervision of auditor’s companies and to guarantee shared liability in cases of frauds and incorrect reporting. It is intended to be submitted to NA by the end of 2015. ■



## 3 Implementation of country-specific recommendations

### 3.1 Country-specific recommendation 1

#### 3.1.1 Taxation system effectiveness and strategy for ensuring taxation legislation compliance

##### ▶ Introduction of an overall taxation strategy

Responding to the recommendation, the elaboration of three separate strategic documents was included in the set of measures, as updated in September 2014. In 2015, a decision was taken to combine these in a National Strategy for the Enhancement of Tax Collection, Countering Shadow Economy and Reducing Compliance Costs. Its planned adoption date is during 2015.

This Strategy will involve measures, falling under the competences of a wide range of bodies, including the Ministry of Finance, NRA, CA, MI, SANS, MJ, MLSP, NSSI, MH, SFA, etc. It will outline a clear vision and planned action to encompass specific coordinated measures and activities by participating bodies on the basis of an overall integrated model of work. The document will include legislative and administrative measures, as well as mechanisms for assessing the implementation thereof. The Strategy will be implemented via:

- Enhancing inter-institutional cooperation, coordination and electronic exchange of information to result in establishing national-level teamwork practices;
- Effective use of existing institutional IT and resources, the development and enhancing thereof, but also coordinated use of information to enhance budget revenue collection, achieve preventive effect, combat tax and social insurance fraud and tax avoidance and reduce the administrative burden on businesses and individuals.

The set of measures, updated in September 2014, brings about a stronger emphasis on increasing tax, duty and social insurance revenue, but also focuses on the introduction of an inter-institutional approach and cooperation to prevent and combat customs, tax and social insurance fraud. The measures include preliminary analysis of the most significant risks, associated with tax collection, assessment of the undertaken measures, including those relating to simplification and improved controls.

##### ▶ Improving tax collection rates and tackling shadow economy

The reverse-VAT-charging mechanism will continue to be implemented, as it contributes to a BGN 100 million repeated annual increase of VAT revenue within the grain and technical crop industries.

Another measure, the implementation of which extends into 2015, relates to the fiscal control of goods, representing a high fiscal risk. 19 fiscal control checkpoints were established at Bor-

der-Crossing Checkpoints. Mobile teams and an operational centre have also been put in place and are operational. The tax base, declared in 2014 with reference to the intra-community acquisitions of goods, marked an increase of 20%, or BGN 373 million, over 2013.

To improve and speed up the collection of state receivables, monthly analyses of collection rates and overdue tax and social insurance state receivables are conducted alongside with continuous monitoring of overdue high-fiscal-effect receivables and quarterly reporting of measures undertaken and achieved results. An electronic service was developed to enable the receipt of information on overdue payments to other claimant bodies and its automatic uploading into the NRA information system. The first successful transfer of data on outstanding state receivables from the Ministry of Interior took place in November 2014. Over the current year, the development of special software to include all state receivables collection activities continues.

To reduce excise goods fraud, including instances of duty suspension arrangements, the NRA launched 168 compliance audits and 410 compliance checks in 2014. As a result, the incurring of BGN 100 million damages to the budget was prevented.

As a result of an NRA conducted risk analysis, parties, operating with fuels, were selected to be checked. After an initial preparation stage, the joint NRA and CA checks commenced in September 2014 in facilities and locations for the storage of liquid fuels. Weekly checks of retail liquid-fuel sale facilities (gas-stations) have been conducted as of October 2014.

#### ▶ **Reducing tax compliance costs and ensuring tax legislation enforcement**

A Concept for Reducing Administrative Costs to Ensure Compliance with Tax Legislation (2015-2017) is planned to be elaborated and adopted before the end 2015.

As far as the management of the risk of non-compliance with tax and social insurance legislation is concerned, a Programme for compliance and reducing risk levels for 2015 was elaborated and adopted earlier during the current year to list the measures to be undertaken for remedying tax and social insurance non-compliance risks.

The remedial effect achieved over the last 7 years amounts to BGN 450 million (viz. this is the amount of the damages that would have been incurred over the period, had the risks not been remedied). A total of 39 risks were analyzed and remedied. In 2014 16 risks were remedied and a total revenue of BGN 76 million was detected as a result of just over 1 500 audits. 20 risks will be remedied in 2015.

The introduction of new and enhanced NRA electronic services continues. In 2014, the share of electronic services for VAT documents was 99.9%, for LCIT declarations – 56.77% and for LPIT declarations – 13.58%. In 2015, new NRA services will be made available to PIC and QES holders. Taking advantages of electronic NRA services spares businesses and individuals a total of BGN 300 million.

By the end of March 2015, the total number of individuals who have been issued PICs exceeds 250 000. Over 35 000 individuals have benefitted from the opportunity to submit an Annual Tax Return under LPIT art. 50 by a PIC from mid-January until the end of March. Through the

PIC accessible services, each individual can keep timely track of the status of his/her tax-social insurance account, including outstanding amounts and payments, labour-contract data, social-insurance income and additional compulsory retirement plans. PICs can also be used to request the issuance of a certificate or another tax-social insurance document by the NRA.

The declaration process continues to be simplified via analyses of existing declarations and consultations with stakeholders. As a result, Annual Tax Return templates for LPIT article 50, LCIT article 92, LLTF article 49, paragraph 3 and LLTF article 54, paragraph 4 have already been simplified.

## 3.2 Country-specific recommendation 2

### 3.2.1 Pension reform

#### ▸ Long-term strategy for a pension system

At the end of March 2015 concluded the work of the working group set up in the Ministry of Labour and Social Policy for the improvement of the pension model and development of pension system. The necessary review of the social and health insurance legislation was made. Proposals for changes are made aiming at finding balanced and lasting solutions on a wide range of issues related to the conditions for retirement of those working under the conditions of the three labour categories, introduction of a retirement age for all persons, etc.

The prepared draft Law Amending and Supplementing the Social Insurance Code is published on the website of the Ministry of Labour and Social Policy and on the Public Consultation Portal of the Council of Ministers for public discussion by the end of April 2015. The coordination of the draft Law with the social partners and line ministries is forthcoming in May. It will be followed by approval by the Council of Ministers and by discussion and adoption by the National Assembly by the end of July 2015.

The draft LAS on the Social Security Code proposes:

- introduction of a mechanism for an increase and equalization of the statutory retirement age of those working under the conditions of the three labour categories;
- limitation of early retirement by the introduction of retirement age for persons under art.69 of the Social Insurance Code (those working in the “Defence and Security” sector) and changes in the provisions regulating the conditions for retirement of those working under the conditions of the first and second labour category (§4 of the Transitional and Final Provisions of the Social Insurance Code and art.168 of the Social Insurance Code).

It is intended that after equalization of the statutory retirement age for men and women to 65 in 2037, as provided for in the prepared draft LAS on the Social Insurance Code, a mechanism will be launched for linking the statutory retirement age to life expectancy in the long term.

### ‣ **Tighter eligibility criteria for the allocation of invalidity pensions**

In order to decrease the abuses in cases of allocation of invalidity pensions two changes are made in the Social Insurance Code, which entered into force on 1 January 2015.

The first amendment eliminates the possibility to allocate an invalidity pensions because of general disease to a person who has not worked and has not been insured respectively, but by virtue of the legislation in force a certain period of time has been recognized to him/her as a contributory period (e.g. the period of statutory military or peace-time alternative service or the time when a non-working mother took care of child aged up to 3.). From 1 January 2015 it is necessary that one third of the required contributory period for granting invalidity pension because of general disease had to be actual. Persons disabled by birth or who have acquired disability before they start working become entitled to an invalidity pension due to general disease in case of 1 year actual contributory period.

The second amendment to the Social Insurance Code eliminates the possibility to allocate a social invalidity pension as a second pension, as of 1 January 2015. This will result into a reduction of the budget expenditure for newly allocated pensions respectively by around BGN 7.3 million for 2015, by BGN 20.7 million for 2016 and by BGN 34.2 million for 2017.

For strengthening the sustainability of the public finance the efforts will also be focused on the improvement of the medical expertise by amendments to the Law on Health and the statutory instruments regulating medical expertise. The forthcoming amendments in 2015 to the Law on Health provide change in the model and philosophy of the medical expertise in accordance with the European models. A working group is set up (with representatives of the Ministry of Health, the National Social Insurance Institute, the Ministry of Labour and Social Policy, the Expert National Medical Commission, the Expert Territorial Medical Commission and the National Health insurance Fund), the aim of which is to review the best European practices and to propose a model for medical expertise that is conformed to the Bulgarian conditions, the accent being on the optimization of the medical and social expertise.

Considering the difficulties encountered in the application of the certification procedures and in the process of allocation of invalidity pensions it is intended the Centre for Prevention and Countering Corruption to prepare a complete analysis of possible corruption practices and to propose measures for prevention in this field.

## **3.2.2 Healthcare reform**

### ‣ **Development of outpatient care**

The measures for development of opportunities for outpatient care provide for definition of additional medical activities of the hospital care, which will be performed in outpatient care and revision of the medical standards for hospital and outpatient care. They are at the stage of revision of the required statutory instruments, as they are scheduled to be implemented in 2016. Their implementation may contribute in the short-term to the taking of activities out of the expensive hospital care to the outpatient care. In the long term, in addition to direct effects from the restructuring of the system costs, the measures may also have positive side effects, e.g. on the employment related to the provision of long-term care. The prepared draft

Law Amending and Supplementing the Law on Health Insurance provides for restructuring of the base package of health activities paid by the National Health Insurance Fund, through the introduction of a base and additional package of health activities on the basis of the prioritization and orientation thereof, for resolution of the main health problems of the population.

▶ **Improvement in the pricing of healthcare services**

Two of the measures for improvement of the pricing of services in the area of healthcare are set in the Law Amending and Supplementing the Law on Health Insurance adopted by the Council of Ministers in January 2015. They provide for a replacement of the passive reimbursement model by a model of financing in accordance with a strategic planning methodology, as well as through the creation of a mechanism for performance of joint checks of the compliance with the rules of good medical practice and with the approved medical standards. As regards the first measure, it is intended to reinstate the contractual principle upon the determination of the methods for determination of the value and payment for the medical activities, the volumes and prices of the medical activities, the terms and procedure for control over the performance of the contracts between the National Health Insurance Fund and the healthcare providers, as well as with respect to the sanctions in case of failure to perform the contracts. The second measure is intended towards strengthening of the control over the hospital aid. The Law Amending and Supplementing the Law on Health Insurance submitted for discussion to the National Assembly sets forth the creation of arbitration commissions and the development of rules for joint inspections.

In view of the strengthening of the control over the medical practice it is intended to create an information database for the type and number of contracts of each physician with the National Health Insurance Fund. In the end of January 2015 the Council of Ministers adopted the Law Amending and Supplementing the Law on Health Insurance, pursuant to which the National Health Insurance Fund undertakes to make a survey of the patient satisfaction with the healthcare services paid by it. It is provided for that a contract with a healthcare provider will be terminated, if systematic dissatisfaction of the customers is established, as well as in case the healthcare provider systematically violates the medical aid quality requirements provided for in the national framework contracts.

▶ **Cost effective provision of healthcare**

On 18 February 2015 the Council of Ministers adopted the “Health Goals 2020” Concept. The Concept formulates the national goals of Bulgaria in the field of public health protection and determines the long-term priorities of the country in the field of healthcare. What is fundamental for the implementation of the concept is the effective spending of the health funds. This requires regrouping of the financial resources through the introduction of a base package of healthcare activities paid by the National Health Insurance Fund, which is directed towards prevention, diagnostics and treatment of the main diseases and conditions causing death and loss of capacity to work, children’s and mothers’ health. Furthermore, the Concept provides for the development of an emergency package of healthcare activities paid by the Ministry of Health, which guarantees everyone a timely and equal access to medical aid in case of urgent conditions and an additional package of healthcare activities paid by the National Health Insurance Fund, which will allow planning through a waiting list.

A key measure for accomplishment of the health goals laid down in the Concept is the integration and connection through the building of a nationwide healthcare-information system and provision of access to the citizens to the system through an electronic identifier. The uniform healthcare information system is the basis underlying the development of the electronic healthcare with its main constituent parts – electronic health file, electronic prescription, electronic portal, etc.

In the end of November 2014 the Council of Ministers adopted a Concept for Development of the Emergency Medical Care in the Republic of Bulgaria (2014–2020). In March 2015 the Methodology for Subsidizing Medical Establishments was approved, which includes also the financing of the activity of the emergency departments in hospitals. A new ordinance on the emergency medical aid will also be developed and approved in 2015, as well as the update of the Rules on the Structure and Activity of Emergency Medical Aid Centres (EMAC) and the medical standards regulating the emergency medical care. An evaluation will also be prepared of the needs of equipment and repairs of sites that will be financed under Operational Programme Regional Development 2014–2020.

The changes regarding the pursued drug policy are set out in the Law Amending and Supplementing the Law on Health Insurance adopted by the Council of Ministers in January 2015. The proposed amendments introduce a centralized negotiation of different type of discounts by the National Health Insurance Fund for the different types of medicinal products and a mechanism for evaluation of the health technologies in the application of the medicinal products.

In 2015 the Council of Ministers approved a Concept for a Central Authority for Awarding of Public Procurement Contracts in the Healthcare Sector, developed by the Ministry of Health jointly with the Centre for Prevention and Countering Corruption and Organized Crime (CPC-COC). It is provided for that the Central Authority for Awarding of Public Procurement Contracts in the Healthcare Sector will initially start its work by the conduction of public procurement procedures for the purpose of conclusion of framework agreements for supply of medicinal products only on behalf and account of the medical establishments<sup>4</sup> for hospital aid. At the second stage, it is intended to expand the scope of the subjects using the services of the Central Authority for Awarding of Public Procurement Contracts in the Healthcare Sector, as the system will also include the other medical establishments having the capacity of a contracting authority within the meaning of the Public Procurement Act. At the third stage, the scope of the services covered by the electronic catalogue will also be expanded.

The creation of the electronic platform will enable a faster and higher quality response to the needs of the contracting authorities, stronger competition and achievement of more advantageous conditions for the contracting authorities in the sector. The extended use of electronic methods and means and the integration of the platform with the existing electronic registers will significantly contribute also to the effective countering and prevention of corruption in the sector.

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<sup>4</sup> Specified in art.9 of the Law on Medical-Treatment Facilities.



The amendment and supplementation adopted by the Council of Ministers in September 2014 to the Concept for Restructuring of the Hospital Care for the period 2015 – 2020 intends interventions directed towards optimization of the hospital care and decrease of the number of hospital beds, the focus being on the improvement of diagnostics, quality and access to treatment of the diseases that are the main reasons for mortality and permanent incapacity to work, incl. emergency diagnostics and treatment out of the hospital and under hospital conditions.

By the end of 2015 an update of the national health map will be approved, which is a main tool for regulating the spending of the public resource depending on the needs of the population of medical services. The measure is directed towards optimization of the hospital network and the resolution of the problem related to the provision of equal access to healthcare service. BGN 6 million has been ensured for 2015 for support of the activity of municipal hospitals in remote and rugged areas and improvement of the access of the population to medical aid, including for a continued treatment, through the Methodology for Subsidizing Medical-Treatment Facilities of the Ministry of Health.

### 3.3 Country specific recommendation 3

#### 3.3.1 Better functioning of the labour market

A National System for Research and Forecasting the Needs of labour force with Particular Characteristics will become operational in 2015.

In 2014, an **assessment of the net effect** of the implemented employment programmes and measures, financed by the state budget, was carried out. As a result of this assessment, the financial resources for the implementation of the National Programme “From Social Assistance to Employment” were reduced.

To expand the scope and to increase the **efficiency of the employment policy**, and to encourage private-sector employers to co-finance their participation in employment promotion measures, as from the beginning of 2015 the government subsidy amounts to BGN 300 instead of the full amount of the minimum salary, and for individuals with higher education the subsidy is BGN 380.

In 2015 the implementation of the National Programme “Assistance for Retirement” and measures under Article 55a of the Law on Employment Promotion (LEP), aimed at **older unemployed persons**, as well and the three national programmes launched in 2014 for: the protecting the public order, for training and employment of refugees and for job creation in the reviving of forest areas, aimed at integrating disadvantaged unemployed people in the labour market, will continue. In 2014, 5,400 individuals were included in new employment under the programmes.

At the beginning of 2015 a new Programme for Training and Employment of Long-term Unemployed was launched. Since the beginning of 2015 under the measure for encouraging of employers to hire long-term unemployed (Article 55c of the LEP), **a part of the salary is subsidised** (in the amount of BGN 300) in addition to the social security contributions.

**National Programme “Clio”** is being implemented since the beginning of 2015. New jobs will be created in activities related to conservation and maintaining of cultural heritage. The programme is targeted at unemployed young people aged up to 29, **long-term unemployed individuals and unemployed individuals aged over 50**. Within the programme, training will be provided to about 100 unemployed and over 200 unemployed will be involved in employment.

To better target the policy to the most vulnerable groups, such as the low-skilled and elderly workers, the long-term unemployed and the Roma, the **regional approach** in the employment policy is developed with the active support of the social partners. In 2015, about 2,800 unemployed from the groups specified above will be included training and employment under 285 regional programmes. About 7,345 unemployed will be provided with a package of activation services, vocational training and job placements under projects of the social partners. Within Operational Programme “Human Resources Development” 2014–2020, a “Youth Employment” scheme will be implemented, under which at least **8,000 young people will be included in apprenticeship and internships**. Eligibility criteria for “Active” operation have been developed and discussed aimed at activating young people, who are not in education nor registered in labour offices; “Education and Employment for Young People” operation is aimed at integrating unemployed young people aged up to 29, including registered with the labour offices in employment with an employer through provision of training and subsidies for continuous employment. „New job” operation – 2015, aims to provide conditions for creation of sustainable jobs for the unemployed and inactive persons; „Training and Employment” operation is aimed at integration of young people aged up to 29 in the labour market.

The implemented active labour market policy is aimed with priority at supporting the socio-economic integration of disadvantaged groups in the labour market, among which is the **unemployed Roma**. Over 28 thousand Roma were covered by training and employment programmes in 2014. 13,862 individuals were included in individual and group forms of career guidance and motivation for active behaviour on the labour market. 1,075 individuals were included in training for acquisition of vocational qualification, key competencies and literacy. Employment was provided for 13,108 persons through their involvement in various programmes, projects, employment promotion measures and on the primary labour market. In 2015 unemployed Roma will be included in various programs and measures such as “National Programme for Training and Employment of Long-term Unemployed”, regional programmes for training and employment, “Improving the Quality of Services Provided by the Employment Agency to Citizens and Businesses with a Focus on Vulnerable Groups in the Labour Market” scheme under OPHRD, “Support for Employment” and other initiatives. The salaries of Roma mediators are envisaged to be increased in 2015.

Under OPHRD practical training will be conducted for 13,033 pupils under the “Practical Training for Pupils” project. Vocational education will contribute to reduce the youth unemployment and to introduce innovations in education system.

The project “New Opportunity for My Future” is also implemented. It aims at establishing a system for identifying and recognition of knowledge, skills and competencies acquired informally and independently (see NT 4).

### ▶ Access to the labour market (MSSIL)

Minimum Social Security thresholds (MSST) by main economic activities and groups of professions increased by 4.4 percent on average in 2015 compared to 2014. This resulted in higher revenues from social security contributions for the NSSI by about BGN 35.4 million. For year 2015 minimum thresholds for social security contributions have been negotiated for 42 economic activities. For the remaining economic activities, the average percentage increase in the minimum thresholds for social security contributions for the economic activities, for which agreement has been reached, is used. The lowest minimum social security thresholds is BGN 360, which is equal to the minimum salary at the beginning of 2015.

In 2014 a report<sup>5</sup> was prepared on the impact of MSST on employment. The results presented in this report show that exactly the MSST is the instrument protecting the rights of individuals providing low-skilled labour. According to the employers, this is especially true for low-skilled workers, who are very poorly informed, and in many cases illiterate, and therefore unable to defend their rights alone. At national level only 13.5% of the employers and 9.0% of the workers perceived MSST as a factor negatively influencing on declared employment and on the labour market. At the same time, 45.8% of the employers and 42.3% of the workers are not of the opinion that MSST has a negative impact on employment and the labour market.

In 2015, as part of the government programme, an analysis is envisaged of the need to improve the mechanism for determining MSSIL. Steps for reviewing and improving the Mechanism for bilateral negotiations (without the participation of the State) of the MSST, is envisaged to be carry out. In addition rules for administrative increase of MSST by economic activities for which no agreement has been reached between employers, will be developed in the consultation with the social partners.

### ▶ Development of guidelines for changing the minimum salary

The updated medium-term budgetary forecast for the period 2015–2017 envisages that the minimum salary will be increased twice in 2015, as of 1 January to BGN 360 and as of 1 July to BGN 380. In the draft medium-term budgetary forecast for the period 2016–2018 the following subsequent increases are planned for 1 January 2016 – to BGN 420, and 1 January 2017 – BGN 460, for 2018 the size of the minimum salary will keep its level from 2017 – BGN 460 respectively.

In 2015, as part of the government programme, clear criteria for increases in the minimum salary are expected to be prepared in consultation with the social partners. An impact assessment of the level of minimum monthly salary, consisting of evaluation of costs and benefits, as well as recommendations for future actions, is envisaged to be prepared.

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<sup>5</sup> The document was prepared by DZZD “ESTAT and Partners” under public contract No. RD 04-12 of 27 January 2014 by and between the Ministry of Labour and Social Policy and DZZD “ESTAT and Partners” for awarding a public contract with the subject “Conducting a study on the impact of the minimum social security thresholds on employment”.

▶ **Accessibility and effectiveness of social services and transfers for children and older people**

Between January and November 2014, 56,067 individuals received support under the Law on Social Assistance and the Regulations on its Implementation. As at December, under programme “Providing Social Benefits Based on a Differentiated Approach”, a total of 70,556 individuals and families received monthly, special-purpose and lump-sum benefits. As at the end of 2014, 254,998 special-purpose benefits with a total value of BGN 36 million were allocated for the new heating season 2014/2015, which is by 1,000 more compared to the previous heating season 2013/2014.

A draft LAS of the Law on Family Allowances for Children was drafted to improve the statutory regulation in the field of support for children and families and to enhance the efficiency and effectiveness of family benefits. The amendments envisage the encouraging of responsible parenting, higher intensity of support for the children up to the third one, a greater social justice.

Another key instrument for providing assistance to vulnerable groups are the social services. Amendments will be made to the Law on Social Assistance to introduce more efficient services targeted at individual needs. Reducing the administrative and regulatory burden in the provision of social services by private providers is also envisaged. A special Law on Social Services will be developed to improve planning, management, financing, quality and effectiveness of social services.

As a result of the process of deinstitutionalisation of childcare, 33 new social services for children in the community were opened and 8 specialised institutions were closed in 2014. As at February 2015 the number of social services for children in the community reached 417, and the number of specialised institutions was 65<sup>6</sup>. Since the beginning of 2015, further 8 specialised institutions for children were closed. The total number of cases for prevention of abandonment as at February 2015 is 4,333, of which successfully ended from the beginning of the year till the end of February 2015 are 594 cases. The total number of cases for reintegration as of February 2015 is 2,018, of which successfully ended from the beginning of the year till the end of February 2015 are 175 cases. For the same period 97 children were adopted under the full adoption procedure. As at the end of February 2015, 6,716 children were placed in families of relatives or close friends, and 2,293 children were placed in foster families (130 children were placed in volunteer foster families and 2,163 children were placed in professional foster families), and the total number of approved foster families is 2,340 (88 voluntary and 2,252 professional foster families).

The development and implementation of integrated policies for early childhood development (for children aged from 0 to 7) has a crucial role in social inclusion of children and families at risk. In connection with the implementation of the Social Inclusion Project (SIP), in 2014 the number of children with access to integrated services for early childhood development has increased by nearly 8,000 to 9,000. The “Health Consultation for Children” service was

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<sup>6</sup> excluding 29 Homes for Medical and Social Care, managed by the Ministry of Health

launched in 36 municipalities, and 6,000 children have benefited from it. In 30 municipalities, 700 children benefited from the service “Additional Training for Equal Start at School”.

An important focus in the provision of quality and accessible social services is the continuing of the reform in the field of long-term care for the elderly and people with disabilities, in accordance with the National Strategy for Long-term Care adopted in 2014. An Action Plan for the implementation of the strategy will be developed. In 2015 a comprehensive analysis of the conditions of all specialised institutions for the elderly and people with disabilities will be carried out in order to assess the care and to plan the relevant measures for closing down the institutions. In 2014, 28 social services for elderly in the community were opened. As of February 2015, 451 social services for elderly and people with disabilities in the community with a capacity of 8,940 places were operational. Through “New Alternatives” operation under OPHRD 2014–2020 a new broad-spectrum approach for decentralised provision of the “personal assistant” service at municipal level is expected to be launched. The objective of the operation is to improve the access of people with disabilities and people aged over 65, who are not able to care for themselves, to social inclusion and healthcare services. Within the operation “Independent Living” activities aimed at improving the quality of life and access to services for social inclusion, will be implemented in response to the complex needs of people with disabilities and people over 65 who are not able to care for themselves.

An Action plan will be developed in 2015 in pursuance of the National Strategy for Reducing Poverty and Promoting Social Inclusion 2020.

The second phase of the Action Plan for the implementation of the National Roma Integration Strategy of the Republic of Bulgaria (NRISRB) and local action plans for the period 2015–2017 are expected to be developed in May 2015. By the end of 2015 the OPHRD 2014–2020 project “Development and Implementation of a System for Monitoring, Evaluation and Control of the National Roma Integration Strategy of the Republic of Bulgaria 2012–2020” is expected to be completed.

## **3.4 Country Specific Recommendation 4**

### **3.4.1 New Law on School Education**

The National Assembly adopted at first reading an updated draft of a new Law on School Education (LSE). A new understanding of educational standards with a focus on objectives and results was introduced. Inclusive education is regulated as an integral part of the right to education. A new educational structure in the school education system – general degree with two stages: primary (I – IV grade) and junior-high (V – VII grade), and secondary degree with two stages: first secondary school stage (VIII – X grade) and second secondary school stage (XI and XII grade) is introduced. In order to increase literacy and employability, the types of school education are redefined. Schools are given autonomy to develop curricula for expanded and additional training, thus achieving freedom of each school to determine the objectives and results (acquired competencies). The public relationships relating to the validation of competences (for those aged 16 who have not completed general or secondary education) obtained

in non-formal education and independent learning as part of a broadly understood educational process are regulated for the first time.

Streamlining of the assessment system is envisaged. It shall become an important tool both for the monitoring of the education process and for the development of policies for improving its quality. The requirement for implementing internal quality management systems at schools and kindergartens is regulated for the first time. External quality assessment of education will be carried out by the National Education Inspectorate. It will be based on objective criteria, grouped in areas, which will cover the overall management of the school, the work of educational specialists, the results and achievements of pupils and their progress, and the support received in the event of learning problems, the relationships with parents, representatives of local authorities and other stakeholders. Public reporting on the quality of education is envisaged.

The NA is expected to pass the LSE by September 2015. If this is achieved, the development of the required statutory instruments will be completed by mid-2016, so that the new educational requirements could be implemented as from school year 2016/2017.

### **3.4.2 Ensuring full correspondence between the results from vocational and higher education and the needs of the labour market, and promoting partnerships between educational institutions and the business community**

At the beginning of October 2014 the Council of Ministers approved an update of the Strategy for the Development of Higher Education in the Republic of Bulgaria for the period 2014–2020 and an Action Plan of the measures under the Strategy. The draft Strategy was tabled and approved by the Education and Science Committee on 4 December 2014 and by the Labour, Social and Demographic Policy Committee on 14 January 2015. The Strategy for the Development of Higher Education in the Republic of Bulgaria for the period 2014–2020 was approved by the National Assembly with a Decision on 26 February 2015.

An working group was set up with the task to prepare proposals for amendments and supplements to the Law on Higher Education and other changes relating to the problems of higher education in Bulgaria, in connection with the specific objectives of the Strategy for the Development of Higher Education in the Republic of Bulgaria for the period 2014–2020 and the Action Plan of the measures under the Strategy for the period 2014–2016.

For the establishment of a sustainable and effective link between higher education institutions and the labour market and for the achievement of a dynamic correlation between demand and supply of specialists with high education the following activities and measures presented in the Strategy for the Development of Higher Education, are envisaged:

- use of forecasts of demand and supply of labour, developed by the MLSP, in determining the demand for specialists with higher education and planning of admissions at universities;
- developing a profile of competencies for each speciality;

- encouraging the dialogue between higher education institutions and the business regarding the contents of education by continuing and expanding the measures;
- targeted financing of strategic professional fields and protected fields defined on the basis of defined criteria;
- establishing a programme for the integration of young academics and researchers (MSc, PhD students, post-graduate students);
- financial incentives for the development of scientific infrastructure for the most demanded speciality in partnership with the business;
- funding of internships and apprenticeships during the training through the web-system of the MES and other similar systems for communication between higher education institutions, students and employers, and creating additional incentives for employers;
- developing a working and efficient mechanism for assessing the professional realisation of graduates;
- establishing a common information network of career centres, alumni associations, and enhancing their capacity.

A draft LAS the Law on the Development of Academic Staff in the Republic of Bulgaria will be adopted by the CoM. The law shall provide conditions for objective, impartial and lawful application of uniform national criteria for acquiring scientific degrees and taking up academic positions in higher education institutions and research organisations.

The “System for Career Guidance in School Education” Project envisages the development of a National Career Guidance Portal, which will provide an information-retrieval system. In it, pupils will be able to find psychological tests for self-diagnosis of interests, information on institutions within the system of secondary and higher education. Career orientation centres and career consultants will be included in a national register.

Other measures in this field are related to: the annual update of the Bulgarian Universities Ranking System, adopting of new and updating of existing regulations on the state requirements for acquiring higher education in degree courses in regulated professions, and completion of projects for updating curricula in higher education.

At the end of June 2015 the measure relating to the provision of additional practical training to students studying in Bulgarian higher education institutions will be completed. At the end of March 2015, 71,000 students are expected to have completed practical training.

### **3.4.3 Strengthen the quality of vocational education and training institutions**

At the end of July 2014 the LAS the Law on Vocational Education and Training (LVET) was adopted. It regulates the introduction of the European Quality Assurance Reference Framework for Vocational Education and Training; a System for Validation of Professional Knowledge, Skills and Competencies; the European Credit System for Vocational Education and Training; learning through work (dual training), and a list of professions protected by the state.

Pursuant to the amendments in the LVET, the National Agency for Vocational Education and Training (NAVET) will adopt framework requirements and methodological guidelines for developing state educational requirements (SER) for the acquisition of qualifications by professions, using the “units of learning outcomes” approach.

At the end of 2014 the Council of Ministers adopted a Strategy for the Development of Vocational Education and Training in the Republic of Bulgaria for the period 2015–2020. Its implementation is expected to help achieve: a lasting positive effect ensuring quality and efficiency; flexible access; implementation of vocational education and training in the context of lifelong learning, and enhancing the participation and responsibilities of all stakeholders with the aim to provide staff with the qualifications necessary for the economy.

At the end of 2014 an Ordinance of the Minister of Education and Science on the Procedure and Conditions for Validating Professional Knowledge, Skills and Competencies was approved.

By July 2015 the CoM will approve a draft decree determining the criteria for inclusion of professions in the List of Professions Protected by the State at district level and the conditions and procedure for their additional financing. The objective is to provide optimal conditions for organising and conducting quality vocational education and training in professions proposed by district regional development boards and regional structures of employers’ organisations. This will respond to the demand for the qualified workers the local and regional business do not have. The adopting of ordinances ensuring the quality of VET and on the organisation of learning through work (dual training) is planned for the next year.

In June 2015 the implementation of a project of the European Lifelong Guidance Policy Network, aimed at ensuring quality of information and professional orientation services, is expected to be completed. A procedure for follow-up of the licensed Information and Professional Orientation Centres (IPOC) will be introduced.

In June 2015 the implementation of the “Development and Implementation of Management System of Vocational Education in Vocational Schools” project is expected to be completed. A system of indicators to measure the effectiveness of vocational education and an electronic platform for self-assessment, covering 132 vocational schools, were developed.

In August 2015 the “Upgrading the Information System of the NAVET and Ensuring Interoperability to Streamline the Processes of Providing Services to Citizens and Businesses” project, implemented by the NAVET, is expected to be completed. This will facilitate citizens in finding vocational training services and will guarantee the provision in a simple way of information about the people trained to the business and the public administration to allow more effective planning of qualification and employment measures.

A National Plan for implementing the National Strategy for the Development of Pedagogical Staff (2014–2020) was adopted at the end of October 2014. The activities included therein are related to the introduction of a uniform quality control system in the training and further qualification of pedagogical staff. A system to control the quality of work, the professional and career development, leading to differentiated remuneration of pedagogical staff, is envisaged. The teaching profession is included in the list of regulated professions in Bulgaria.



The implementation of the procedure “Improving the System for Inspection of Education” under OPHRD 2007–2013 envisages the development of a new model of inspections in school and pre-school education. An analysis of the need for better tools and procedures for inspection was completed, and in July 2015 a state educational standard for inspection shall be drafted.

#### **3.4.4 Improved access to quality inclusive pre-school and school education of disadvantaged children, in particular Roma**

In 2014/2015 school year, 13,616 children and pupils with special educational needs (SEN) studied in 2,133 kindergartens and schools, including 1,776 children and pupils with SEN under the “Inclusive Education” project under OPHRD. For comparison in 2013/2014 school year 13 241 children and pupils with SEN studied in 2 117 kindergartens and schools.

Under the project “Inclusive education” a model is developed for enhancing the capacity of general education schools and kindergartens to provide inclusive education – currently these are 101 schools and Kindergartens. A model for transforming special schools for children with sensory disabilities is approved in order to turn them into institutions supporting the process of inclusion in mainstream education. A new method of organisation and operation of boarding schools for children with disabilities is envisaged, through which the boarding schools will be closed and modern training and complex support will be provided to children with multiple disabilities.

The amendments to the Law on National Education (LNE) and the Regulations on its implementation in 2014 regulated the procedure and conditions for the combined form of education for pupils with SEN.

In 2015 a Strategy for Educational Integration of Children and Pupils from Ethnic Minorities (2015–2020) and a Plan for its implementation will be developed and adopted by the CoM.

A number of measures for improving the access to quality education were undertaken, such as:

- introduction of mandatory two-year pre-school education of children prior to their enrolment in the first grade, aimed at the successful inclusion of each child in the education system. This is particularly important for children whose mother tongue is not Bulgarian, and contributes to the development of skills required for admission in the first grade;
- providing textbooks for free use, which reduces the social burden for children from poor families and encourages school attendance;
- full-day organisation of the school day for pupils from first to fifth grade.

In order to guarantee the right of children to education and prevent the dropping out of school, special requirements were introduced for in the most common type of family benefits (monthly child benefits until completion of secondary education, but not after the age of 20). In the event of 5 unexcused absences of a pupil from school within a month, or in the event of a child being absent for over 3 days from a pre-school group for no good reason, the monthly

benefits are suspended for the corresponding month. During the period September 2014 – January 2015 the monthly benefits for children under Article 7 of the Law on Family Allowances for Children (LFAC) have been suspended (on average monthly basis) for 4,668 families, as 5,151 pupils from these families had 5 unexcused absences. During the same period, the sanctioned families of preschool children with more than three absences were 578 families for 596 children on average monthly basis. For the same period of the previous school year (September 2013 – January 2014) the monthly benefits for children under Article 7 of the Law on Family Allowances for Children (LFAC) have been suspended (on average monthly basis) for 4,515 families, as 4,932 pupils from these families had 5 unexcused absences. During the same period the sanctioned families of preschool children with more than three absences were 706 families for 729 children on average monthly basis. It shall be pointed out that the prepared amendments to the Law on Family Allowances for Children, envisage linking the family support even more closely with the guaranteed right of children to education.

The implementation of Project “Improving the Quality of Education in Secondary Schools by Introducing a Full-day Organisation of the Education Process”, aimed at supporting the process of effective introduction of the full-day organisation of the education process for pupils from I to VIII grade in secondary schools in the country. Under NP “At school without absences” measure “Without free school hour” funds are provided to support the budgets of schools by paying the remuneration of the substitute teacher or educator. A more complete and quality education, as well as greater range and security in the education and upbringing of children and students are obtained. An analysis and evaluation of the impact of the daily organization of the educational process on the quality of educational services is implemented. Free transport for children and students up to 16 years is provided for 61,539 students and 3318 children aged 5 and 6 years, through 3901 route worth BGN 29 million. For the academic 2014/2015 year, the list of the secondary schools in the country includes 794 schools in 647 towns in 238 municipalities and 28 regions. In the secondary schools students come from places where there are no schools – a total of 198,713 students, of which 44,501 students are traveling. Protected schools are defined – 37 located in 137 towns, 89 municipalities and 25 districts in the mountainous, hilly and border, inaccessible areas of the country. If schools are closed, it would have impeded the access to education for 11,023 students up to age of 16.

Funds under OPHRD (2007–2013) are used to finance activities targeted at the groups of children at risk: 152 contract with a total value of over BGN 22 million are implemented under project “Integration of Children and Pupils from Ethnic Minorities in the Education System”. The scheme supports activities to ensure adequate educational environment for the inclusion of children from ethnically segregated groups in kindergartens through phased admission in kindergartens outside the Roma neighbourhoods, in multi-ethnic groups. Children at an early age (3–6 years), including Roma, are prepared for future adequate inclusion in the education process. Additional activities are carried out in kindergartens with children whose mother tongue is not Bulgarian. Activities targeted at preserving and developing the cultural identity of children and pupils from ethnic minorities are carried out. Joint forums and activities of parents of Roma children and other parents are organised. Principals, teachers and other pedagogical specialists are qualified to work in a multicultural environment.

The objective of the “Children and Young People at Risk” programme financed under the EEA Financial Mechanism is to develop and implement a model for social inclusion and providing children and young people at risk in Bulgaria with different services, in partnership with the Council of Europe.

Under OPRG 2014–2020, BGN 346 million are allocated for improving the educational infrastructure – construction, reconstruction, repair, equipment and furniture for nurseries, kindergartens, primary and secondary schools within the Priority Axis "Sustainable and integrated urban development" and "Regional educational infrastructure”.

## **3.5 Country Specific Recommendation 5**

### **3.5.1 Cutting red tape**

The Third Action Plan for Reducing the Administrative Burden 2015–2017 is envisaged to be developed in 2015 in order to cut red tape and improve the business environment. It will reduce the administrative burden for businesses by further 20% (equal to a total saving of costs for the business of BGN 113 million per annum). The main activities will be orientated at: submission of documents electronically; official exchange of information among institutions; reducing the time-periods for provision of services; developing guidelines and standard forms of documents; simplification of procedures.

As a result of the implementation of the Second Action Plan for Reducing the Administrative Burden 2012–2014, the reported savings of costs for the business amounted to BGN 238.5 million per annum, or 15.7% of the planned 20% reduction. In 2014, under the adopted three packages with a total 138 measure for reducing the regulatory burden at national and municipal level, 7 regimes were removed or streamlined; the time-periods for 12 regimes, the fees under 7 regimes and the documents required under 18 regimes were reduced; procedures were simplified under 6 regimes.

In 2015 a LAS on the Law on Commerce will be adopted and the time-period for registration of new business will be reduced to 3 days and the costs will be EUR 100. Training undertakings are envisaged to be introduced as independent legal entities of equal standing, which can conduct business for the purposes of training in entrepreneurship.

The amendments to the Law on Statutory Instruments will be adopted in 2015, and a requirement for mandatory SME-test will be introduced at the same time. The introduction of impact assessments of legislation to ensure consistency and predictability, and the mandatory requirement for publication of all statutory instruments on the Public Consultations Portal is envisaged.

In 2016 a new Law on State Fees and the secondary legislation to it are envisaged to become effective. This law will approve a Methodology for Determining the Amount of Fees Based on a Cost Principle and a Single Tariff of Fees for Standard Administrative Services.

The adopting of the LAS the LPP in May 2014 made the access of SMEs and newly-established undertakings to participation in public procurement procedures easier. Legislative changes are

mainly related to easing the requirements to subcontractors who are mainly SMEs. The reliefs are in several directions: 1) Participation in procedures where after making changes the requirements to prove a specific financial resource can be placed only if they are necessary for the implementation of the contract is awarded. Subcontractors dropped requirements to prove capacity and experience to perform the contracts; 2) Increased openness and transparency in relation to what is provided for mandatory publication of tender documentation of the buyer profile and provide free access to it. Introduced an obligation for publication on the buyer profile (specialized Internet address of the contracting authority) of all documents related to the procurement and performance of contracts, incl. information about the underlying payments; 3) Execution of contracts in respect of which conditions are in place, facilitating payments to subcontractors.

### **3.5.2 Promoting e-government**

For the purposes of development of e-government, the implementation of projects financed with European funds, continues. The projects are aimed at the development of components for authentication and electronic authorisation components, the development of modules for official access and for the development and deployment of mobile version of the Single Portal for Access to Administrative E-services (SPA AES). By the end of the first half of 2015 the detailing and development stages will be completed, and the developed modules and the system are expected to be fully commissioned by the end of September. The result from the implementation of the measures will be the provision of mobile access to the SPA AES from different mobile devices, and developed components for authentication and identification for e-services used by citizens and businesses.

### **3.5.3 Strengthen the ex-ante control of public procurement and enhance the administrative capacity of the PPA**

In 2014 the CoM<sup>7</sup> adopted a National Strategy for the Development of the Public Procurement Sector for the period 2014–2020. It includes measures and activities in 5 impact areas (legislation, law enforcement, publicity and transparency, strengthening of administrative capacity and professionalism, and control systems), which aim at overcoming the deficiencies and weaknesses identified in procurement and increasing the lawful utilisation of public funds, including funds from EU Funds.

A draft of an entirely new Law on Public Procurement is being prepared. It will create statutory grounds for expanding the scope of ex-ante control exercised by the PPA and for strengthening its administrative capacity. The law is expected to be adopted by the NA by the end of 2015 and enter into force in the beginning of 2016, which will result in the enforcement of the new expanded scope of the ex-ante control exercised by the PPA.

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<sup>7</sup> Decision № 498 of 11 July 2014

### **3.5.4 Implementation of e-procurement**

CoM approved<sup>8</sup> the development of a national centralised single-platform model for e-procurement. The preparation of the technical specifications for acquisition of an electronic platform for e-procurement is expected to start by mid-2015. The staged introduction of e-procurement will start in 2016, and initially it will ensure mandatory electronic communication between contracting authorities and tenderers, including electronic submission of tenders. All stages of e-procurement will be fully introduced by 2020.

### **3.5.5 Enhance the quality and independence of the judiciary**

In January 2015 the NA adopted an Updated Strategy for Continuing the Reform in the Judiciary. It will serve as the basis for future legislative amendments, governance actions and analysis of the constitutional framework of the judiciary. The overall objective of the strategy within the next seven years is to build on the efforts for modernising the judiciary and to complete its reform by achieving effective guarantees of the independence of the courts and the judiciary, through effective measures against corruption, political and economic pressure.

Public discussion of the nominations for leading positions in the judicial bodies was introduced to increase public confidence and transparency. Information about the candidates for administrative managers, opinions about candidates by magistrates and non-profit legal entities, appraisal forms of candidates from the last regular performance assessment conducted, statements of moral qualities drawn by the Commission on Professional Ethics and Prevention of Corruption at the SJC, lists of admitted candidates, complaints and objections received from applicants are published on the web site of the Supreme Judicial Council (SJC).

In order to strengthen the transparency of the judiciary and the dialogue with citizens, the action plan to the Updated Strategy for Continuing the Reform in the Judiciary includes measures relating to the conducting of regular surveys of: the public opinion of the judiciary and the satisfaction of citizens who had to address its structures; the assessment of the business about the work of the judicial authorities as a component of the investment climate in Bulgaria. Models for dialogue between the judicial authorities and different communities, and mechanisms to promote alternative means of resolution of cases are envisaged to be introduced as a means to enhance trust and responsibility of citizens and develop legal culture. Online publication of the instruments issued by the judiciary authorities in a uniform format, allowing electronic data processing, is also envisaged. The plan also envisages preparation and publication of an Annual Report on the transparency of the judiciary.

A Mechanism for assessing the workload in the judicial system at the level of individuals and institutions, with an emphasis on developing qualitative indicators and criteria, will be adopted. At the beginning of December 2014 the SJC approved Rules for measuring the workload of prosecutors and of the personal workload of each prosecutor and investigator. The Rules are effective as of the beginning of 2015. In 2015 the judiciary map of the Republic of Bulgaria will be reviewed.

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<sup>8</sup> Decision № 108 of 19 February 2015

In July 2014 the CoM adopted a Strategy for the Introduction of E-governance in the Judiciary Sector and of E-Justice (2014–2020). Its main objective is to increase efficiency through the use of electronic documents not only by the judicial authorities, but also by all entities in the sector, and also in their interactions with other administrations, organisations, the citizens and businesses. The implementation of the strategy will ensure accessibility, which will enable requests for services from a remote location; transparency, which will allow for tracking the movement of files and cases in real time; single collection of data from the applicant, also using data already collected by other administrative authorities; personal data protection; improving the speed and quality of administrative services; easier access to public information.

Under a project within Operational Programme “Administrative Capacity” (OPAC) the SJC is developing a system for introducing e-justice. The project objective is to create a reliable environment for data exchange and communication between the administrative courts in Bulgaria and link their activities through a Single Filing Information System (SFIS). A system connecting the 28 administrative courts in the country will officially become operational in September 2015. A working group was set up with the task to prepare the necessary amendments to the Law on Judiciary, which shall provide an opportunity for using the instruments of e-justice.

In 2014 the SJC<sup>9</sup> approved uniform rules (criteria) for the imposition of disciplinary sanctions on magistrates, based on a preliminary analysis of the disciplinary practice of the SJC during the period 2009–2013 and the SJC decisions in this connection.

### **3.5.6 Step up the fight against corruption**

The Updated Strategy for Continuing the Reform in the Judiciary envisages the setting up of an auxiliary “Integrity” unit to the ethical committee of the SJC. This unit will be responsible for periodic checks, in accordance with an approved methodology, of magistrates and court administrations for the presence of pro-corruption factors. Other measures included in the strategy are related to the development of a standard for security of information technologies used in the judiciary and the providing of guarantees of the security and transparency of the process of random case allocation and determining the persons comprising individual Chambers. The strategy includes strengthening the capacity of the Inspectorate at the SJC, which shall monitor for systemic corruption factors in the work of the judiciary. The SJC is envisaged to prepare Annual Reports on the existence of evidence of corruption and assessment of the effectiveness of the anti-corruption measures, and such reports will be subject to public discussion.

## **3.6 Country Specific Recommendation 6**

### **3.6.1 Improving energy efficiency**

By the end of June 2015 the coordination unit, which will work actively for overcoming the existing problems in the reporting of measures and their effects in the area of energy efficiency, will become operational.

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<sup>9</sup> With Protocol № 60 of 11.12.2014

In the course of implementation of the Energy Strategy of the Republic of Bulgaria till 2020, programmes for stabilisation and development of the heating sector and for accelerated gasification till 2020 were drafted in 2014. The two programmes cover areas where a potential for energy savings exists – energy savings by end users, including households, and energy savings in the processes of generation, transformation and transmission of energy, including development of a gas distribution network and increasing the share of energy from high-efficiency co-generation. The measures envisaged in the two programmes will be included in the currently developed Energy Efficiency Strategy, which is expected to be adopted by the CoM after the new Energy Strategy is adopted.

A two-stage tender procedure in accordance with the EBRD rules for selection of consultants was launched in 2014 under project “Energy Efficiency Measures for End Users of Natural Gas” (DESIREE)<sup>10</sup>, and 9 proposals were received. The tenders received within the deadline (18 February 2015) are being evaluated, and after the evaluation is completed a contract will be signed with the selected consultant. The project objective is to provide a special and efficient support mechanism for the gasification of 10,000 Bulgarian households, and after the required legislative and regulatory changes are drafted and adopted, the scheme is expected to be launched by the end of 2015.

To boost energy efficiency, Bulgaria is putting in place a range of measures aimed at achieving the national target of increasing energy efficiency by 25 % by 2020 (see Measures under NT 3).

### **3.6.2 Removing market barriers, reducing the weight of the regulated segment, stepping up efforts for the creation of a transparent wholesale market for electricity and gas, phasing out quotas**

56% of the electricity market in Bulgaria is currently regulated. The amendments to the Rules for Electricity Trade (RET) adopted at the beginning of 2014 enabled the actual launching of a balancing market in Bulgaria in June 2014 and the inclusion of all commercial participants in it. Currently a new amendment to the market model is prepared in order to enable all final consumers to select freely their suppliers. This will take place after the entry into force of the amendments to the Law on Energy and the Law on Renewable Energy (LRE), which will solve the problems relating to the compulsory purchase of electricity and long-term contracts. In 2015 amendments to the LRE and the relevant secondary legislation will be made.

In mid-2014 the Energy and Water Regulatory Commission (EWRC) issued a licence to BNEB EAD (a subsidiary of BEH EAD) for organising an electricity exchange in the “day-ahead” segment and registering bilateral contracts. This is the first step towards the integration of the national market with the European market. At present different options are being examined for selection of a platform with which to perform the integration with the neighbouring markets – “marketcoupling”. The possibility of using the existing MMS platform of PSO EAD was analysed, and non-compliance with the requirements of Directive 2009/72/EC was established. More specifically the non-compliance is related to the use of consultants or external contrac-

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<sup>10</sup> Funding is provided through the International Fund “Kozloduy” (IFK) and is administered by the European Bank for Reconstruction and Development

tors for various systems or equipment, used by enterprises within the same structure. As a result, a Memorandum of Understanding was signed between BNEB EAD and one of the established European exchange operators for the provision of services relating to the operation of the energy exchange in Bulgaria.

Pursuant to the requirements of the Third Liberalisation Package, by the end of 2015 Bulgaria shall provide all consumers with the freedom to choose an electricity supplier, and shall integrate the Bulgarian energy market in the European one. A different market model needs to be regulated in order to achieve the objectives of the third liberalisation package. Up to date, all end customers, including households, are able to access the free market. Further legislative changes to the LE and LRE (after the current market model is changed) are required to solve the problem with renewable energy sources (RES), high-efficiency cogeneration (HEC) and long-term contracts (the volume of electricity generation under which exceeds the amount required for the regulated market).

### **3.6.3 Strengthening the independence and administrative capacity of the energy regulator**

To strengthen the independence of the regulator, the NA adopted amendments to the Law on Energy<sup>11</sup>. The main changes in the law aim at stabilising the financial situation of the energy sector, balancing the relationships in the sector and ensuring the independence of the regulator to the advantage of consumers. The selection of the members of the regulator by the NA was regulated. The opportunity is also envisaged for non-governmental organisations, the work of which is related to the energy sector, and nationally represented employer's organisations to nominate members of the Commission. For greater transparency and better information for citizens, the regulator will publish online all requests by operators for changes in prices, the corresponding estimates and the manner in which each member has voted.

After the changes in the law, thermal power plants which do not have high-efficiency generation and the so-called "factory plants" will be excluded from the energy mix. The electricity generated by them in excess of the quota set by the regulator will not be purchased at preferential prices. It will be sold at the open electricity market. The production of electricity from biomass is also limited in order to reduce the deficit in the NEC.

The Public Financial Inspection Agency is expected to be granted additional powers for annual inspection of enterprises with installed capacity exceeding 1 MW. The control will cover the financial, economic and reporting activities at regulated, including preferential prices.

An ordinance will be developed, which will regulate the reduction of the weight of the costs for purchase of renewable energy on large industrial consumers. This amendment is based on the new European policy for reassessment of the risks of the excessive financial burden of the "Climate – Energy" package on industrial activities. Mechanisms for reducing the negative effects and promoting industrial operations have been developed and are in place in many Member States.

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<sup>11</sup> Promulgated in SG, No. 17 of 06 March 2015



As a result of another change in the law, the proceeds from the sale of quotas for greenhouse gas emissions will be collected in a fund at the Ministry of Energy. The funds will be used to offset the cost to the public benefit in accordance with the procedure of the Law on Energy.

#### **3.6.4 Accelerate interconnector projects**

The activities relating to the construction of the gas interconnection Bulgaria – Romania (IBR) are completed. The connecting to the gas transmission systems of Romania and Bulgaria is forthcoming, and to this end a public procurement procedure with a value of EUR 5 million was announced on 16 January 2015. The deadline for submission of tenders by tenderers was 27 February 2015 and, if there are no new complications relating to the specific geological structure of the section below the Danube River, the construction works are expected to be completed by mid-2015 and the interconnection will be commissioned by the end of 2015.

In regard to the construction of the gas interconnection with Greece (IGB), regulatory procedures have been submitted to WERC and the Greek energy regulator (RAE) for approval of the regulatory regime for use of the gas pipeline and provision of transmission capacity in accordance with the Third Energy Package of the EU. The project has already received positive EIA decisions in Bulgaria and Greece, and in the territory of Bulgaria the activities relating to the adoption of a Detailed Development Plan – Parcel Plan (DDP–PP) are being completed. There are effective DPP–PPs for the route of the gas pipeline in Stara Zagora and Haskovo Districts, and the activities in Kardzhali District are being finalised. The shareholders in IGB are expected to make the final investment decision for development by mid-2015, and the construction is expected to begin by the end of 2015. The facility is envisaged to be commissioned in 2017 or at the beginning of 2018.

The implementation of the interconnector project Bulgaria – Serbia is divided into two stages. The first stage will be financed under OPDCBI 2007–2013, and the second stage – under OPIK for the next programming period 2014–2020. The project is subdivided into stages due to the inability of the Serbian party to execute the construction on its territory in line with the schedules for the construction of the Bulgarian section. The construction on Bulgarian territory is expected to be completed at the beginning of 2017.

In March 2014 a Memorandum for Cooperation for the development of the Bulgaria – Turkey interconnector was signed. At present, a joint working group was set up to prepare the feasibility study, within which all technical aspects of the project, its financial parameters, and the possibility of attracting European funding will be specified. The two parties will held a high level meeting in 2015 and will adopt the assessment of the results in the report. The gas pipeline is intended to be commissioned by the end of 2018.

#### **3.6.5 Enhance the capacity to cope with disruptions**

To enhance the capacity to cope with disruptions, Bulgaria plans to expand the capacity of the existing underground gas storage “Chiren”. The project is declared to be of “common interest” for the EU and is part of the concept for expansion of storage capacity in our region. Its implementation will increase the volume of working gas to 1 billion cub. m. and the extraction and injection capacity to 8–10 million cub.m. a day, thus ensuring flexibility of the gas transmission

systems, increased market integration and guaranteed security in Central and Eastern Europe. A “Technological Project for the Operation of the Repository” is already prepared, and examines and evaluates different alternatives for increasing the storage capacity and the capacity for injection/extraction of natural gas. The implementation of a 3D-seismic and geomechanical simulation is envisaged for 2015–2016. To raise the necessary funding for the project Bulgaria will apply under the “Connected Europe” Facility within the 2015 project proposal campaign.

To diversify the sources of energy, in 2014 Bulgaria managed to negotiate with the Shah Deniz Consortium the delivery of alternative volumes of gas from Shah Deniz 2 in a volume of 1 billion cub. m. / year starting from year 2019. These volumes will cover between 20% and 25% of the domestic consumption of natural gas as of 2019 and are expected to be delivered along the planned gas connection with Turkey.

The creation of a gas hub, transceiver point for the Russian gas, into which the Russian deliveries under the Black Sea are to be received, is currently being discussed with the EC. The hub could become a common distribution centre for the Member States in the region<sup>12</sup>. The possibilities for carrying out this project under the Juncker investment plan are explored.

With regard to the project for construction of the South Stream Gas Pipeline in the territory of the Republic of Bulgaria, activities have been suspended and their continuation will be subject to negotiations between the EC and the Russian Federation. At present, a formal notice of termination for the project has not been received from the Russian side. ■

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<sup>12</sup> Bulgaria, Greece, Romania, Hungary, Croatia, Slovenia

## 4 Progress on the national targets under the “Europe 2020” Strategy

### 4.1 National target for employment

#### 4.1.1 National Target: “Reach an employment rate of 76% for the population aged 20-64 by 2020 ”

Sub-targets: To decrease unemployment among young people (aged 15–29) to 7% and increase employment among older people (aged 55–64) to 53% in 2020. In 2014 progress was achieved in the field of employment, with regard to both the national target and the sub-targets.

- The **employment rate** of the population aged **20–64** increased by 1.6 pp to 65.1% in 2014;
- The **unemployment rate** of young people (aged 15–29) decreased by 4.1 pp to 17.7%;
- The **employment rate** of older people (aged 55–64) increased by 2.6 pp to 50%.

In 2014 (compared to 2013) the number of people employed aged 15+ increased by 46.4 thousand, or 1.6%<sup>13</sup>, and unemployment decreased by 1.5 pp to 11.5%. The long-term unemployment rate decreased by 0.5 pp to 6.9%. The decline in the **unemployment rate among young people** aged 15–24 was 4.5 pp, reaching 23.9%.

As a result of the implementation of the National Plan for Implementation of the European Youth Guarantee 2014–2020 (NPIEYG), the level of youth unemployment (15–24) is expected to reach 27.2% at the end of 2015, while the share of young people aged 15–24 who are not in employment, education or training is expected to reach 20.5%. As a result of the work for activating inactive young people, the relative share of registered unemployed young people aged up to 24 is expected to increase.

The implementation of the National Employment Plans contributes significantly to achieving the employment targets. In 2014, 50 thousand persons found jobs, after being involved in education and employment programmes and measures; and over 10 thousand individuals were included in education. The 2015 **National Employment Action Plan** will cover a total number of 26,415 individuals under education and employment programmes and measures, of which 12,794 individuals in new jobs, and 12,161 individuals in education.

In 2015 the implementation of schemes funded by the HRD OP 2014-2020 will start ensuring provision of opportunities to create sustainable employment for low skilled, long-term unem-

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<sup>13</sup> In 2014 the number of people employed was 2,981.4 thousand. The increase in employment is at the expense of employees in the private sector, which increased by 60 thousand during the period in question, while people employed in the public sector decreased by 13.8 thousand.

employed and inactive persons, incl. persons with disabilities, unemployed over 54, and unemployed young people up to 29. This is planned to be done through a set of measures to ensure appropriate training, including in the workplace, as well as providing various incentives for employers to create new jobs.

In 2015 funds will be granted to provide unemployed people with the opportunity to seek and start work in settlements other than the settlement of their residence.

Under the Law on Investment Promotion (LIP), in 2014 a total of 16 certificates were issued (14 for Class “A”, 1 for class “B” and 1 for a priority investment project), which envisage the opening of 10,066 new jobs, of which 1,850 under priority projects, 1,483 in high-technology activities of the industrial and services sectors, and 6,023 in municipalities with high unemployment. The total value of the investments is BGN 1.8 billion, of which BGN 1.6 billion under the priority projects, BGN 8.9 million in high-technology activities of the industrial and services sectors, and BGN 149.6 million in municipalities with high unemployment.

During the period November 2014–March 2015 financial incentives under the LIP of a total value of BGN 1.5 million were granted, including BGN 1.4 million for partial reimbursement of incurred expenditure on social security and health insurance contributions for the newly opened jobs. Promoted were eight projects with total investments of the amount of BGN 55.4 million and planned opening of 2,409 new jobs.

## **4.2 National target for R&D**

### **4.2.1 National Target: Investment in R&D in the amount of 1.5% of GDP in 2020.**

In 2013 a slight increase of up to 0.65% of GDP was observed in public expenditure on R&D. Bulgarian companies have spent 0.39% of GDP on R&D, compared to a EU average of 1.31%. National companies rank 105<sup>th</sup> and 106<sup>th</sup> in the world in innovations and business complexity. In 2006–2010 the number of innovative undertakings with 10–49 employees was about 20%. Only 14% of these undertakings had technological innovations, 5% realised new or improved products in the market, and 18% realised innovative cooperation. The results of the companies with 50–249 employees are slightly better. Innovative undertakings had an average share of 33%, and 29% of these undertakings had technological innovations, 10% realised new or improved products in the market, and 20% realised innovative cooperation.

In order to rectify these trends of low innovation and improve the competitiveness of the country, an Innovation Strategy for Smart Specialisation of the Republic of Bulgaria 2014–2020<sup>14</sup> was adopted. Its objective is by 2020 Bulgaria to move from the group of “timid innovators” to the group of “moderate innovators”. The action plan to the strategy relating to the activities 1.1 and 1.2 for implementation of thematic ex ante conditionalities contains 31 activities and is implemented within the prescribed time limits. The Innovation Strategy for Smart Specialisation was presented and discussed in the six planning regions. It provides for annual

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<sup>14</sup> CoM Decision No 761 of 6 November 2014

monitoring, and twice during the period – evaluation by independent experts of the effectiveness of measures aimed at achieving the objectives formulated in the Strategy.

During the period 2015–2017, BGN 10 million will be directed each year through the National Innovations Fund to support the innovation environment. During the period November–December 2014, 30 projects under the 6<sup>th</sup> session and 50 projects under the 7<sup>th</sup> session of the Fund were approved. The subsidy disbursed amounts to BGN 6.7 million.

Support for increasing the innovation activities of undertakings is also envisaged under Operational Programme “Innovations and Competitiveness” 2014–2020 (OPIC). Within OPIC, a procedure with a budget of EUR 40 million for promoting innovation activities of undertakings and a procedure with a budget of EUR 150 million for enhancing the production capacity of undertakings are planned for 2015. In parallel, the implementation of projects to improve the innovation infrastructure (setting up and development of technology transfer offices, technology centres, development of “Sofia Tech Park”) and increasing innovation activities in companies under OPDCBE 2007–2013 continues.

In 2014 under OPDCBE, a total of 95 undertakings implemented projects for innovation development and introduction with disbursed grants of BGN 73.16 million; 133 undertakings implemented projects for technology renovation and improvement with disbursed grants of BGN 167.22 million, of which 135 projects for enhancing ICT; 14 projects were implemented in support of existing and start-up clusters with disbursed grants of BGN 3.48 million. In 2014 the implementation of 1 project for the development of technology centres and two projects for the development of technology transfer offices with disbursed grants of BGN 6.56 million were completed.

In October 2014 the CoM<sup>15</sup> adopted the National Strategy for Scientific Research 2020 and the Action plan on its implementation. According to the recommendations after the peer review under the European Commission mechanism for support of the policies of Member States, a revision of the Strategy is possible. In 2014 both national and international evaluations were held on the proposals for updating the National Roadmap for Research Infrastructure. In order to synchronize the National Roadmap with the priorities of the Innovation Strategy for Smart Specialisation 2014–2020 and in relation to the upcoming announcement of competitions for scientific infrastructure under Operational Programme “Science and education for smart growth”, an assessment procedure on NRRI is envisaged in 2015. Bulgaria participated in 6 European infrastructures and 3 on a national level. They provided for a feasibility study of 5 infrastructures with development potential. In order to support construction of research infrastructures and in compliance with the NRRI, in 2015 a specialized competition of SRF for research infrastructure will be planned in the OPSESG.

An interdepartmental working group with representatives of the scientific community was established in 2014 with the aim to develop regulations for monitoring and evaluation of research carried out by universities and research organizations, as well as the activities of SRF.

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<sup>15</sup> Decision №737 of 30.10.2014

In 2015, only in Bulgaria, the Policy Support Facility instrument under the Horizon 2020 programme will be applied. It is aimed at improving the overall regulatory environment in terms of monitoring and evaluation of the research and innovation system, the development of human resources in the field of science, and construction and improvement of policies for transfer of knowledge and technology.

In 2015, a LAS on the Law on Promotion of Scientific Research in Bulgaria will be prepared. The amendments aim at: improving the functionality of the Research Activity Register and introducing regulations for monitoring and evaluation of the SRF activities and of research carried out by universities and research organizations, implementing a policy of open access to scientific results, improving the organisation, management, and result oriented funding of research; establishing a Research Promotion Agency as a tool for integrated policy in the national "science and innovation" system and for consolidation of science and innovation funding management.

## 4.3 National target under the Climate – Energy Package

### 4.3.1 National Target: a 16% share of renewable energy sources in the gross final consumption of energy by 2020

In 2012, Bulgaria achieved ahead of schedule the target for the share of renewable energy sources in gross final energy consumption by 2020. This was due to the increased use of biomass in the heating and cooling sector and the high investor interest in the generation of electricity from green energy (mainly wind and photovoltaic power plants). In this regard, no further actions are required at present to promote investment in electricity generation.

In the medium term the efforts for utilising the existing RS potential shall be oriented at creating conditions for wider use of energy from RS for:

- efficient generation and consumption of heat and cooling energy from RS (biomass, including waste recycling, solar and geothermal energy);
- generation of renewable energy for own consumption in households, public buildings and small businesses in urban areas;
- using renewable energy in transport with a focus on the consumption of electricity and new-generation biofuels.

All these aspects will be taken into account during the development of the **Energy Strategy of Bulgaria till 2030**, which will include a comprehensive vision for solving the problems in the sector and its long-term development. The strategy will be developed in line with the forthcoming changes in the European Energy Policy and, in particular, the targets stemming from the new 2030 "Climate and Energy" Package.

In 2014 a National Public Information System for RES was developed. It contains information about the potential, generation and consumption of energy from RS. In 2015 the database used for the operation of the system will be upgraded.

### 4.3.2 National Target: a 10% share of renewable energy sources in the gross final consumption of energy in transport by 2020

Significant progress was achieved towards the target for share of renewable energy sources in the gross final consumption of energy in transport. According to preliminary Eurostat data, in 2013 a share of 5.63% was achieved. The comparison of the achieved share with the 2013 target set in the National Action Plan for Renewable Energy (3.3%) indicates an overachievement by 2.3 pp. Thus the limited consumption reported in 2012, which resulted in achieving a marginal share of 0.27%, was overcome.

The Third National Report on Bulgaria's progress in the promotion and use of renewable energy will be prepared in December 2015. It will report on the achievement of the interim targets for 2013 and 2014, the implementation of the planned measures and schemes for promoting generation and consumption of energy from RS, and other issues.

In addition to the tax incentives to encourage the purchase and use of "hybrid" electric road transport, planned in the 2014 update of the NRP, work continues on the development of a draft Ordinance amending Ordinance No. 33 of 1999 on Public Transportation of Passengers and Freights in the Territory of Bulgaria. The draft ordinance provides for the introduction of preferential conditions for carriers holding buses with hybrid or electric propulsion, which aims at encouraging the purchase and use of this type of vehicles. Such an opportunity was already provided for taxi passenger carriage, and positive results are currently observed.

A draft 2014 Report on the implementation of the National Action Plan for the promotion of the production and accelerated uptake of environment friendly vehicles, including electric mobility in Republic of Bulgaria, for the period 2012–2014, has been prepared. The report has been adopted by the CoM<sup>16</sup> and on its basis, by mid-year work will begin on the development of a new long-term strategic document for promotion and development of sustainable mobility till 2020.

### 4.3.3 National Target: Increasing the energy efficiency by 25% by 2020

Unlike the observed increase in primary and final energy intensity (PEI and FEI) in 2010 and their peak in 2011, over the next two years we have seen an improvement in the values of the two indicators. The decline in 2013 on 2011 was by 12.4% for PEI and 5.3% for FEI.

In pursuance of the measures in the NRP for year 2014, on 21 January 2015 the CoM approved a draft Law on Energy Efficiency, which transposes the provisions of Directive 2012/27/EU on energy efficiency. The draft law was tabled for discussion at the NA and is expected to be adopted by the end of March 2015.

In 2014 the **new National Action Plan for Energy Efficiency till 2020** was developed and sent to the EC. It identifies measures to improve energy efficiency and achieve energy savings, including measures relating to the generation, transmission and distribution of energy and to the

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<sup>16</sup> Record № 15 from CoM Session on 15.04.2015

final consumption of energy, aimed at achieving the energy efficiency targets. Implementation will be reported in July 2015.

A draft **National Energy Efficiency Strategy** was prepared, but it will be put forward for discussion after the new Energy Strategy of the Republic of Bulgaria is adopted in order to synchronise the two documents.

The implementation of projects under the procedures for promoting investments in energy saving technologies and generation of electricity from RS under OPDCBE 2007–2013 continues. In 2014, 173 undertakings implemented projects for energy and resource efficiency with disbursed grants of BGN 103.29 million. By the end of 2015 the remaining 307 contracts will be implemented. A procedure with a budget of EUR 50 million for improving energy efficiency of SMEs and using energy from RS is planned in 2015 under OPIC 2014–2020.

To improve energy efficiency and use of renewable energy, measures are financed by the “Energy Efficiency and Renewable Energy” Fund and the “Energy Efficiency and Renewable Energy” Programme. Since the beginning of the Fund’s operations till the end of 2014, 170 contracts with total allocations of BGN 45.8 million were implemented, and 29 agreements guaranteeing accounts receivable with a value of BGN 601 thousand were concluded.

In January 2015 a National Programme for Energy Efficiency of Multifamily Residential Buildings<sup>17</sup> was adopted. It will be implemented during the period 2015–2016 with funding in the amount of BGN 1 billion, and the period of the programme can be extended if additional financial resources are provided.

#### **4.3.4 National Target: Increase levels of greenhouse gases (GHG) outside the EU ETS with a maximum of 20% by 2020 compared to 2005**

To reduce greenhouse gas emissions outside the EU ETS, policies in the country are aimed at effective waste management, energy efficiency improvements in industry, introduction of new technologies, improving the energy performance of buildings, improving the transport infrastructure and promoting sustainable urban mobility, reducing emissions from agricultural soils and biological fermentation in livestock, afforestation.

The envisaged financial support from OPE 2014–2020 for providing the necessary equipment and facilities for the separate collection of biodegradable and green waste and for design and construction of anaerobic and/or composting installations for biodegradable and/or green waste will be essential, as this waste represents a significant source of greenhouse gases. In addition, a Bulgarian organisation for ensuring the quality of compost will be established and Instructions on the requirements for quality management systems for final products (compost and fermentation product) and management of the composting and anaerobic digestion facilities will be adopted (deadline – July 2015). OPE 2014–2020 will also contribute to reducing greenhouse gas emissions in the country by supporting the construction, rehabilitation and reconstruction of facilities for treatment of sludge from wastewater treatment plants (WWTP) and the supply with priority of the necessary equipment, including for already constructed

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<sup>17</sup> With a CoM Decision dated 28 January 2015.



WWTP, in order to improve the quality indicators of sludge with a view to its subsequent use for energy purposes.

A draft LAS on the Law on Climate Change Mitigation (LLCM)<sup>18</sup> was elaborated and submitted to NA for consideration and adoption in end of March 2015. Its purpose is to refine the provisions relating to the transposition of the European legislation on the participation of the aviation sector in the EU Emission Trading System and the manner of formulating the penalties for non-compliance.

In 2015 the first progress Report on the implementation of the measures included in the Third National Action Plan on Climate Change for the period 2013–2020 will be prepared, and an inter-institutional working group will be set up to ensure coordinated implementation of the measures in the Plan.

The implementation of the National Green Investment Scheme (NGIS) established in 2010 continues. Revenue from the sale of available emissions under the scheme is used to finance projects to reduce greenhouse gas emissions. Negotiations are conducted with the Republic of Austria in connection with the available/spared resources under the Second agreement for the sale of Assigned Amount Units resulting from the conducting of tender procedures. An extension of the terms of the Second agreement was negotiated with a view to use part of the savings to finance additional projects in NGIS. With the funds from the proceeds of the sale under the Second agreement, energy efficiency projects with a total value of BGN 24 million have been implemented in 77 public sites in the country in the territory of 29 municipalities, including: 28 kindergartens, 30 schools, 2 universities, 5 medical establishments, 9 cultural and sports establishments (community centres, theatre, sports hall, youth home) and three administrative buildings. Two projects for generation of energy from renewable energy sources were financed in accordance with de minimis aid rules.

## **4.4 National target for education**

### **4.4.1 National Target: 11% share of the early school leavers by 2020**

According to preliminary Eurostat data, in 2014 the share of early school leavers aged 18–24 was 12.9%. An increase on the 2012 and 2013 levels is observed, when this share was 12.5%. Bulgaria diverges from the average value of the indicator for the 28 EU Member States, which was 11.1% in 2014.

The implementation of the Strategy to Reduce the Share of Early School Leavers (2013–2020) continues. The activities included in the first action plan for the implementation of the Strategy, covering the period 2014–2015, are in line both with the improved access to education and with enhancing the quality of education. The plan supports the key measures in the policies for preventing, intervention and compensating the dropping out of school and the early leaving of the education system. The objective of the plan is to achieve good interaction between institutions and the non-government sector so that schools are not left to solve this serious problem

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<sup>18</sup> CoM Decision № 208 of 27.03.2015

on their own. As a result of its implementation, better coordination is expected among the parties involved through the action of a Coordination Mechanism at all levels – national, district and municipal.

The following shall be achieved during the two-year period of implementation of this plan: increased coverage of children in compulsory pre-school education, reduced number of pupils at risk of dropping out, improving the Register of Movement of Children and Pupils, allowing to track the development of each child or pupil at risk of dropping out. The planned measures include: recruitment of assistant teachers and assistant tutors for children at risk of dropping out, providing additional support to children and pupils with special educational needs by professionals from resource centres, improving the access to a variety of extracurricular activities, increasing the scope for additional training in the Bulgarian language, institutionalisation of the career orientation centres, implementation of partnership programmes between business organisations and vocational schools, attracting early school leavers to return to the education system, increasing the learning opportunities in the workplace, and other.

Information activities to promote the benefits of education and the exchange of best and working practices among all stakeholders at national, regional, local and school levels are enhanced. Intervention measures are related to the development of a web-based early warning platform providing ongoing and reliable information about the movement of pupils within the country and opportunities to monitor their education and development.

The measures compensating the effect of early school leaving are related to reintegration of dropouts and early school leavers, use of the opportunities for education and training of prisoners, as well as validation of competences (including competencies of early school leavers) acquired in the process of informal education and/or independent learning.

The implementation of the first two-year plan will be reported by 30 October 2015. Future steps for the implementation of the Strategy to Reduce the Share of Early School Leavers (2013–2020) will be mapped out.

#### **4.4.2 National Target: 36% share of the people aged 30–34 with higher education by 2020**

According to Eurostat data, the share of people aged 30–34 with higher education continues increasing, and reached 30.9% in 2014. Although the trend of increase was maintained for a second year, this increase decelerates from 2.5pp for the period 2012–2013, to 1.5pp for 2013–2014 period.

To improve the conditions for access to higher education, the implementation of financial support measures for students and postgraduates continues, such as: providing scholarships from the national budget and European funds; subsidising student canteens and dormitories; providing funding for accommodation rented in the open market, and promoting student loan system under the Law on Crediting for Undergraduate and Graduate Students. In 2014, 49,683 students received scholarships under the “Student Scholarships” project, co-financed by the European Social Fund under Operational Programme „Human Resources Development”.

## 4.5 National target for reducing poverty and promoting social inclusion

- **Sub-targets:** Reducing the number of children (aged 0–18) living in poverty by 78 thousand (30% of the overall national target and 25% of the number of poor children in 2008); reducing the number of people aged 65+, living in poverty, by 52 thousand (20% of the overall national target and 10% of the number of elderly living in poverty in 2008); reducing the number of unemployed people (aged 18–64) living in poverty by 78 thousand (30% of the overall national target and 25% of the number of unemployed people aged 18–64 living in poverty in 2008); reducing the number of employed people (aged 18–64) living in poverty by 52 thousand (20% of the overall national target and 22% of the number of employed people aged 18–64 living in poverty in 2008)

The implementation of the objectives in the field of social inclusion is closely related to the implementation of measures and policies for providing employment and access to education, addressed in Country Specific Recommendation 3. In view of the multidimensional nature of poverty and social exclusion as phenomena, the policy in the field of social inclusion and reducing poverty is aimed at providing complex and integrated support for vulnerable groups in the society. The policy places the key focus on the process of deinstitutionalisation, on expanding the access to and quality of the social and health services, and the provision of new models of services that meet more fully the needs of vulnerable people. In pursuance of the National Strategy for Reducing Poverty and Promoting Social Inclusion 2020, which is based on the National Target for Reducing Poverty and Promoting Social Inclusion by 260 000 persons by 2020, actions for active inclusion in the labour market will continue, as well as development of intersectoral services aimed at social inclusion, and ensuring the sustainability and adequacy of social payments.

Bulgaria has made limited progress in implementing the National target to reduce the number of people living in poverty by 260 000 by 2020 and as regard to the four sub-targets aimed at children, elderly people, unemployed and working poor people. Compared to the base value from the "Statistics on Income and Living Conditions" monitoring (EU-SILC) 2008, the number of people living in poverty decreased by 104.6 thousand (0.4%). Major contribution comes from the reduction of the number of population in the country as a result of migration processes, the reduction of the number of people living in poverty aged 65+ by 59.2 thousand (5.9%). There has been a reduction in the share of unemployed persons living in poverty, compared to baseline target, by 7.4%. Slight increase in the number of persons living in poverty from the age group 0-17, with 9.5 thousand (2.9%) is observed, which is more than the EU-SILC 2008 base value. This increase also applies to the number of people living in poverty from the age group 18-64, with 54.9 thousand (0.1%).

The implementation of the "Integra" scheme under OPHRD will continue in 2015. This scheme provides an opportunity for individual counselling, social services and social health mediation for disadvantaged persons and groups in the labour market in order to promote their social inclusion. The "Strengthening the Capacity of the Social Assistance Agency to Improve the Quality and Effectiveness of Social Work" scheme is also implemented.

To reduce the social exclusion of the poorest, in 2015 projects under the Operational Programme under the Fund for European Aid to the Most Deprived 2014–2020 will be launched. Their total budget is EUR 123 million, of which nearly EUR 104 million are provided by the EU. The funds will be directed on the one hand to the deprived persons, who will receive individual packages of food, and, on the other hand, to public canteens, which will receive support through the purchase of food for providing hot meals to those deprived. ■

# 5 Additional Reform Measures and Utilisation of Structural Funds

## 5.1 Additional Reform Measures

### 5.1.1 Information and Communication Technologies

In March 2015 the CoM adopted an Updated Policy in the Field of Electronic Communications of the Republic of Bulgaria 2015–2018<sup>19</sup>. It envisages elaboration of simplified procedures for the development of high-speed electronic communication networks. The priorities are related to: accelerated construction of high-speed broadband electronic communication networks; improving the protection of end-users; guaranteeing the neutrality of the network and effective utilisation of scarce resources; development of the electronic communications market; development of electronic communications for the government needs; promotion of e-accessibility. In order to specify the areas of intervention and the available resources, and in connection with the determination of the investment models to be applied, the National Broadband Infrastructure Plan for Next Generation Access will be updated.

The project “Developing High-speed Broadband Access in Bulgaria through Constructing Critical, Protected, Secure and Reliable Public ICT Infrastructure” under OPRD 2007–2013 is being implemented. The acceptance of the cable routes and the repair of technological premises are planned for 2015. The communication equipment is expected to be commissioned at the same time.

By the end of June 2015, the NA will adopt LAS on the Law on access to public information. It will implement the provisions of Directive 2013/37/EU of the European Parliament and of the Council of 26 June 2013 amending Directive 2003/98/EC on the re-use of public sector information. The amendments envisage: introduction of a requirement for the documents falling under the scope of the Directive to be provided for re-use; establishment of an upper limit for the fee to be charged for re-use of information; free information for re-use at the discretion of the organization of the public sector. The scope of implementation is expanded to include certain cultural institutions such as libraries, museums and archives, for which specific rules are introduced that differ from those applicable to other entities. A requirement is introduced, to publish, including electronically, the amount of fees based on their calculation methodology, the factors taken into account in the calculation, as well as all additional conditions. Another requirement is obliging public institutions to inform applicants for re-use. Public sector organizations are encouraged to provide the information in an open, machine readable format and together with their metadata.

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<sup>19</sup> CoM Decision № 149 of 11.03.2015

### 5.1.2 Competitiveness

The implementation of a grant contract to support the Bulgarian enterprises in developing their potential and innovative capacity through the services of the Enterprise Europe Network (EEN) was completed at the end of 2014.

Negotiations are under way and an agreement will be signed with the EUREKA Secretariat for the participation of Bulgaria in the Eurostars II Joint Programme. Information campaigns are planned to ensure the participation of more Bulgarian undertakings in the forthcoming competition sessions of EUREKA and Eurostars.

In December 2014, under project “Technostart – Promoting the Innovation Activities of Young People in Bulgaria”, grant contracts with a total value of BGN 364 thousand were concluded with 19 approved applicants, which had registered their start-up companies. The execution period of the contracts is till December 2015, and business ideas such as development of innovative software and mobile applications, web-based systems and sites, industries using recyclable raw materials and projects in the field of research and development were selected for financing.

The work related to the adoption of the Action Plan “Entrepreneurship 2020 – Bulgaria” continues, and the deadline for the preparation of the plan was extended till the end of May 2015. The objective is to develop a national strategic document containing specific measures for implementing the recommendations of the European plan.

In 2014 in pursuance of the measure under the JEREMIE initiative, 72 innovative start-up undertakings were supported. 74 undertakings were supported under the equity funds with investments in the amount of EUR 9.53 million. 1,494 loans were extended under the debt products. The budget for the implementation of the measure in 2015 is EUR 84 million (OPDCBE), and that for the period 2014–2020 (OPIC) amounts to EUR 355 million.

To improve, upgrade and reconstruct existing, or construct and develop new technical infrastructure related to business and entrepreneurship, OP “Regions in Growth” 2014–2020 relies on the implementation of projects to improve the basic technical infrastructure aimed at businesses, including within areas with potential impact on economic development within the integrated plans for urban regeneration and development (IPURDs). The allocated financing is BGN 164 million.

### 5.1.3 Environment

The activities relating to the introduction of the “polluter pays” principle and the legal mechanisms for recovering the cost of resources and environmental costs for the widest possible range of services in the water sector continue. A draft LAS the Law on Waters<sup>20</sup> was adopted and was submitted for consideration and adoption by the NA on 7 April 2015. By the end of 2015 the implementation of the public contracts for evaluation of the recovery of costs for water services and economic analysis of the water use during the period 2008–2012 and making

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<sup>20</sup> CoM Decision № 222 of 06.04.2015

forecasts till 2021 will be completed. On this basis, the Tariff of Fees for Water Use, Use of Water Sites and Contamination will be subsequently amended to introduce fees for all activities defined under the Water Framework Directive as “water services”.

The second set of River Basin Management Plans (RBMP) are currently being developed. They will identify measures to improve the water status during the period 2016–2021. By the end of 2015 the national studies and assessments related to the RBMP will be carried out and the plans will be approved by the CoM in 2016. OPE 2014–2020 will finance the preparation of investment projects, including development of regional feasibility studies, which will determine the long-term priorities for optimal financing in water supply and sewage (WSS) infrastructure, and the implementation of the WSS reform and strengthening the capacity of stakeholders, including water operators and water associations.

Support for activities relating to the design and construction of: centres for re-use, repair and preparation for re-use, including providing facilities and equipment for the activity; sites and installations for pre-treatment of domestic waste; and installations for the recovery of domestic waste, is envisaged under OPE 2014–2020.

OPE 2014–2020 will also provide support for measures aimed at improving air quality, by addressing the main sources of pollution – domestic heating and transport.

## 5.2 Absorption of EU Funds

Significant progress was achieved in the absorption of funds under the programmes co-financed by the European Union (EU) for programming period 2007–2013. As at 31 March 2015, under:

- Operational Programme (OP) “Transport” – EUR 2.016 billion, or 100.63% of the budget of the programme are contracted, and EUR 1.470 billion, or 73.40% of the budget are disbursed;
- OP “Environment” 2007–2013 – EUR 2.853 billion, or 158.42% of the budget of the programme are contracted, and EUR 1.428 billion, or 79.28% of the budget are disbursed;
- OP “Regional Development” – EUR 1.662 billion, or 103.82% of the budget of the programme are contracted, and EUR 1.268 billion, or 79.22% of the budget are disbursed;
- OP “Development of the Competitiveness of the Bulgarian Economy” – EUR 1.197 billion, or 103.02% of the budget are contracted, and EUR 953 million, or 81.97% of the budget are disbursed;
- OP “Technical Assistance” – EUR 59 million, or 104.65% of the budget are contracted, and EUR 48 million, or 84.88% of the budget are disbursed;
- OP “Human Resources Development” 2007–2013 – EUR 1.267 billion, or 104.35% of the budget are contracted, and EUR 1.052 billion, or 86.71% of the budget are disbursed;

- OP “Administrative Capacity” – EUR 200 million, or 110.48% of the budget are contracted, and EUR 146 million, or 80.90% of the budget are disbursed;
- the Rural Development Programme – EUR 3.299 billion, or 104.13% of the budget are contracted, and EUR 2.419 billion, or 76.36% of the budget are disbursed;
- the Operational Programme for the Development of the Fisheries Sector – EUR 103 million, or 107.11% of the budget are contracted, and EUR 58 million, or 60.02% of the budget are disbursed.

Under all programmes measures were taken for the successful completion of the 2007–2013 programming period and maximum absorption of EU funds, including over-contracting under the programmes as a measure to compensate for part of the reductions that will result from not implemented projects and savings. The Unified Management Information System for the EU Structural Instruments in Bulgaria created an opportunity for electronic submission of project proposals, and pilot electronic reporting was launched under all operational programmes.

In August 2014 the EC approved the Partnership Agreement for the period 2014–2020. At the end of 2014, the Operational Programme under the Fund for European Aid to the Most Deprived 2014–2020 was approved. As of 15 April 2015 the EC has approved: OP “Human Resources Development” 2014–2020, under which the first procedure, “Youth Employment”, with a budget of BGN 35 million is already being implemented; OP “Transport and Transport Infrastructure”, “Development and deployment of system for monitoring, assessment and control for implementation of the National Strategy of the Republic of Bulgaria for Roma Integration 2012-2020” with a budget of BGN 2 million and “New alternatives” with a budget of BGN 65 million; OP “Science and Education for Smart Growth”; OP “Good Governance” and OP “Innovations and Competitiveness” 2014 – 2020.

The national legislative, framework, ensuring the effective use of the ESI funds during the period 2014–2020, has already been developed. It provides an opportunity for a timely start of the programmes and timely development of management and control systems. The process of application and evaluation of project proposals was streamlined for the 2014–2020 programming period. An opportunity to simplify the granting of financial assistance to beneficiaries was introduced through the so called. “budget lines” for funds from the technical assistance axes. A line for applying with the so called “integrated project proposals” is formulated. Standard forms were developed of the main documents at the application stage – indicative annual work programme, application guides and application forms. Simplified rules were introduced for selection of contractors by beneficiaries which are not contracting authorities under the LPP. An opportunity is provided to apply simplified forms of awarding financial assistance, such as a standard table of unit costs; one-off payments, flat rate financing. A methodology for standard tables of unit costs in respect of costs incurred with own human resources of beneficiaries and the project organisation and management costs is developed.

Through UMIS 2020, applicants and beneficiaries will be provided with the opportunity for electronic submission of project proposals and electronic reporting on approved projects. All key processes preceding the signing of a contract / the grant award decision will be introduced



by 31 March 2015. The functionalities required for reporting, verification and certification of expenditure are expected to be available by June 2015.

The Indicative Annual Work Programmes (IAWPs) for 2015 under the programmes and the indicative allocated resources are prepared.. The grant award procedures under all operational programmes and the Programme for Maritime Affairs and Fisheries, planned in the IAWPs for 2015, have a total value of BGN 7.950 billion. Of these, BGN 1.704 billion are in the “Regional Development” sector, BGN 467 million – in the “Environment” sector, BGN 3.686 billion – in the “Transport” sector for roads, railway lines and extension of the Sofia Metro project; BGN 470 million – for innovations and competitiveness; BGN 975 million – for active labour market policies, social inclusion and integration; BGN 578 million – for science and education; BGN 41 million – for achieving better management of ESI funds and BGN 29 million for maritime affairs and fisheries.<sup>21</sup> ■

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<sup>21</sup> The information is from the 2015 IAWPs of the programmes.

## 6 Institutional Issues and Involvement of Stakeholders

With a Decision of the Council of Ministers<sup>22</sup>, amendments were made to the procedures for annual updating and reporting of the NRP, in pursuance of the “Europe 2020” Strategy and the country specific recommendations of the Council of the European Union within the framework of the European semester. The practice of quarterly reporting on the implementation of the measures was replaced by reporting at six-month intervals in order to reduce the administrative burden and improve the quality of analysis and reporting. The first report covers the implementation of the measures during the period 1 May–31 October, and the preparation of the second report coincides with the preparation of the NRP and envisages integration of the reported information in the corresponding update of the programme. With regard to measures at risk of non-implementation or delays, responsible institutions develop action plans containing information about the specific actions they intend to take with a view to achieve the commitments made and deadlines set.

The fact that the launch of the 2015 European semester coincided with the beginning of the mandate of the government helped set up and synchronise the national calendar with the European calendar for the development and implementation of policies. The government considers the active dialogue with the social and economic partners and non-governmental organisations as a key factor for effective cooperation and building a broad public consensus on the economic course of the country’s development. This position of the government and its expressed support for the steps taken by the EC to streamline the European Semester served as a basis for conducting efficient and transparent dialogue at an early stage in the timetable for the preparation and adoption of the 2015 Update of the NRP.

On 9 February 2015 the Ministry of Finance started the preparation of the NRP with an orientation discussion with a large range of representatives of all stakeholders from the public administration and the non-government sector.

The objective of this first step of the preparation of the 2015 NRP was to achieve better coordination of policies, expand the use of key performance results, and ensure continuity in the planning and implementation of policies with long-term nature, in line with the commitments made, the national specificities and capacity. Proposals for new measures, progress and implementation issues were discussed. Measures were considered both in terms of their relevance, focus and contribution to progress, and in view of achieving the necessary synergy between them and reporting on their potential impact on other policy areas. Measures were proposed by representatives of the Bulgarian Industrial Association, the Confederation of Independent Trade Unions in Bulgaria, the Institute for Market Economics, and the “Open Society” Institute.

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<sup>22</sup> Decision of the Council of Ministers No. 406 of 20 June 2014.

The Minister of Finance was informed in a timely manner of the proposed measures, opinions and evaluations received in the course of the discussion. In pursuance of his functions as National Coordinator for the “Europe 2020” Strategy, he informed the Council of Ministers of the proposals received.

The broader horizontal debate reinforces the commitment of institutions and their understanding of the adequacy and possible secondary effects of their proposed measures. By conducting this debate, the Ministry of Finance implements its opinion on the interim review of the “Europe 2020” Strategy, enshrined in the Framework Position, according to which “enhancing the involvement of social partners, including in the preliminary discussion on policy measures and reaching consensus at an early stage, is essential for the progress in the implementation of reforms and implementation of the recommendations”. ■