



REPUBLIC OF BULGARIA

**NATIONAL REFORM PROGRAMME
(2011 – 2015)**

*In implementation of “Europe
2020” Strategy*

**13 APRIL 2011
SOFIA, BULGARIA**

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LIST OF THE ABBREVIATIONS USED

AD – Shareholding Company	GP – General Practitioner
APC – Administrative Procedure Code	LHI – Law on Health Insurance
ARC – Administrative Reform Council	ICT – Information and Communication Technologies
ASED – Agency for Sustainable Energy Development	IEEDE – Integrated Environment for Electronic Document Exchange
BISERA7-EUR – Payment system for servicing clients' transfers in euro	IES – Improved Electronic Signature
BNB – Bulgarian National Bank	IFIs – International Financial Institutions
BSE – Bulgarian Stock Exchange	IG – Integrated Guidelines
CCMEUF – Council for Coordination of the Management of the European Union Funds to the Council of Ministers	IME – Institute for Market Economics
CCU – Central Coordination Unit	IMF – International Monetary Fund
CFP – Consolidated Fiscal Programme	JEREMIE – Joint European Resources for Micro to Medium Enterprises
CMD – Council of Ministers Decision	LEE – Law on Energy Efficiency
CoM – Council of Ministers	LEDES – Law on Electronic Document and Electronic Signature
CPC – Commission for Protection of Competition	LEG – Law on Electronic Governance
CRC – Communication Regulatory Commission	LIP – Law on Investment Promotion
DRG – Diagnostically Related Groups	LLARACEA – Law on Limiting Administrative Regulation and Administrative Control on Economic Activity
EA – Employment Agency	LLSGLA – Law on Local Self-governance and Local Administration
EAD – Sole-proprietor Shareholding Company	LNE – Law on National Education
EBRD – European Bank for Reconstruction and Development	LOD – “Labour Office” Directorate
EC – European Commission	LPC – Law on Protection of Competition
EE – Energy Efficiency	LPP – Law on Public Procurement Act
EIB – European Investment Bank	LRAESB – Law on Renewable and Alternative Energy Sources and Biofuels
ERDF – European Regional Development Fund	LSBRB – Law on State Budget of the Republic of Bulgaria
ERIC – European Research Infrastructure Consortium	LSI – Law on Statutory Instruments
ESC – Economic and Social Council	MCS – Management and Control Systems
ESF – European Social Fund	MEET – Ministry of Economy, Energy and Tourism
EU – European Union	MEYS – Ministry of Education, Youth and Science
ETS – Emission Trading Scheme	MF – Ministry of Finance
FLSU – First level spending units	MH – Ministry of Health
FSC – Financial Supervision Commission	MRDPW – Ministry of Regional Development and Public Works
GA – Grant Assistance	
GDP – Gross Domestic Product	
GLIEA – General Labour Inspectorate Executive Agency	

MTITC – Ministry of Transport, Information Technology and Communications	SMEs – Small and Medium-sized Enterprises
NA – National Assembly	SPIF – Supplementary Pension Insurance Fund
NAPE – National Action Plan on Employment	SSC – Social Security Code
NAPERS - National Action Plan for Energy from Renewable Sources	TARGET2 – Trans-European Automated Real-time Gross settlement Express Transfer system
NCRI – National Company Road Infrastructure	TWWTP – Town Waste Water Treatment Plants
NDP – National Development Programme: “Bulgaria 2020”	UISCC – Unified Information System for Counteraction to Crime
NIF – National Innovations Fund	UMIS – Unified Management Information System (of the funds under the EU structural instruments)
NHIF – National Health Insurance Fund	UPF – Universal Pension Fund
NRA – National Revenue Agency	VPF – Voluntary Pension Fund
NRP – National Reform Programme	VPF – OS – Voluntary Pension Fund – Occupational Scheme
NSF – National Science Fund	WB – World Bank
NSI – National Statistical Institute	WWTP – Waste Water Treatment Plant
NSRF – National Strategic Reference Framework	
NSSI – National Social Security Institute	
OP – Operational Programme	
OP HRD – Operational Programme “Human Resources Development”	
OPAC – Operational Programme “Administrative Capacity”	
OPC – Operational Programme “Development of the Competitiveness of the Bulgarian Economy”	
OPE – Operational Programme “Environment”	
OPF – Occupational Pension Fund	
OPRD – Operational Programme “Regional development”	
OPT – OP “Transport”	
pp – percentage points	
PIC – Pension Insurance Companies	
PPP – Private-Public Partnership	
SCP – Single Contact Point	
PSS – Public Social Security	
R&D – Research & Development	
RDI – Research, Development and Innovation	
RTDA – Research, Technological and Development Activities	
RES – Renewable Energy Sources	
ROA – Return on Assets	
RS – Renewable Sources	
SCF – Structural Funds and Cohesion Fund	
SEPA – Single Euro Payment Area	
SG – State Gazette	

I. INTRODUCTION

The National Reform Programme of the Republic of Bulgaria (2011–2015) is prepared in line with the “Europe 2020” Strategy, approved by the European Council in June 2010, and with the new instrument for enhanced economic policy coordination in the European Union, the so called “European Semester”. This document reflects the enhanced procedure for macroeconomic surveillance and thematic co-ordination within the European Semester as well as the Integrated Guidelines (IG). The Programme is closely linked to the Convergence Programme of the Republic of Bulgaria (2011–2014) and directly addresses the recommendations in the conclusions of the European Commission’s (EC) Annual Growth Survey. The Programme addresses the key priority issues, while taking into account the current needs and national specificities of a small open economy. Thus, the focus is put on fostering competitiveness in order to take full advantage of the economic recovery. With a view to the starting position of the country it is too difficult to identify just several priority areas towards which the efforts of the economic policy shall be directed. Still, the following could be outlined as such:

- ⇒ Better infrastructure – better connection with Europe; sustainable and competitive regions (with accessible services) and better coherence among them (including the less developed territories); preserving and achieving recognition for the Bulgarian cultural and historic heritage and natural landmarks;
- ⇒ Competitive youth – reducing the share of early-school leavers, increasing the number of young people with higher education, encouraging young scientists, realisation of the potential of young people in Bulgaria;
- ⇒ Better business environment in the EU – lowest tax burden for the business and the households in the EU, higher employment, more investments (including in R&D and innovations), fiscal stability;
- ⇒ Greater confidence in the state institutions – efficient judicial system and ensuring the supremacy of law, protection of the interests of citizens and the business, social justice and security.

The Bulgarian government reconfirms the national targets, defined in the draft NRP¹ as of November 2010. Given the uncertainties in external environment and the expectations for recovery from the current crisis, we envisage a medium-term review of the progress towards meeting the national targets and sub-targets.

In line with the conclusions of the European Council in June 2010, the economic policy measures presented in this NRP are orientated towards facilitating the operation of the main factors to growth, and reaching the national targets under the “Europe 2020” Strategy in accordance with the recommendations in the Integrated Guidelines and the priorities set under the seven flagship initiatives for intelligent, sustainable and inclusive growth.

The financial sector is not a bottleneck to growth, according to the Bulgarian government. The financial sector is dominated by the banking system which is stable, well functioning and

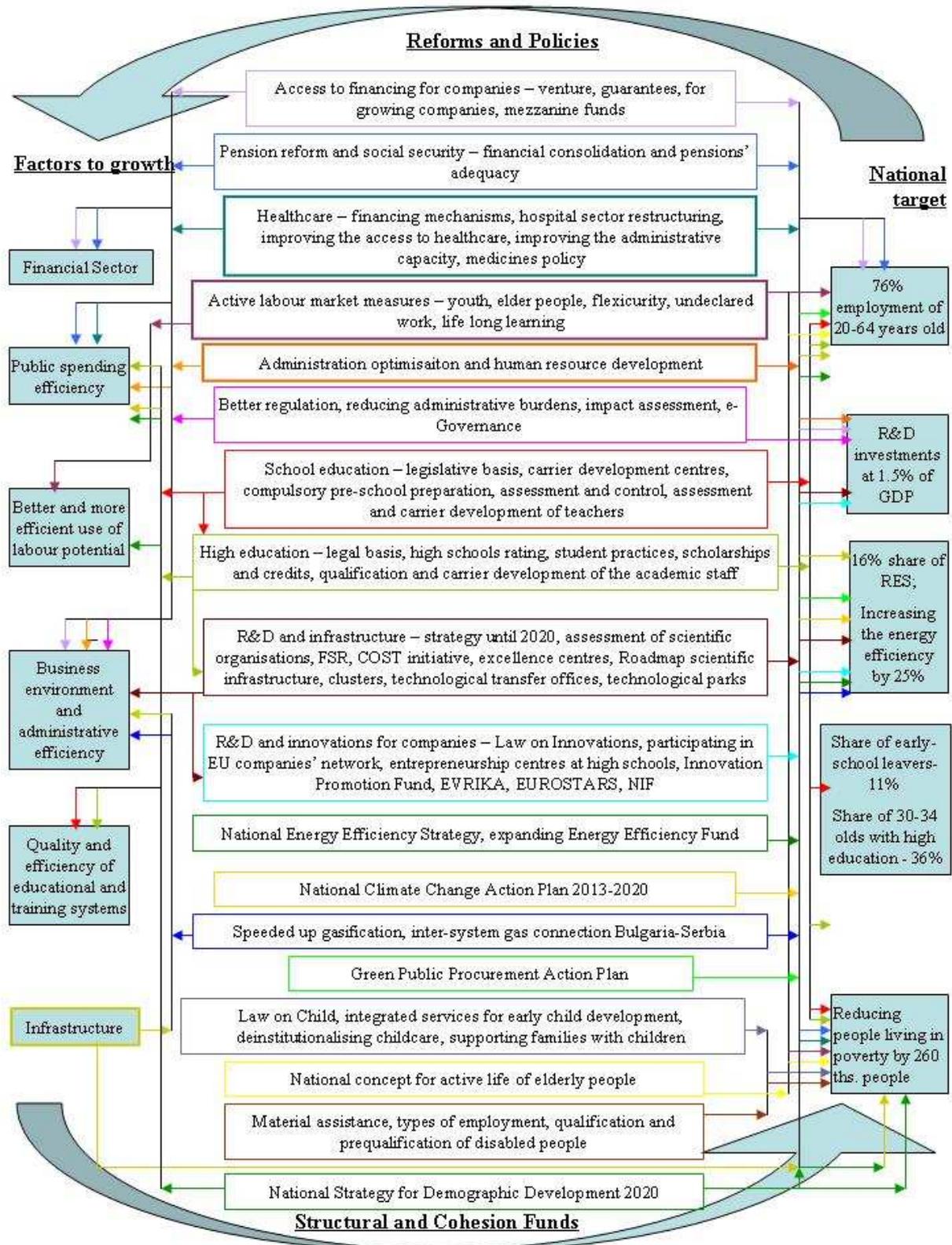
¹ Submitted to the EC on 12 November 2010

capitalised, and which ensures effective financial intermediation as a precondition for sustainable economic development and faster convergence.

The Bulgarian government regards the priority area “Infrastructure with a view to improving the access to the Single Market” as a key factor to economic growth. Its development will contribute to taking full advantage of the benefits from the Single Market through improving the physical infrastructure, which in turn will be conducive to improving the business environment.

The Programme identifies priority measures for frontloading the main factors to growth and for achieving the national targets, which measures will be implemented in the short term and will support the faster recovery of the Bulgarian economy.

Figure 1. Relations between factors to growth, policies and national targets

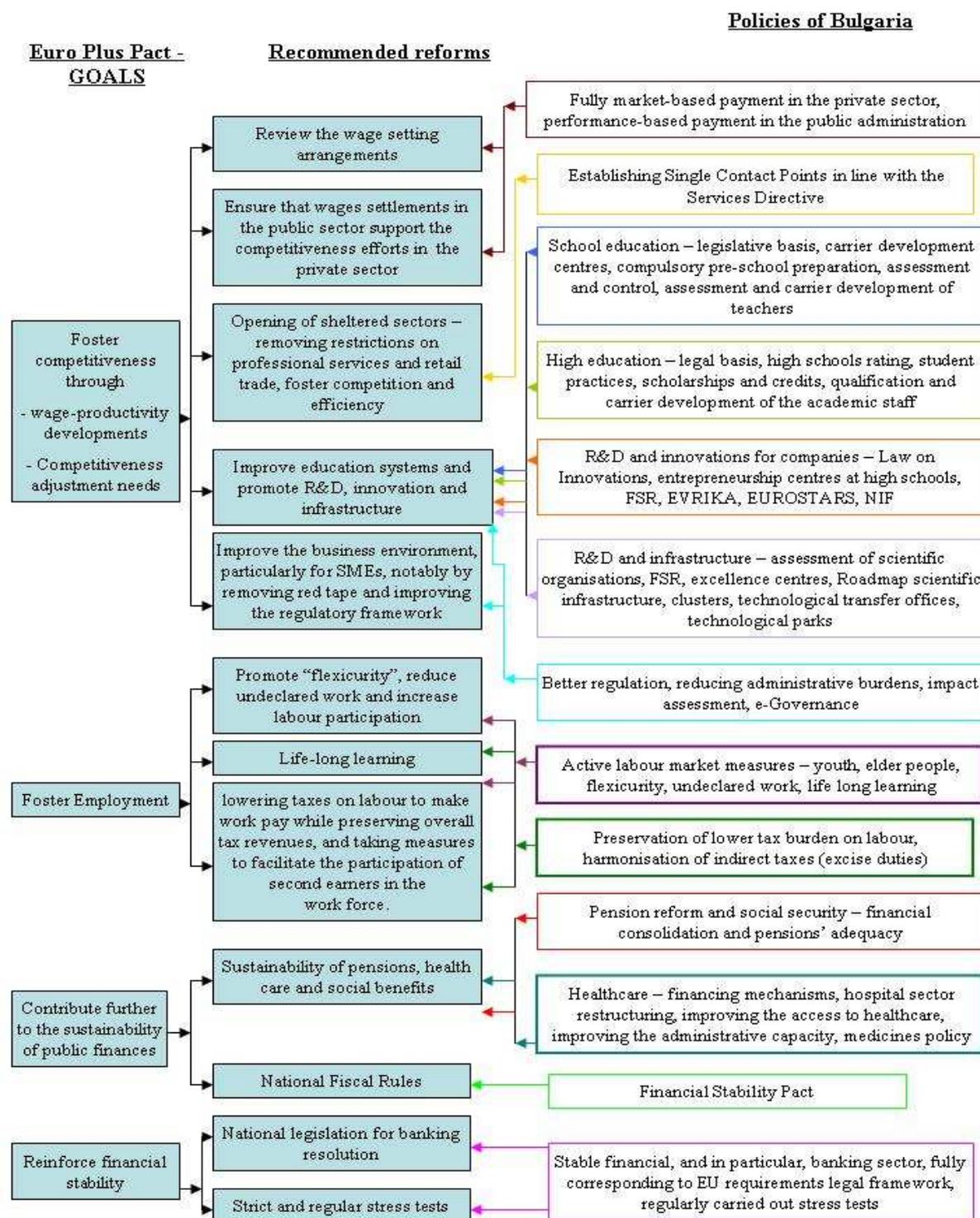


The Action Plan annexed to the Programme presents a detailed list of measures for overcoming the identified bottlenecks to growth as main factors to growth and for achieving the national targets, including a time-schedule for their implementation, responsible

institutions, (budgetary) costs for the implementation of measures, expected results and indicators for measuring the progress of the implementation.

The policies and measures presented in the Programme, like those in the Convergence Programme of the Republic of Bulgaria (2011–2014), also address the goals of the so called “Euro Plus Pact”, mainly with regard to fostering competitiveness and employment, as well as for further increasing the sustainability of public finances.

Figure 2. Relations between the NRP policies and the Euro Plus Pact



The expected synergies as a result of the successful implementation of the planned reforms will contribute to the realisation of the seven Flagship Initiatives of the European Union under the “Europe 2020” Strategy, thus increasing the country’s growth potential, the resilience of the economy to external developments, and transforming it into a Member State attractive to work, live and invest in.

As a result of the successful implementation of these reforms we expect to increase the standard of living to up to 60% of the European Union average by 2020.

II. PROSPECTS FOR THE DEVELOPMENT OF THE BULGARIAN ECONOMY

II.1. Macroeconomic Scenario until 2015

The National Reform Programme is based on the macroeconomic framework for the period 2010–2015 and the estimates for the potential growth until 2020 under key assumptions for the external environment provided by the EC, the International Monetary Fund (IMF) and the Ministry of Finance of the Republic of Bulgaria, as of March 2011. The projected values of the indicators contained in the National Reform Programme and in the Convergence Programme of the Republic of Bulgaria (2011–2014) are calculated on the basis of the medium term macroeconomic model and a model of the Ministry of Finance for assessing the potential growth using the Hodrick–Prescott filter; estimates of the National Statistics Institute (NSI) and of the National Health Insurance Fund (NHIF) were also used (Table 1). The effects from the implementation of the reforms presented in the Programme have not been taken into account in the baseline macroeconomic scenario.

Table 1: Assumptions on Main Macroeconomic Indicators

	2010	2011	2012	2013	2014	2015
USD/EUR exchange rate (annual average)	1.33	1.32	1.31	1.30	1.29	1.28
GDP (in real terms, % change) – World Economy	4.96	4.43	4.48	4.59	4.66	4.67
GDP (in real terms, % change) – EU	1.82	1.73	2.04	2.15	2.18	2.12
Crude oil price (USD/barrel, % change)	27.92	35.59	0.79	-2.31	-0.95	0.48
Six-month LIBOR on USD-denominated deposits	0.52	0.63	0.88	1.38	2.38	3.38
Three-month LIBOR on EUR-denominated deposits	0.81	1.39	2.11	2.71	3.18	3.56
International prices (% , on an annual basis)	26.27	25.06	-4.31	-6.79	-6.30	-3.82
Food	11.43	24.09	-4.72	-6.42	-5.40	-3.83
Beverages	14.12	23.88	-3.52	-10.97	-11.32	-10.74
Agricultural raw materials	33.24	24.78	-11.53	-7.34	-3.31	-3.22
Metals	48.12	26.50	-0.75	-6.37	-7.78	-3.15

Source: EC, IMF, MF.

A moderate but sustainable economic growth ranging from 3.6% to 4.4% is expected for the period 2011-2015. After 2011 the domestic demand pressure on imports will increase. The growth rate of the consumption and the investments will increase in the medium term, but their share in GDP will remain lower as compared to the pre-crisis levels.

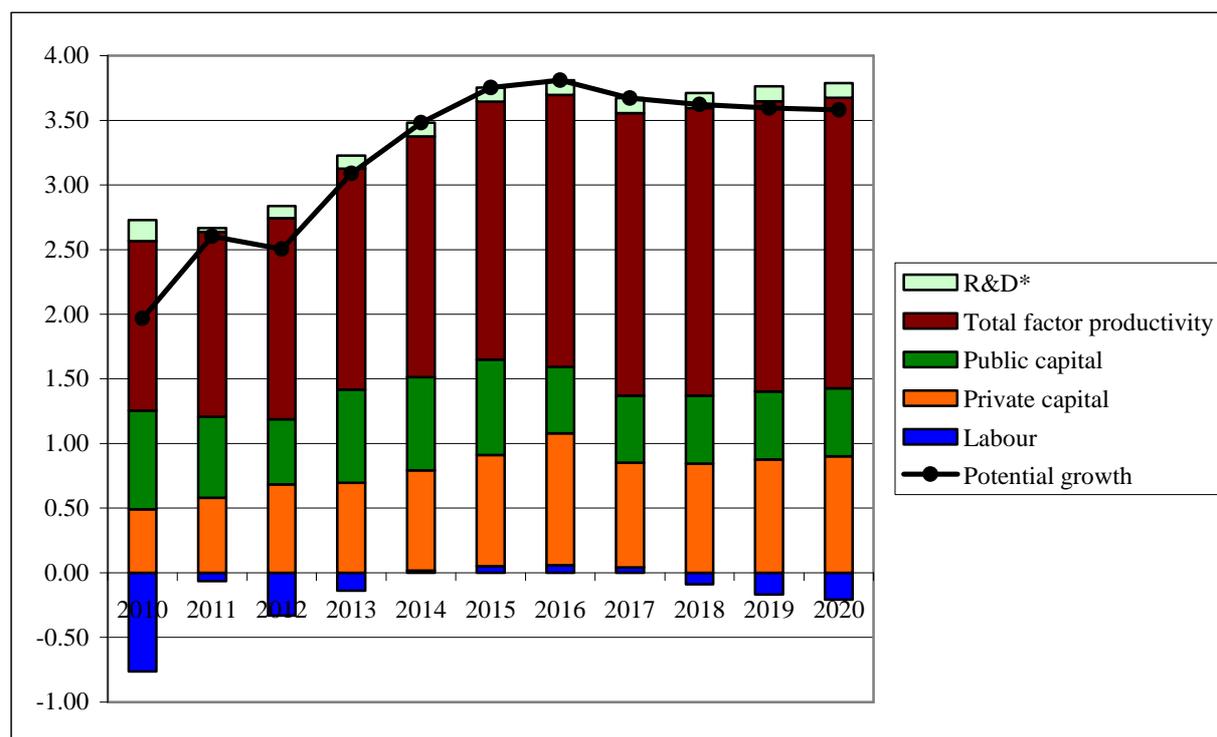
In the period up to 2020 the Bulgarian economy is expected to grow at an average rate of 3.9%. In the medium term, up to 2015, the Bulgarian economy is expected to increase by slightly over 4% in real terms, but the output gap, although declining, will remain negative until 2013. In the baseline scenario, based on a production function, the potential growth of Bulgaria for the period 2011–2014 will be approximately 2.8% on average, and in the period

by 2020 it is expected to be 3.4%. The potential GDP growth will accelerate until 2016, after which a moderate slowdown is expected as a result of the negative labour contribution due to the population ageing and the declining employment rate.

The considerable increase of the unemployment rate is related to the raise in its natural rate. In the medium term the natural unemployment is expected to continue increasing and to remain high as a result of the restructuring of the economy and the slower absorption of the released during the crisis workforce. Therefore, during the next three years the contribution of labour is expected to be negative, regardless of the expected gradual rise of employment. After 2014 the higher growth rates of labour productivity, total factor productivity and capital will determine the positive contribution of labour to potential growth, despite the manifestation of the negative demographic characteristics. The latter will have the highest importance for the negative labour contribution after 2018.

During the entire period from 2011 until 2020 the positive contribution of the total factor productivity is expected to increase. It will be the driving force for the potential economic growth. The expenditures on R&D will increase their contribution insignificantly, but this is based on a scenario where the effects from achieving the national target for investments in R&D of 1.5% of GDP in 2020, have not been taken into account. As far as investments are concerned, after 2014 the contribution of public capital is expected to decline at expense of higher contribution of the private sector.

Figure 3. Contributions to potential GDP growth (percentage points)



Source: MoF estimates

* The R&D capital is differentiated as a separate production factor, to difference of the standard production functions. The objective is the R&D contribution to be more properly estimated by taking into account the efficiency of expenditures for R&D, on the one hand, and the production elasticity from the accumulated R&D capital, on the other.

In the Programme the expectation for 3.6% GDP growth in 2011, as projected in the course of drafting the 2011 State Budget, remains unchanged. The forecast is based on the quarterly

growth rates of both consumption and investments, observed in the third quarter of 2010. We however expect lower positive contribution of net exports since a recovery of the imports is ongoing, reflecting both the recovering domestic demand and the high growth rates of exports of branches with high intermediate consumption of imported raw materials and commodities. The current forecast for economic growth of 4.1% in 2012 is relatively close to the EC autumn forecast of 3.8%. The differences could be due to differences in the assumptions.

After the reported decline in households' consumption of 7.5% in 2009 and 1.3% in 2010, during the current year a growth of 3.1% is expected as a result of the labour market stabilisation, the restored economic confidence/sentiments and, respectively, the lower propensity to precautionary savings of households. During the period 2011–2015 household consumption will continue increasing at a moderate pace.

Table 2: Main indicators of the 2011–2015 macroeconomic scenario.

		2010	2011	2012	2013	2014	2015
GDP – current prices	EUR million	36,032.8	38,640.9	41,330.3	44,216.5	47,084.4	50,199.7
Real GDP growth	percentage	0.2	3.6	4.1	4.4	4.2	4.3
Contributions to the GDP growth, including							
Investments	percentage	-4.1	1.4	1.8	1.9	2.0	2.2
Consumption	percentage	-0.9	2.2	2.7	3.3	2.6	3.0
Net export	percentage	5.2	0.1	-0.4	-0.8	-0.3	-0.9
GDP Deflator	percentage	3.0	3.5	2.7	2.5	2.2	2.2
Harmonised inflation – average for the period	percentage	3.0	3.9	3.3	2.6	2.4	2.4
Current account (GDP)	percentage	-1.0	-2.2	-3.3	-3.9	-3.8	-4.0
Trade balance	percentage	-6.7	-7.1	-7.8	-8.4	-9.0	-9.6
Services, net	percentage	5.3	5.3	5.2	5.1	5.3	5.4
Income, net	percentage	-3.9	-4.2	-4.5	-4.2	-3.5	-3.0
Current transfers, net	percentage	4.3	3.9	3.7	3.6	3.3	3.2
Financial and capital account, including							
Foreign direct investments	EUR million	1,638.6	2,242	3,266	3,429	3,601	3,781
Overall balance	EUR million	-383.9	1,631	3,562	1,913	2,805	2,048

Source: Ministry of Finance

The favourable development of exports and the recovery of domestic demand are also expected to have a positive impact on investments, which will start recovering albeit at slower pace as compared to the period before 2009. In 2011, as a result of the stronger demand and the diversification of both the geographical and product structure of exports, a more active investment activity is expected and, accordingly, a real increase in the gross capital formation of 5.6%. The forecasted investments' growth in 2011 is a result of several factors. On the one hand, we expect that base effects from the low values reported after the gross capital formation decrease in 2009 and 2010, will be manifested. These effects have been observed since the end of 2010 – during the fourth quarter of the previous year investments increased by 4% on an annual basis. On the other hand, the last investors' survey demonstrates positive expectations of entrepreneurs for 18.1% growth in investments in 2011. As a whole, the investments are the most volatile GDP component and, in a situation of higher business and consumer confidence and preserved macroeconomic stability in the country, they are expected to grow at rates higher than the GDP growth. During the whole forecast period, the share of

investments in GDP will increase, reaching 28% in 2015, but the growth rate of the gross capital formation will remain at levels below 8%.

At the beginning of 2011 the unemployment rate is expected to settle around its level at the end of 2010 and subsequently to start gradually decreasing. The average unemployment decline in 2011 is expected to be insignificant (0.1 pp), and the employment growth² for this year is estimated at about 0.2%. The current expectations for the unemployment development remain more conservative as compared to the Autumn Forecast of the EC, which projects a decline of the unemployment rate to 8% in 2011, while the baseline scenario in this Programme does not envisage that these levels would be reached in the medium term.

The labour productivity in 2011 will slow down to 3.4% but will remain comparable to the growth rates reported during the pre-crisis years. During the period 2012–2014 the labour productivity is expected to continue increasing at a slowly accelerating rate. This will be accompanied by a moderate increase of the employment and decline of the unemployment to an average rate of about 8.7% in 2015.

The restructuring and the optimisation of the workflow in the private sector and the still low labour demand in the Bulgarian economy will continue hampering the average wage growth. Within the programming period the indicator is expected to change at rates close to those of the labour productivity.

During the period 2011–2015 a moderate, gradually slowing down inflation is expected.

In 2011 the average annual inflation is expected to accelerate, since under the influence of the international prices of energy raw materials, food and metals, the consumer prices of food and energy goods will grow on an annual basis. The core inflation will increase slightly as a result of the recovering domestic demand and labour market. Over the next years no significant increase of the international prices of raw materials in US dollar terms is expected, and under the assumption of a stable Euro, no increase of inflation triggered by external factors is expected.

In 2012–2015 the economic recovery on the supply side will limit the price growth, mainly in the tradable goods, in line with the expectations for higher production and, respectively, higher labour productivity in the industry as compared to that in the construction and services sectors. No significant increases in the prices of raw materials and of crude oil on international markets are expected. During the period 2011–2015 the contribution of the administrative prices to the overall inflation is also expected to be moderate.

The influence of tax policy on inflation in 2011 is also expected to be low, since the level of direct taxes will remain unchanged, while in the indirect taxes, only the excise duties will have a low impact on consumer prices. The main risks related to the inflation are related to the international prices development and the economic growth in Bulgaria.

In the **medium term the current account deficit will remain below 4% of GDP**, supported by the lower trade deficit as well as the larger transfers, mainly from the EU. The expectations for stable growth of income from tourism and exports of transportation services, related to the sustainable growth of the exports of goods, will contribute to maintaining the surplus in the balance of services at levels slightly higher than 5% of GDP and to their positive influence over the dynamics of the current account during the entire programming horizon. In the baseline scenario a higher increase in the current account deficit as compared to the Autumn Forecasts of the EC is expected; this is related to the higher national expectations related to the domestic consumption growth .

² According to the definition of the System of National Accounts (SNA).

During the period 2011–2015 the real growth of exports of goods and services will slow down, stabilising at levels above 7%. This slowdown will result from the decline in the real growth of exports of goods, while the exports of services are expected to increase moderately.

In 2011 the recovered domestic demand is expected to lead to an increase of imports of both goods and services. The slowdown of the real export rate limits the growth in total imports to 7.8%. As a whole, the trade deficit should remain at levels below 10% of GDP in the medium term.

The recovery of the investment confidence and the improvement of the business environment in the country are expected to be accompanied by a recovery of the inflow of foreign capital. Although the foreign direct investments will remain at considerably lower levels as compared to the pre-crisis period, they will be sufficient to ensure stable coverage of the current account deficit. A moderate restoring of the external financing of companies is also expected. At the same time, as a result of the high liquidity, which the banks maintain, no large financial inflows in the sector will be observed in the medium term.

II.2. Effect of the Achievement of the Set 2020 targets on the Potential Growth³

This section presents the effects on potential growth from the following targets set in the National Reform Programme:

- An increase in the expenditure on research and development to 1.5% of GDP in 2020;
- A combined effect from the agreed pension reform and achieving the target for 76% employment rate of the population aged 20–64;
- An improvement of the indicators in education – respectively decreasing the share of early-school leavers to 11% and increasing the share of the people aged 30–34 with higher education to 36% by 2020.

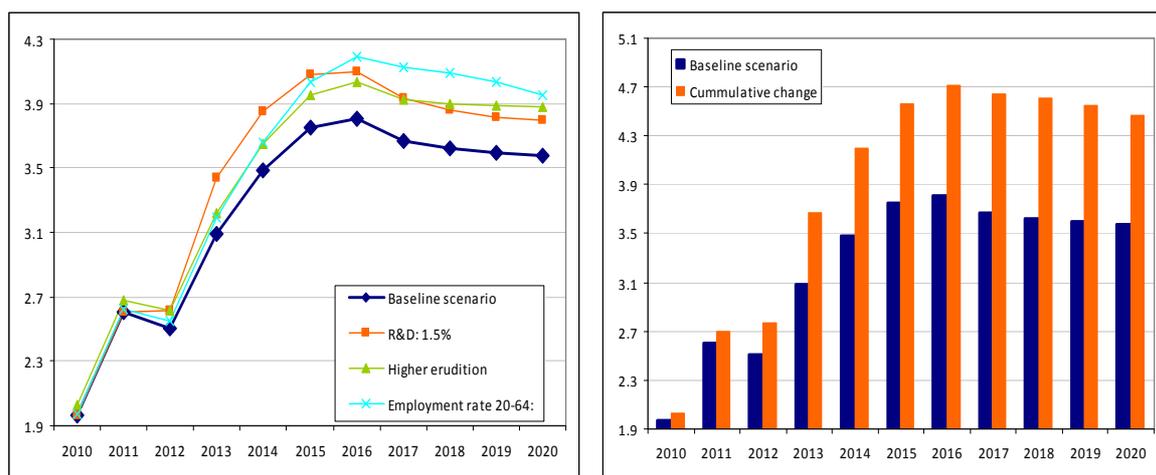
The effects are estimated using a production function with a constant return to scale. Labour, private and public physical capital, as well as research and development capital, are included as production factors.

The estimates show that the largest positive effect on growth comes from increasing the employment rate in combination with the pension reform. The investments in R&D also could have a significant positive impact on potential growth and its sustainability in the long term.

If all the envisaged measures are implemented, the positive impact of the structural reforms on growth could be noticed already in 2015 and would be in the range of 0.8–1.0 pps.

Figure 4. Potential growth in the alternative scenarios, %

³ In the programme only the direct effect of the planned structural reforms/pension reform on potential growth is estimated. The secondary effects, related to higher demand, and the synergy effect of the envisaged measures have not been assessed. Currently the Ministry of Finance is developing a model allowing a more thorough assessment of structural reforms impact, and this model should be used for the update of the Programme in 2012.



Source: MF, NSSI, NSI

As a whole, the deviation from the potential GDP in the cumulative scenario is expected to be comparable to the deviation in the baseline scenario, since in the former scenario the larger average negative deviation related to the level of education is balanced by the immediately positive impact of increased employment rate and economic activity on the labour market in Bulgaria. The achievement of this important for the long-term sustainability of growth objective will be supported by the implementation of the planned in the Programme structural reforms, which are aimed at creating new jobs and improving the quality of already existing jobs, as well as at improving the effectiveness and focus of the implemented national and regional measures, programmes and initiatives.

In assessing the potential growth, the labour factor has been limited to the age group 15–64, which in turn supposes the need to assess the effect of the increased employment rate on this group. The employment rate in that age group is estimated to reach 69.7% in 2020, which corresponds to an employment rate of 76% for the population aged 20–64. Under this scenario, the number of employed persons is expected to increase by 7.1% in 2020 as compared to 2010, which is by 157 thousand persons (aged 15–64) more than under the baseline scenario. The achievement of this target will be related to a 2.2% increase in the labour force during the period 2010–2020, which corresponds to reaching economic activity rate of 74.2% in 2020. A considerable improvement compared to the baseline scenario is observed for both indicators – 5.2 pps for the employed persons and 3.5 pps for the economic activity rate. The increase of the employment will also have a favourable effect on the number of unemployed persons. During the period under review the unemployment rate is expected to decrease to 6.1% in 2020 as compared to 7.5% in the baseline scenario.

Table 3: Labour market developments

	Labour force (thousand people)		Employed persons (thousand people)		Unemployment rate	
	2010	2020	2010	2020	2010	2020
Baseline scenario						
Level	3,356	3,312	3,010	3,066	10.3%	7.4%
Change	-	-1.3%	-	1.8%		-2.9 pps
Scenario, including achievement of an employment rate (people aged 15–64) of 69.7% in 2020						

NATIONAL REFORM PROGRAMME (2011–2015)

Level	3,356	3,431	3,010	3,223	10.3%	6.1%
Change	-	2.2%	-	7.1%		-4.2 pps

Source: MF, NSSI.

The achievement of these targets, set in the National Reform Programme (2011–2015) would result in different contributions of the individual production factors. The change in labour would be the most significant, which from a factor holding back the economic growth would become a factor contributing to GDP growth. This assessment does not include the effects from the improvement of the infrastructure in Bulgaria, but the investments in infrastructure should improve the living standard and the business environment. The access to high-quality infrastructure stimulates investment decisions of economic agents and also encourages higher mobility and migration of business, capital and labour force. The long-term investments in infrastructure will help overcoming the regional disproportions and developing the settlements in Bulgaria.

The current assessments also do not reflect the effects of the implementation of National Target 3 – increasing the **energy efficiency**. The imposition of more stringent environmental requirements, including pricing, which takes into account all the environmental and social costs in order to discourage unsustainable production and consumption models, would rather have a negative contribution in the medium term. These requirements would deteriorate the global competitive position of the Bulgarian companies. In the long term, however, a positive effect on the economic growth is expected in view of larger investments and of the inefficient productions restructuring. The transition of the economy to a less energy-intensive model and increased use of renewable energy sources would have a considerable positive effect on the sustainability of the economic growth in the long term. A decreased dependency of the Bulgarian economy on the imports of energy products would also result in lower vulnerability of the economy to fluctuations in their international prices, which are often related to conjuncture, cyclical or political factors.

The effects of Target 5 set in the National Reform Programme – **to decrease the share of people living in poverty by 260 thousand persons** – are directly related to the achievement of the education and employment-related targets. The correlation is expressed in the fact that the better educational status, as well as the better access to the labour market, will increase the employment opportunities of the most vulnerable groups of the population – the unemployed, the minority groups and the people in disadvantaged position.

III. FACTORS TO SUSTAINABLE ECONOMIC GROWTH

III.1. Financial Sector

1.1. Banking Sector and Payment Systems

The Republic of Bulgaria does not consider that the financial sector is a bottleneck to economic growth.

The financial sector is dominated by the banking system – the share of the banks' assets is approximately 80% of the assets in the financial sector, while the banking system in Bulgaria is stable, well functioning and capitalised, and ensures an effective financial intermediation, which is a key precondition for sustainable development of the economy and accelerating the convergence process.

The stable economic fundamentals built over the years, together with the accumulated buffers in the form of capital and provisions, allowed the banking system to face the negative impact of the crisis and to retain its good financial position and stability. During the global financial crisis, the credit institutions in Bulgaria have not been granted any form of state aid, including capital injections or government guarantees. The banks do not have exposures either to structural instruments or to government debt, issued by countries with high sovereign risk, which would have a substantial impact on their risk profile. The main risk is the credit risk with the cyclical increase in the share of non-performing loans over 90 days (11.9% at the end of 2010) resulted from the decline of the economic activity. The worsening quality of the credit portfolios is accompanied by a high coverage of the non-performing loans with provisions (75%) and the existence of excess capital over the regulatory minimum in the amount of EUR 1.4 billion, aggregated for the banking system (almost 4% of GDP).⁴

The Bulgarian banking system manages assets totalling EUR 37.7 billion. During the last five years the degree of development of the financial intermediation, as measured with the ratio of bank assets to GDP of the country, has been growing in a constant and sustainable manner from 81.5% in 2006 to 109.2% in 2010. The banking sector is well diversified, both with regard to the ownership and to the size of the institutions, which is a prerequisite for active and healthy competition. Of the total assets of the banking sector, 74% are managed by affiliated banks of the European banking groups, 19% - by domestic credit institutions, 4% - by branches of EU banks, and 3% - by non-EU institutions. The sector has a low concentration, with the five largest credit institutions holding a share of 55% in the total assets.

The confidence in the banking system is high and is manifested in an increase in the main attracted funds over the recent years, including in 2009 and 2010, which provides sources for sustainable growth. In 2010 the growth in deposits amounted to 4% and at the same time no pressure for liquidity withdrawal on part of the parent banks was observed. The Bulgarian banking system continued performing successfully its role of a key factor for the transmission mechanism in the economy, with a preserved capacity to satisfy the demand for credits. Unlike other countries, there was no dramatic credit contraction in Bulgaria and in 2010 the value of the provided credits increased by 2.7% (including claims on the non-financial enterprises by 2.5%), despite the fact that the credit activity was strongly influenced by the

⁴ When the indicators for the share of non-performing loans are compared by countries, the differences stemming from the supervisory regulation in each country shall be taken into account. In Bulgaria very stringent criteria for classification of credits are applied.

decline of the economic growth in the country as a result of the global financial crisis. The lower credit growth rates reflect not the lack of liquidity in the banking system but low demand for loans on part of households and companies.

The Bulgarian National Bank, in its capacity of a central bank and supervisor, regulates the banking system in a proactive and counter-cyclical manner. A key element of the strategies and measures, undertaken consistently over the years and at present, is the conservative approach in defining the supervisory framework. It is especially important that the minimum capital requirement is set at 12% as compared to the 8% required under Directives EC 2006/48/EC and 2006/49/EC. The general policy encourages the accumulation of buffers (capital and liquidity) in the banking system. For example, Bulgaria is among the few countries which have set out the classification of loans and their provision in a special ordinance of BNB⁵.

At the end of 2010 the banking system reported a 4% increase of assets, a 2.7% increase of the credit portfolio, a 0.84% return on assets and a 4.5% net interest margin. The liquid assets covered 24% of the attracted funds, and the overall capital adequacy ratio was 17.4%, with a high quality of capital (the share of the Tier-1 capital was 87% of the capital base) and capital adequacy of the Tier-1 capital of 15.2%.

Table 4: Main indicators regarding the banking system – asset quality ratios, in %

BANKING SYSTEM	2007	2008	2009	2010
Non-performing loans over 90 days (gross value) / Total gross loans	2.02	2.54	6.42	11.92
Return on Assets (ROA)	2.37	2.12	1.08	0.84
Net interest margin	5.06	4.91	4.48	4.47
Tier-1 Capital Ratio	10.83	11.20	14.03	15.16
Capital Adequacy Ratio (CAR)	13.86	14.93	17.04	17.39
Share of excess capital over the regulatory minimum in GDP	1.29	2.24	4.03	4.0
Coverage ratio (provisions / non-performing loans over 90 days)	100.4	109.0	81.4	74.93

Source: BNB.

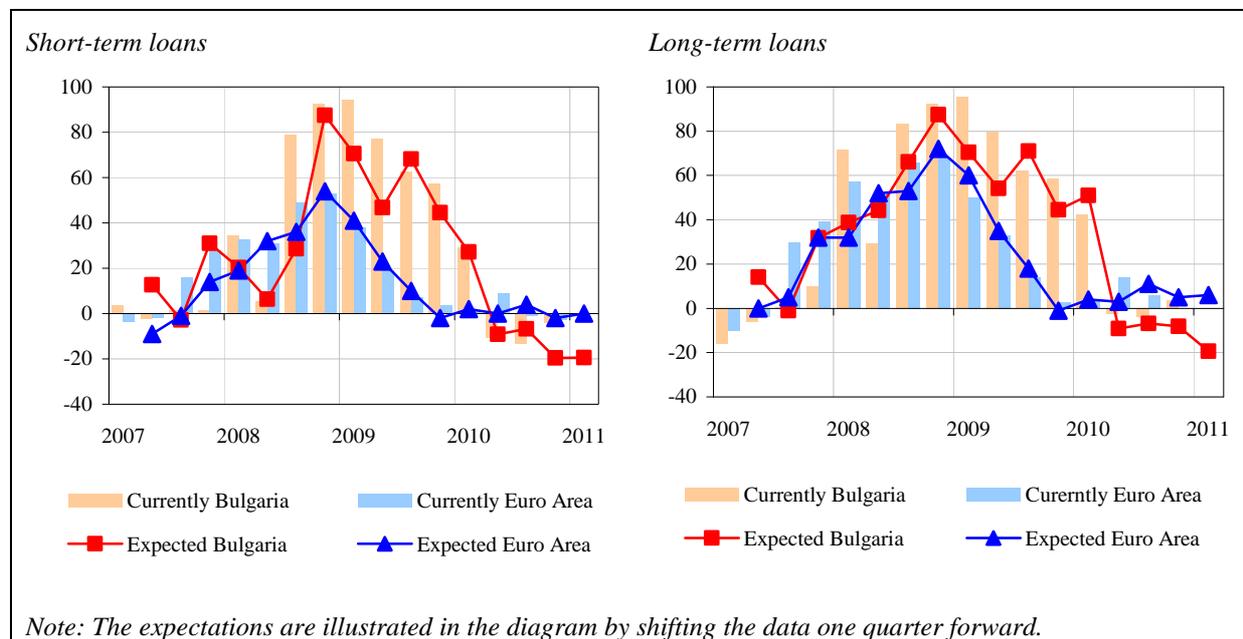
The described key characteristics and the current financial situation of the banking system characterise it as an important factor, which ensures financial stability and stimulates the economic growth of the country. In the medium term we expect that the banks will continue relying mainly on domestic resources for financing their credit activities. Deposits of residents will increase at rates surpassing those of the nominal GDP in 2011, and over the next years we expect that the materialisation of similar growth rates will contribute to the relative stabilisation of the degree of monetisation of the economy. The parent banks will provide resources for their affiliates where necessary, but we do not expect financing of an aggressive credit expansion and competition for market shares, which was observed in the years before the beginning of the global financial and economic crisis.

The increase in credits over the next few years will be mainly determined by the moderate rates of economic recovery and the improvement of the expectations of the economic agents.

⁵ Ordinance No. 9 of the BNB on the Evaluation and Classification of Risk Exposures of Banks and the Allocation of Specific Provisions for Credit Risk.

As a result, the demand for bank financing for promising investment projects and consumer loans and mortgages will gradually increase. Together with the improvement of the macroeconomic environment, the banks will ease their credit standards.

Figure 5. Changes in the credit standards with regard to enterprises during the current quarter and expectations for the next quarter for Bulgaria and the Euro Area, short-term and long-term loans



Note: The expectations are illustrated in the diagram by shifting the data one quarter forward.

Source: BNB

The Bulgarian banking system demonstrated its flexibility and efficiency in a period of a global crisis and decreasing economic activity worldwide by preserving the buffers accumulated in the form of provisions, capital adequacy and overall liquidity of assets. In the conditions of high liquidity of banks and gradual recovery of demand for loans, the claims on the non-government sector to GDP ratio will remain relatively unchanged in the medium term. We expect that the interest rate levels for both deposits and loans will continue decreasing at a moderate rate in the medium term.

With a view to the preparation of the country for adopting the euro, the achievement of an earlier convergence with the European payment systems and market, and in accordance with the BNB strategy in the field of payment systems, orientated towards decreasing the systemic risk and creating conditions for integration with the payment infrastructure of the Euro Area, over the last two years the efforts of the BNB and the banking community were focused on the implementation of the most significant for the country project in the field of payments – the project for joining the Trans European Automated Real-Time Gross Settlement Express Transfer System TARGET2. Following the successful implementation of the project activities, on 1 February 2010 the national component system of TARGET2 (TARGET2-BNB) was launched. The connection of the national banking community to TARGET2 is an important stage in the integration with the payment infrastructure of the Euro Area, which allows the participating banks to execute transfers in euro in real time⁶.

In parallel with the launch of the national component system and the developments in the field of large value payments, on 1 February 2010 a system for processing clients' payments in

⁶ In the field of the payment systems and infrastructure Bulgaria reported a considerable progress, which has been acknowledged by representatives of the European Commission, the European Central Bank and other European institutions, with which BNB works in this field.

euro – BISERA7-EUR, was also launched. The system processes payments in euro in accordance with the SEPA standards.

With the introduction of TARGET2 and BISERA7-EUR, the banks and their clients were provided with a reliable and secure infrastructure for processing small and large payments in euro, thereby considerably reducing the transaction costs related to payments.

1.2. Non-banking Financial Sector

Over the last 10 years a rapid development of the non-banking financial sector in Bulgaria was observed. New for the Bulgarian investors practices and diversified financial products were introduced. This large variety of investment alternatives considerably reduced the overall level of risk in the system. At the same time, the increase in the number of market participants and public companies (from 468 in 2003 to 698 in 2010)⁷ resulted in a higher competition, improving the services for the investors and reducing the prices of these services. The entire legal regulatory framework on European level has been effectively and consistently transposed in the Bulgarian legislation while taking into account the national characteristics of the market. The establishment of the joint authority Financial Supervision Commission (FSC) in 2003, which is responsible for the supervision of the investment, insurance and pension insurance sector, has additionally contributed to the sustainable and effective development of the non-banking financial sector.

The stock exchange market, which was affected the most by the direct negative effects of the global financial crisis in 2008, has been slowly recovering over the last two years as a result of the low liquidity of the Bulgarian Stock Exchange – Sofia AD, as well as a result of the low interest on part of foreign investors in the Bulgarian capital market. The overall market capitalisation of the stock exchange declined by 8.8% on an annual basis and at the end of 2010 reached EUR 5.5 billion. As a result of the slower economic recovery and confidence revival, the depth of the financial intermediation in the capital market decreased from 17.3% of GDP in 2009 to about 15.3% of GDP in 2010.

Table 5: Depth of financial intermediation (% of GDP)

	2007	2008	2009	2010
Market capitalisation of BSE – Sofia AD	48.2	17.9	17.3	15.3
Insurance and health insurance premiums	2.5	2.6	2.5	2.4
Reinsurance premiums			2.0	2.0
Net assets of pension funds	3.9	3.3	4.6	5.7
Total for the non-banking financial sector	54.6	23.9	26.4	25.3

Source: FSC

The rate of assets decline of the non-banking investment intermediaries slowed down to 9% on an annual basis at the end of 2010 and the assets reached EUR 2,096 million. As a result of the low liquidity of the capital market, 35% of all non-banking investment intermediaries reported profit in 2010. In 2010 the number of the non-banking investment intermediaries decreased from 63 to 55 mainly as a result of requests for voluntary withdrawal of licences.

⁷ This includes the number of investment intermediaries (excluding the banks holding licences for investment intermediation), the public companies, the issuers, the special purpose vehicles and real estate investment trusts, the collective investment schemes, the management companies, the insurance and health insurance companies, the pension insurance companies.

Nevertheless, no significant risks for the financial stability are expected since there are no investment intermediaries found to be in breach of the requirements for capital adequacy and liquidity. Albeit below their value in 2007, the assets of the collective investment schemes increased at an accelerating rate and at the end of 2010 reached EUR 243.4 million. Positive development was also observed with regard to the special purpose vehicles and real estate investment trusts.

Table 6: Assets of non-banking investment intermediaries, collective investment schemes, special purpose vehicles and real estate investment trusts (EUR million)

	2007	2008	2009	2010
Non-banking investment intermediaries	3,946.2	2,827.4	2,300.8	2,098.9
Collective investment schemes	465.8	167.7	195.3	243.4
Special purpose vehicles and real estate trusts	701.0	798.1	807.8	809.4

Source: FSC

During the previous year the number of the approved prospectuses for initial public offering increased, although it has not yet reached its pre-crisis levels. A similar trend is also being observed with regard to the number of tender proposals, which increased to 20 at the end of 2010, but the turnover of the completed offerings remained much below the 2007 level.

Table 7: Prospectuses and takeover bids reviewed

	2007	2008	2009	2010
Approved prospectuses for initial public offering (number)	32	28	13	17
Takeover bids (number)	19	3	17	20
Turnover (EUR million)	87.9	1.5	15.3	34.3

Source: FSC

Regardless of the observed as a whole lagging of the Bulgarian capital market behind the recovery rates of the remaining markets in Central and South-Eastern Europe in 2010, since the beginning of 2011 a positive development trend has been observed, which is expected to continue over the next years as a result of its strong relation to the movements in these markets. From the point of view of its development policy, the prospects before the Bulgarian capital market over the next few years in view of the globalisation, are the privatisation of the Bulgarian Stock Exchange, the establishment of and entering on the Bulgarian market of a specialised clearing institution and/or central counterparty, as well as the development of the derivatives market.

In this dynamic situation the efforts of the FSC are focused on maintaining the stability of the markets and the confidence of the investors. The Commission actively participates in the discussions regarding the changes in the regulations at international level and in the establishment of the new supervisory architecture. A unit for assessing the systemic risk, which successfully combines supervision at macro- and micro-level, was established. FSC undertook additional supervisory measures for strengthening the reporting requirements for the investment intermediaries with regard to the capital adequacy. The number and the absolute value of shares sold and redeemed by the managed contractual funds and investment companies, as well as the volume of their cash in current and deposit accounts has been monitored.

In the field of insurance, FSC has obliged the companies to provide additional information on the amount of own funds and the solvency limit for a shorter period of time, as well as information about the insurance premiums by types of financial insurance (“Credits”, “Guarantees” and “Other financial losses” insurance) in order to monitor for early occurrence of unfavourable developments in these types of insurance. Furthermore, stress tests of insurance companies were carried out on a quarterly basis. Subsequently, preventive measures were undertaken with regard to the insurance companies having insufficient amount of own free funds (capital buffer) to cover possible losses if changes in the value of the investments occur as a result of unfavourable developments in the regulated capital markets, i.e. to ensure against a risk of breaching the solvency requirements.

The premium income in the market of insurance and voluntary health insurance services declined by 6.3% in 2009 as a result of the secondary effects of the global financial and economic crisis and mostly as a result of the slowdown of the economic activity in Bulgaria. Nevertheless, the own funds of the companies net of their intangible assets have remained at levels, which are considerably higher than the solvency limit. In 2010 a recovery of the sector was observed – the premium income registered a 9.4% growth in life insurance, 3.7% growth in reinsurance, 9.8% growth in voluntary health insurance, while the decline in non-life insurance slowed down to 5%.

Table 8: Insurance and supplementary health insurance

	2007	2008	2009	2010
Gross premium income (EUR million)				
Non-life insurance	649.3	784.3	745.0	707.1
Life insurance	120.7	138.0	113.5	125.8
Reinsurance	-	0	691.3	717.3
Voluntary health insurance	12.8	15.3	19.4	21.5
Covering the solvency limit with own funds less intangible assets (%)				
Non-life insurance	187	162	189	194
Life insurance	1,123	766	707	553
Reinsurance	-	105	34	115
Voluntary health insurance	453	508	470	563

Note: The 2010 data is preliminary, and for voluntary health insurance is an estimate. The data concerning reinsurance reflects the activities of the only company “GP Reinsurance” EAD.

Source: FSC

Already in 2011, with the recovery of the domestic demand, the sector is expected to restore its positions in the financial intermediation. The gross premium income from non-life insurance and reinsurance segments is expected to grow by 7% on the average over the next 5-year period, with the average rate of change of the gross premium income in the life insurance segment being lower (5%). The growth in the premium income of health insurance companies will most likely remain double-digit with a view to their low nominal value and the demand for additional health insurance services.

On the other hand, the Solvency II Directive (published in the Official Journal of the European Union in December 2009), which must be transposed by the Member States and enforced by the end of October 2012, summarises the provisions of most of the currently directives in force and, at the same time, introduces completely new solvency (capital

adequacy) requirements, corporate management systems, reporting, public disclosure of information and supervision of insurance and reinsurance activities. The Directive defines a new regime for defining the insurers' solvency, which, compared to the existing regime, attaches a higher weight to the quality of risk management and internal controls, and takes into account all quantifiable risks to which insurers are exposed. The Directive introduces a radically new approach (the so-called principle-based approach) to supervision by removing the existing formal approach of specific quantitative requirements and monitoring of their compliance.

In this regard, in the period up to 2015 both the supervisory approach by the regulatory authority and the requirements for the operations of the companies, operating on the insurance and reinsurance markets, are expected to change significantly.

After the negative developments in 2008 as a direct result of the global financial crisis, the assets of the pension insurance companies (PIC) continued increasing for a second consecutive year and in 2010 their value augmented by almost 20%. The analysis of the equity capital and the assets of the companies demonstrate an improvement with regard to both the coverage of registered capital and the profitability of the companies' equity and assets.

Table 9: Analysis of the equity capital and the assets of PICs (%)

	2007	2008	2009	2010
Coverage of the registered capital (ratio)	167.7	123.9	131.6	140.6
Profitability of the equity capital (ratio)	23.2	-19.4	7.3	11.4
Profitability of the assets of PICs (ratio)	18.3	-21.4	4.1	7.1
Assets of PICs (% increase)	50.7	-9.0	15.6	19.9

Source: FSC

The capital adequacy of the companies improves and in 2010 it reached 218%. The liquidity ratios of the companies and supplementary pension insurance funds (SPIF) decreased with the recovery of the confidence in the international capital markets, while, at the same time, they are significantly higher than the legally required coefficients.

Table 10: Capital adequacy and liquidity of PICs and SPIFs

	2007	2008	2009	2010
Capital adequacy of PICs (%)	193.6	155.2	180.2	218.0
Liquidity of PICs (ratio)	50.0	42.4	32.4	16.5
Liquidity of UPFs (ratio)	165.9	203.9	207.9	184.4
Liquidity of OPFs (ratio)	118.5	201.3	234.9	197.5
Liquidity of VPFs (ratio)	55.0	154.9	176.6	93.6
Liquidity of VPF – OS (ratio)	-	11.2	146.8	325.6

Source: FSC

The net assets of SPIFs also continued growing in 2010 and the growth reached 33.5% for the assets of the universal pension funds (UPF). The net assets of the voluntary pension funds (VPF) (the third pillar of the pension system) increased by 6.4%. The gross receipts from social security contributions in the funds increased by 1.4%, dominated by the growth in the gross receipts of UPFs (3.1%). In 2010 all the funds reported higher number of participants

except for the VPFs due to the limited free financial resources of households. The funds' yield in 2010 was positive after the negative developments during the previous two years.

Table 11: Net assets and yield of SPIFs

	2007	2008	2009	2010
Net assets of SPIFs (EUR million)				
Universal	627.9	741.4	1,114.1	1,486.8
Occupational	210.1	187.6	229.6	264.3
Voluntary	347.2	246.4	268.9	285.8
Voluntary by occupational schemes	-	1.0	1.0	1.5
Yield of SPIFs (%)				
Universal	11.3	-4.0	-7.2	6.4
Occupational	12.0	-5.8	-8.9	6.5
Voluntary	11.7	-6.4	-10.0	6.4
Voluntary by occupational schemes				5.2

Note: The yield is calculated on the basis of a 24-month period.

Source: FSC

During the period 2011–2015 the capital-based pension system, will continue being at funds' accumulation stage. The trend for increasing the net assets of the supplementary pension insurance funds will continue and their value is expected to almost double, while the net assets in supplementary mandatory pension insurance will grow even faster (2.5 times).

FSC is monitoring regularly and thoroughly each company and the managed funds in the event of repeated reporting of yield in the mandatory funds below the required minimum yield and in the event of jeopardised financial stability of the company. In addition, FSC requires that an annual Programme for financial stabilisation of the companies and the funds managed by them is prepared. In accordance with the Action Plan in times of a financial crisis, adopted by the FSC⁸, the companies are required to submit to the FSC twice-a-month up-to-date information about the amount of their equity capital and liquid funds, a balance sheet and an income statement of the companies. If problems in the operations of the companies and the funds have been detected, meetings with the management of some companies have been held and many recommendations for strengthening the control and preparing more accurate estimates in investing the funds have been made.

The activities above as well as the lack of exposure to structural instruments on part of the companies, contributed to the sustainability and the stability of the non-banking financial sector during the crisis. As a result of the consistent regulatory policy and the supervision exercised by the FSC (in particular in the socially sensitive pension sector), which is much more stringent than the European standards, no non-banking financial institution fell into a difficult position during the crisis. Regardless of the considerable decrease in the asset value, not a single non-banking financial institution failed to fulfil its obligations. The non-banking financial sector is stable and does not create any hindrances to the growth of the economy.

In the medium term legislative changes are expected mainly in connection with the strict fulfilment of the obligations of Bulgaria as an EU Member State. In this regard, the efforts

⁸ Adopted on 23 September 2008 by the Members of the Financial Supervision Commission.

will be focused on harmonising of the national legislation with the newly adopted EU acquis in line with the deadlines, specified at the EU level, and on the implementation of the European policies on which consensus has been reached.

III.2. Improving the Efficiency of Public Spending and Ensuring a Reallocation of Public Expenditure towards Growth-enhancing items

The ongoing reforms aimed at improving the collection of state receivables, strengthening control over the implementation of government policies, improving the coordination and harmonisation of financial management, control and internal audit in the public sector organisations, improving control over public enterprises expenditures, as well as the fiscal decentralisation, will be of key importance for improving the public spending efficiency and ensuring their reallocation towards activities enhancing the growth potential of the economy. These reforms are described in greater detail in the Convergence Programme of the Republic of Bulgaria (2011–2014).

2.1. Improving the fiscal framework and the budgetary procedure⁹

Over the last 13 years Bulgaria has achieved progress regarding the overall financial stability. Continuity in fiscal policy, limiting the redistribution role of the state, maintaining low taxes and compliance with the requirements of the Stability and Growth Pact have been pursued.

Despite the global crisis and the following recession, Bulgaria has maintained its macroeconomic stability by continuing implementation of a prudent fiscal policy. The country will meet the deadlines for bringing the deficit below the reference value established by the excessive deficit procedure and will consequently aim at broadly balanced budgetary position.

Since the beginning of 2011 the elaboration of new rules has started, which were aimed to ensure both continuity of fiscal policy, as well as long term macroeconomic and financial sustainability. The fiscal policy will be determined by two numerical rules:

- Public sector not exceeding 40% of GDP;
- Consolidated budget deficit ceiling of 2% of GDP;
- Tax policy – any introduction of new types of direct income or profit taxes, or changes in direct tax rates shall be adopted by a qualified majority of two-thirds of all members of the National Assembly.

In the already started budgetary procedure for 2012 the good practices from the preceding years concerning the rules of procedures, responsibilities, and top-down decision-making process have been preserved with the aim of maintaining stability and continuity in the processes and procedures for allocating and managing financial resources. The 2012 budgetary procedure has been changed to reflect the main elements of the so-called “European Semester”. This allows for better coordination and consistency among key government fiscal and budgetary documents, on the one hand, and the priorities and the commitments in key strategic national documents, such as the Convergence Programme of the Republic of Bulgaria (2011–2014) and this National Reform Programme, on the other. The main change in the 2012 budgetary procedure in response to the requirements of the

⁹ For more details please refer to the Convergence Programme of the Republic of Bulgaria (2011–2014), Part 7.

“European Semester” is frontloading the deadlines related to the adoption of the three-year budgetary forecast and the expenditure ceilings by FLSU, excluding municipalities, for the period 2012–2014 as key documents for drafting the 2012 budget.

The 2012 budgetary procedure also reflects at an initial stage some of the proposed legislative amendments at EU level and, in particular, the draft directive on the requirements for Member States’ budgetary frameworks.

2.2. Pension Reform and Social Security System Reform¹⁰

The reforms in the pension and social security systems will contribute to improving the long-term sustainability of public finances, which will be conducive to the macroeconomic stability and the economic growth.

Over the last years the pension system in Bulgaria faced a number of challenges. In order to overcome these negative trends, the Bulgarian government adopted a number of measures ensuring the long-term financial stability of the Bulgarian pension system and better adequacy of pensions. These measures entered into force on 1 January 2011, with the amendments to the Social Security Code (SSC), and are targeted at:

- Financial strengthening of the first pillar of the pension system through:
 - Putting an end to the decrease in social security contribution for the “Pensions” Fund and widening the social security base – as of 2011 the social security contribution was raised by 1.8 percentage points.
 - Introducing differentiated insurance income levels for self-employed on the basis of taxable income.
 - As of 1 January 2012, increasing the length of service for workers in third labour category - by 4 months in each calendar year until 37 years length of service for women and 40 years length of service for men is reached in 2020.
 - As of 1 January 2021, increasing the retirement age for men and women – by six months, until 63 retirement age for women (2026) and 65 years retirement age for men (2024) is reached.
 - Extending until 31 December 2014 the period when early retirement of first and second labour category workers will be covered by the PSS instead of the professional pension funds. By 31 March 2011 the funds accumulated in the personal accounts of individuals of certain age groups¹¹ will be transferred to the “Pensions” Fund of the PSS and the contributions of respectively 12% and 7% will be transferred to the National Social Security Institute (NSSI).
 - As of 1 January 2015 the early retirement pensions of first and second labour category workers will be covered only by professional pension funds.

¹⁰ The pension reform and the social security system reform are described in detail in the Convergence Programme of the Republic of Bulgaria (2011–2014).

¹¹ Men born in 1952 – 1959 and women born in 1955 – 1959.

- Increasing the adequacy of social security pensions:
 - As of 1 January 2017 the weight of each year length of service is increased from 1.1% to 1.2% for social security pensions¹².
 - As of 1 January 2014 the maximum levels of newly awarded pensions will be abolished and the maximum levels of old pensions will be gradually increased.
 - As of 1 January 2017 the contribution for universal pension funds will be increased by 2 percentage points to 7%.
 - As of 1 January 2012 the first day of sickness leave amounting to 100% of the daily gross wage will be covered by the employers, while the second and the third day will be covered by the “General Disease and Maternity” Fund of the PSS.

The pensions’ indexation in accordance with the so-called “Swiss rule” (Article 100 of the SSC) will be applied after 2013.

In 2011¹³ the minimum insurance thresholds for the main economic activities and groups of professions will increase by 5.6% as compared to 2010, and the average insurance income is expected to grow by 6.3% as compared to 2010.

The entitlement period for temporary incapacity to work benefit after terminating social security payment contribution is decreased (from 75 to 30 days), the entitlement period for pregnancy and childbirth benefits as well as the size of the maternity leave benefit for taking care of children up to the age of two has remained unchanged.

The ongoing pension reform envisages measures with different impact on factors to growth, namely¹⁴:

- Increasing consumption;
- Increasing the economic activity rate and the labour supply;
- Budget savings, which could be used for capital and innovation investments;
- Increasing potential growth due to both higher labour supply and better re-allocation of the additional resources available because of the savings realised.

The implementation of the measures and priorities of the National Demographic Development Strategy of the Republic of Bulgaria by 2020, which is to be updated by the end of 2011, will allow for improving the demographic balance, slowing down the rate of population decline and stabilising it in the long term, ensuring high-quality of human capital, equal opportunities for all and societal cohesion, thus contributing to the long-term sustainability of public finances.

The labour market structural reforms aimed at increasing the economic activity rate and at decreasing the long-term unemployment (in accordance with IGs 7 and 8 and the Flagship Initiative “An agenda for new skills and jobs”) will allow for neutralising the burden of ageing population in the future without jeopardising the stability of public finances.

¹² This means that a length of service of 37 years will be automatically equal to 44.4, and 40 years will be equal to 48 years. The objective is that in 2025 the net income replacement ratio from the first and the second pillar reaches 65%.

¹³ Pursuant to a Decision of the Council of Ministers from its regular meeting held on 20.10.2010 concerning the Draft 2011 Law on the Budget of the Public Social Security, which was adopted by the NA on 30.11.2010, SG No. 98/14.12.2010.

¹⁴ According to the evaluation of the planned structural reforms’ impact on economic growth in, Section 2.4 of the Convergence Programme of the Republic of Bulgaria (2011–2014)

2.3. Healthcare Reform

The healthcare reform is among the priority measures for the country with regard both to human potential and fiscal sustainability. It targets higher efficiency of healthcare expenditures combined with measures for improving public health, higher national health security and stabilising healthcare system infrastructure.

The expected results from these reforms are higher satisfaction of citizens and medical specialists from the public healthcare, provision of high-quality and accessible medical care with clear rules guaranteeing patients' rights and obligations, improved quality of the medical services, effective resources utilisation and financial sustainability of the system.

The approved expenditures in the 2011 budget of the Ministry of Health were increased by 20.1% as compared to 2010, to EUR 364.04 million. The hospital subsidies were increased by 44.4% (EUR 106.9 million) in view of their continuing modernisation. The healthcare expenditures in the 2011 state budget will amount to 11.9% of total budgetary expenditures. The current impossibility for allocating larger financing to this sector in view to the current need for fiscal consolidation makes it necessary to apply measures for increasing the financial independence of the sector, such as:

- Enhancing the financing, reimbursement and expenditure control mechanisms through:
 - **Applying, as of 2010, rules and methodologies for pricing and reimbursing medical activities**¹⁵ for determining reimbursable values of medical activities, regulating the volume and prices of all medical activities covered by health insurance.
 - **Development of e-healthcare**¹⁶ – starting as of 2011, an integrated information system will be gradually developed, which will allow linking in real time the information systems of healthcare institutions and contractors. The unified information system, developed by the Ministry of Health, must connect the already existing systems of several institutions (NHIF, NSSI, NRA, MH, etc.) with the healthcare service providers (hospitals, outpatient care centres, pharmacies). This will guarantee an adequacy of the healthcare policy, accurate prioritising, as well as optimal, adequate and transparent financing of the sector, and rapid and accurate exchange of information among all participants, which will allow real time system monitoring and appropriate decision taking. An **electronic patient's dossier**, which will allow patient's data exchange regardless of its location, will be developed and maintained. Besides convenience and cost-saving, continuity in the patient's follow-up by medical service providers will be achieved. Work on developing **electronic registers, electronic prescriptions, electronic referrals** will continue, and the already existing similar registers will be integrated in an unified information system and some of them – for example these of medical institutions, medical products – will be publicly accessible through web-portals.
 - **Elaborating rules for hospital financial management and reporting**¹⁷ – in order to control the financial and information flows, a monitoring and evaluation system of the providers' of medical care will be developed, up-to-date medical statistical information database will be maintained, as well as regular assessment of the health insurance system effectiveness will be carried out. The changed and improved requirements for hospital management will result in higher management effectiveness. The activities under this measure are envisaged to start in 2011.

¹⁵ In accordance with DCM 304 of 17.12.2010 on the prices and methodologies for reimbursing and cost-determining in 2011, Law on Health Insurance (LHI), amended, SG, No. 98 of 2010

¹⁶ Within the budget under the CFP for "Healthcare" function and Operational Programme "Human Resources Development" – EUR 5 million for 2011.

¹⁷ This measure is reflected in a MH report, adopted with Minutes No. 44 from a CoM meeting on 08.12.2010

➤ **Restructuring** the hospital sector

○ The introduced as of this year **National Healthcare Map** of medical institutions, subject to public funding and funding from the state budget,¹⁸ will continue being developed and improved. It will contain information not only about the type, number, activities and the distribution of medical institutions in terms of the levels of medical services in the region, but also about the number of beds and the publicly financed high-tech diagnostic and treatment centres. In addition, a **long-term policy** on *restructuring* medical institutions depending on regional needs; *improving* the National Healthcare Map and medical standards on the basis of analysis of their effectiveness, *eliminating* duplicating structures and planning the needs of including new hospitals, which want to work with public funds, depending on regional and sectoral needs, is being implemented.

○ Adopting and implementing in 2011 a **Plan and Programme for introducing diagnostically related groups (DRG)** as a hospital reimbursement and control method¹⁹ providing for better expenditure allocation and cost management in hospitals, creating incentives for restricting expenditures and more efficient distribution of funds among hospitals.

➤ Improving the access to medical care:

○ **Ensuring 24-hour access to medical care for health insured individuals**²⁰. Additional financial incentives for shift working doctors and specialists are introduced. In addition, new forms of work organisation are introduced, which guarantee for health insured individuals maximum access to medical services outside hospitals and the emergency centres. Within the 2011 NHIF budget, EUR 4.6 million are earmarked.

○ **Improving the prevention, screening and hospital care**²⁰; introducing as of 2012 indicators for quality assessment with expected positive impact on expenditure levels for more expensive, specialised outpatient and inpatient treatment (effective as of 2013). The existing prevention programmes and activities will be developed and improved. Screening and early diagnostics programmes are also being developed.²¹

○ **Introducing as of 2011 one-day activities in the basic package for hospital care**²⁰ to promote the use of modern treatment methods, which require minimum hospital stay. In addition to the positive effects on hospital expenditures' levels, the benefits for the society include reduced temporary work incapacity.

○ **Improving the reimbursement mechanisms and requirements to emergency centres in hospitals**²² to improve their effectiveness and the control over their activities. Until 2013 a project²³ under 2007-2013 Operational Programme “Human Resources Development” aimed at enhancing the quality of emergency care, especially to vulnerable groups, by improving the emergency staff knowledge and skills is being implemented. The total value of

¹⁸ Adopted with CMD No. 103 of 24 February 2011

¹⁹ Adopted with Minutes No. 44 from a CoM meeting on 08.12.2010

²⁰ CMD 304/17.12.2010 on pricing in Ordinance No. 40 of 2004 on determining the basic package of healthcare activities guaranteed from the NHIF budget (amended, SG, No. 62 of 2010) on the basic activities package.

²¹ Ordinance No. 39 on prevention and hospital treatment, 2011 National Framework Agreement, in accordance with Article 55 of the Law on Health Insurance.

²² In accordance with the Methodology for subsidising medical institutions, adopted with Order No. RD 28-15 of the Minister of Health as of 19.01.2011. Within the 2011 MH budget and Project BG051PO001-6.02.02 PIEC (Practical Introduction to Emergency Conditions Treatment) under 2007–2013 Operational Programme “Human Resources Development”.

²³ BG051PO001-6.02.02 PITEC (Practical Introduction to Emergency Conditions Treatment).

the project is EUR 3.2 million starting on 10 July 2009 for 29 months until 10 December 2011.

- **Hospitals restructuring based on the National Healthcare Map and improving their effectiveness through new reimbursement policies** (2011–2013), including planning the needs of new equipment depending on the cost-effectiveness ratio and the availability of qualified specialists. A project under OP “Regional Development” under the scheme BG161PO001/1.1-08/2010 – “Support for reconstruction, upgrade and equipment of state medical and healthcare institutions in city agglomerations” totalling EUR 75.2 million is being implemented.

- Strengthening the administrative capacity in the “Healthcare” sector through:

- **Planning the needs of staff and their specialisation**, developing qualification and post-graduate and continuing training systems²⁴ through internal rules and procedures of MH²⁵. The registers of the medical professional organisations will be used to plan the needed staff in the regions and the needed degrees in accordance to the country’s needs. Registers at MH will also be developed (2011–2015).

- **Transforming and optimising the existing regional healthcare centres** and regional inspectorates for public health protection and control – establishing 28 regional health inspectorates with new functions in 2011–2012 to replace the existing by the end of 2010 56 regional structures to MH²⁶.

- Optimising the pharmaceutical policy²⁷ (2011–2013) through:

- Adopting uniform standards for rational pharmaceutical use and unified criteria for the inclusion of publicly reimbursed pharmaceuticals;

- Introducing pharmacological and economic analysis for justified decision-making on implementing innovative pharmaceuticals;

- Control and optimisation of hospital spending on pharmaceuticals;

- Shortening the deadlines for evaluating new pharmaceuticals and simplifying the administrative procedures.

Given the limited resources of the national budget, most of the measures described above are financed with European Funds under OP HRD and OP “Regional Development”. The total amount of financing is EUR 108.7 million.

2.4. Education

The education priorities focus on:

- Improving the quality of education;

- Linking the curricula to actual needs of the economy;

²⁴ Operational Programme “Human Resources Development” (Project for Accreditation of medical institutions and continuing medical staff training totalling EUR 1.7 million, ending in 2011). A proposal to extend the time period for emergency staff until 2013 was made.

²⁵ Ordinance No. 34 / 29.12.2006 on acquiring degree and Ordinance No. 15 of 02.07.2008 on acquiring “General Medicine” degree by general practitioners (GPs).

²⁶ CMD No. 1 of 06.01.2011, within the MH budget and Operational Programme “Human Resources Development” (project for Government Social Responsibility: Innovative quality approach to government actions and results, G.S.R Model totalling EUR 0.12 million, until 2012).

²⁷ In accordance with the Medicinal Products in Law on Humane Medicine.

- Ensuring equal access to education and opening the educational system;
- Creating the preconditions for practical implementation of the Lifelong Learning concept;
- Involving young people in the elaboration of sectoral policies, and
- Transforming Bulgaria into a knowledge and innovation-based economy.

The education expenditures in the 2011 LSBRB amount to EUR 1.3 billion, or 9.6% of all budgetary expenditures. The need for fiscal consolidation necessitates additional measures to increase the financial independence of the sector, including through attracting private capital, which in turn will improve the links between the educational system and the labour market. These new practices in financing the Bulgarian education and pre-school education will be defined in detail in the **new Law on Pre-School and School Education**, which is to be adopted in 2012. By means of national programmes, the Ministry of Education, Youth and Science (MEYS) is able to earmark financing of specific measures and activities aimed to improve the quality of the Bulgarian education, as well as to encompass and retain more children in mandatory school-age in schools. The national programmes are approved each year by the Council of Ministers. The Council of Ministers, with a Decision as of 4 April 2011, approved nine such programmes for the current year.²⁸

The implementation of these measures will enhance the public expenditures' transparency and effectiveness through financing the educational system output, will accelerate school network optimisation and will contribute to broader pupil coverage through linking financing and the number of pupils.

Analysing the financing model and its improvement, as well as measuring and improving the quality of education are being planned. Improving the educational system and raising the general educational level will be favourable for labour supply and higher tax revenues in the future.

In order to improve the *effectiveness of public expenditure*, the World Bank will provide assistance for institutional reforms in education with the objective to optimise the public spending output. The assistance will be targeted both at improving the *quality of the primary and secondary education* through strengthening the schools' reporting system and improving the system of external evaluation of the education quality, and at improving the *quality and significance of higher education* through better management in higher schools, stricter control over their accreditation and linking the government financing to output.

²⁸ "Optimising the school network"; "Qualification"; "Information and communication technologies (ICT) at school"; "The school – a territory of pupils"; "System for national standardised external evaluation"; "Modernising the professional training system"; "Care for each pupil"; "Creating an accessible architectural environment"; "Mother tongue and culture abroad".

III.3. Ensuring Better and More Efficient Utilisation of the Economy’s Labour Potential (with regard to growth-supportive measures)

Ensuring better and more efficient utilisation of the potential of the labour force in Bulgaria will contribute to the achievement of National target 1 “Reaching 76% employment among the population aged 20-64 by 2020”. At the same time, it will contribute to the recovery and maintaining of a high economic growth, and to increasing the labour productivity. This section focuses on the reforms and measures which are part of larger-scale initiatives on the labour market (described in details in an annex to the Programme), but which will be implemented in the short term (2011–2012) and which will have a tangible and swift impact on the labour market and the policy’s target groups.

The implementation of the reforms and the measures for improving the functioning of this factor to growth, which are described in details in the section concerning the achievement of National target 1, will contribute to achieving higher and balanced growth through:

- ⇒ Activating and ensuring labour force to be employed at high-quality (with higher requirements to the labour force and creating a high added value) jobs;
- ⇒ Higher labour productivity of the employed individuals as a result of higher level of knowledge and skills;
- ⇒ Flexibility, manifested by a rapid reallocation of the available labour force and decreasing the duration of the transitions between different conditions of the labour market;
- ⇒ Forestalled training to provide the required labour force in view of the future labour market needs.

To achieve the targets defined in the NRP, measures directed mainly at providing employment for unemployed individuals, both in the primary labour market and under employment programmes and measures, will be implemented. The proactive actions for enhancing the quality of the labour force, which are of great importance for ensuring a qualified and adaptive labour force for the needs of the business, will also continue. The more important measures in the short term (2011–2012) are:

- Improving the quality of the employment services provided by the “Labour Offices” Directorate (LOD) – on the one hand, the work with inactive and discouraged people will be expanded and reducing the passive behaviour of unemployed individuals at the labour market will continue, and, on the other, a set of activities contributing to increasing the activation share of unemployed will be implemented.
- Improving the effectiveness of the measures and programmes of the Employment Agency (EA) for subsidised employment, apprenticeship and practices for unemployed individuals from disadvantaged labour market groups.
- Launching an integrated system for labour market demand and supply, and developing of a unified national portal for announced vacancies. In 2011 the modernisation of the employment services will continue with the development of an **integrated system for labour demand and supply** and facilitating the access to free information about the existing vacancies. In addition to the employers from the administration and the

municipal enterprises, who are already obliged to announce in the EA territorial offices the vacancies for people working under employment contracts, an access to the information about the vacancies announced by private intermediaries will be also provided on the EA website. This way a **unified portal for announced vacancies in the whole country** will be created, where job-seekers will be able to obtain information quickly and free of charge.

- Efficient integration of young people on the labour market – “new start”. The resources and the possibilities for supporting the **efficient integration of young people on the labour market** will be enhanced. The focus will be put on facilitating the transition from education and training to employment and the labour market, as well as on providing different measures of “second chance” type for individuals who are not within the educational and training system, or not employed. In 2011 the number of the newly-employed individuals under the “*Career Start*” Programme will be doubled. The provision of subsidies from the state budget of practices of young people aged up to 29 years with employers, as well as the provision of subsidised employment, including also to young people with permanent disabilities, war invalids, as well as young people from social institutions who have completed their education, continues. Under OP HRD a new scheme for young people will be launched, which will provide professional training combined with training in key skills required by the employers. By implementing the package of measures in this direction, the share of young people, who have been offered a “new start”, will increase to 27% of the registered unemployed young people by 2015.
- Improving the flexibility and security on the labour market. In connection with the **implementation of the Bulgarian roadmap for improving the flexibility and security on the labour market**, on the basis of the first agreements between the nationally represented trade unions and employers’ organisations, the introduction and dissemination of *new flexible forms of employment* – working from home and distance work, has been legally defined. Directive 2008/104/EC on temporary agency work will be transposed in 2011. The efficient bilateral social dialogue with regard to expanding the scope of branch collective labour agreements, in addition to the already signed four collective labour agreements, will continue. Incentives for introducing different flexible forms of employment, diversification of the provided social benefits, increasing the geographic mobility of the labour force, etc. will be supported²⁹.
- Reducing the share of undeclared work. With a view to **reducing the share of undeclared work**, the control over labour will be improved, including by appointing 110 people as inspection assistants and training 460 employees from the specialised administration of General Labour Inspectorate Executive Agency (GLIEA). In this regard, an important support will be also provided for the activities of the social partners, including through the operations of the *National Centre for Prevention of the Informal Economy*; public campaigns for changing the attitudes towards intolerance to all manifestations of the informal economy; promoting the introduction of corporate social responsibility practices at company’s / branch level; operation of the network of Information offices “Decent work”, etc. The undertaken measures for strengthening the public pension system in the long term will also have a positive impact on the reduction of the undeclared work. The clear legally defined rules provide security to the young employed people that if they work “in the light”, they will get adequate pensions. At the same time, preferences to the elderly people to remain in the labour market for longer

²⁹ Under schemes in the framework of OP “HRD”.

period of time instead of receiving pensions and working after retirement, which often is not declared, are being provided.

- Lifelong learning. Considerable efforts for increasing the **access to lifelong learning** and **enhancing the quality of education** will be implemented. To this end, a plan for the period 2012–2013 will be developed in pursuance of the National Lifelong Learning Strategy. The wide implementation of the different *voucher schemes* for training of employed and unemployed people continues through the operation of the schemes “I can”, “Adaptability” and “Development” and in 2011 new schemes in this field will be launched. Under the leadership of the Ministry of Education, Youth and Science (MEYS) a new national approach for *ensuring the quality of professional education and training* will be defined. *Career orientation services* will also be developed. The social partners’ activities in this direction, including through the functioning of the *National Reference Network for Assessment of the Labour Force Competences*, will be supported. Carrying out *three regional learning fairs*, issuing a *reference book on the offered opportunities for education and training* in the different regions of Bulgaria, etc., will contribute to increasing the awareness of the lifelong learning strategies at national level.
- Forecasting the needs of labour force with certain qualifications. In 2012 the development of the system for **forecasting of the needs of labour force with certain qualifications** in the medium and long term will be completed, which will help to overcome the shortage of highly-qualified workers and employees in a number of economic sectors. A forecasting model will be developed in 2011; it will provide the basis on which a medium-term forecast of the needs for labour force with certain qualitative characteristics in terms of economic activities, professions, education attainment, both at national level and by planning regions, will be developed. Special attention will be paid to the skills and training needs of the vulnerable groups on the labour market, including people without education or qualifications, young people, long-term unemployed, elderly people, women, etc.

III.4. Addressing the Weaknesses in the Business Environment and Enhancing the Administrative Efficiency, including at Regional and Local Level

Ensuring transparent, predictable and favourable to investments business environment in compliance with the recommendation of IG 6 will contribute to establishing an appropriate framework for business development, especially of small and medium sized enterprises (SMEs). The Better Regulation Programme (2010–2013) and the functioning of the group for monitoring of its implementation will continue playing an important role in the improvement of the business environment, in particular with regard to enhancing the quality of statutory instruments, reducing the regulatory and administrative burden, ensuring compliance of the legal acts and procedures of the regulatory regimes with the Law on Limiting the Administrative Regulation and the Administrative Control on the Economic Activity (LLARACEA), introducing electronic services and participation of the business structures in the process of planning and reporting of the implementation of the measures identified in the Programme. The Commission for Protection of Competition (CPC) will also play an important role for the improvement of the business environment through its activities related to adopting opinions on draft statutory instruments for their compliance with the provisions of the Law on Protection of Competition (LPC), strengthening its interaction with the sectoral regulators in connection with the LPC enforcement, as well as by strengthening the effective competition in the relevant markets by increasing the number of ex-officio investigations, decisions and sanctions imposed in case of established violations of the LPC. The role of the Communication Regulatory Commission (CRC) is also important and its tasks related to identifying risk companies and market segments/sectors at national and regional level, which should be subject to regular monitoring, as well as to the statutory definition of specific obligations in the event of establishing that an enterprise has significant influence on the corresponding markets, will additionally contribute to improving the business environment.

The improvement of the business environment, in particular the reducing of the existing administrative burden for the business and employers, which is related to the process of hiring and optimising the personnel, will also allow reducing the undeclared employment. This in turn, will not only result in increasing the employment of the population (via a purely statistical effect), but will also contribute to supporting the state budget by ensuring higher revenues related to the higher employment.

Many of the measures for improving the administrative efficiency are implemented under Operational Programme “Administrative Capacity” (OPAC) 2007–2013, which is co-financed by the European Social Fund (ESF).

In addition, the World Bank is ready to continue its cooperation with Bulgaria for *improving the business environment* by supporting the efficient implementation of the Better Regulation Programme and the Action Plan for Reducing the Administrative Burden, with the objective of improving *the functioning of the state administration* and increasing *the confidence in the state institutions*. The World Bank will provide analytical and consultancy assistance in the process of joint preparation of analyses and assessments of the competitiveness of the Bulgarian economy and the policies supporting the economic growth.

4.1. Optimisation of the Public Administration

During the period March–July 2010, with a view to optimising the administrative structures, a thorough functional analysis was carried out within the Administrative Reform Council (ARC). As a result, the total number of administrative structures was reduced by 7.8% (to 106), the number of employees in the public administration – by 10.9%, and the wage bill in the public administration was reduced by 12.6% as compared to their 2009 level.

In July 2010 the Council of Ministers adopted the Action Plan for Optimisation of the State Administration (2010–2011), developed by ARC³⁰. The Action Plan contains 572 measures, of which 185 are for optimisation of the ministries' functions, 38 are for enhancing the efficiency and effectiveness of the administrative structures and 349 are for streamlining the public services. The Action Plan identifies the responsible institutions and sets deadlines for implementation (with small exceptions, by the end of 2011) for each measure. The Council of Ministers adopted the report on the implementation of the Action Plan for Optimisation of the State Administration (2010–2011) for the period July 2010 – February 2011. The report states that:

- The process of the **optimisation of the functions** of the ministries was carried out by making changes in their statutory regulations. Of these measures (185), 79.5%, or 147 measures, were planned and implemented by the end of 2010 and the remaining 38 measures will be implemented by the end of 2011.
- The measures for **enhancing the efficiency and effectiveness of the administrative structures** are targeted at improving the internal rules and procedures on the basis of thorough analyses of the current situation with a view to identifying areas for improvement. Of the 38 defined measures, 73.7%, or 28 measures, were planned and implemented by the end of 2010 and the remaining 10 measures will be implemented by the end of 2011.
- **Improving public services.** Of the 349 proposed measures, 62.2%, or 217 measures, were planned and implemented by the end of 2010, 36.7% (128 measures) will be implemented by the end of 2011, and 4 measures – by the end of 2012.

The government will continue implementing measures for optimisation of the state administration during the period 2011–2013. Under Priority Axis I “Good Governance” of OPAC a call for tenders has been launched for projects of central administrations with a total value of EUR 2.6 million. The procedure is aimed at optimising the structure and organisational development of the administrations, enhancing the efficiency and effectiveness of the processes, and avoiding duplicating functions of the administrative structures at central level, as well as of territorial units of the central government. The projects under this procedure will help optimise specific administrations, which support the executive power.

In 2011–2012 the following more important measures will be implemented:

- Amendments to the Law on Administration for the purpose of reducing the hierarchical levels in the administration and better distribution of powers between the head of the administration and the general secretary, deadline for implementation – end of April 2011;
- Developing methodology for determining the number of personnel in regional administrations with a view to achieving transparency in this process;

³⁰ with CMD No. 560 of 2010

- Enhancing the quality of work of organisations and institutions directly involved in the improvement of the business environment in Bulgaria –BAI, EAPSME, institutions and administrations from the national quality infrastructure. Under Priority Axis 4: “Strengthening the international market positions of the Bulgarian economy” of OP “Development of the Competitiveness of the Bulgarian Economy” (OPC) a call for tenders for projects supporting the activities in this field will be launched;
- Implementing the Plan for optimisation of the state administration, which will allow for the modernisation of the organisation of the administration and for improving the access to and the quality of public services and the efficiency of public expenditure;
- Selecting a model for regionalisation and second level of self-governance, which will allow to strengthen the role of the Regional Governors in the local state governance and will provide an opportunity for establishing a regional level of self-governance; strengthening the role of the Regional Councils as authorities implementing the government policies and providing for regional coordination;
- Developing a methodology for financing the activities of the regional administrations, including by introducing standards for the budget appropriations to regional administrations, with a view to achieving transparency in determining the budgets of the regional administrations.

4.2. Human Resources Development in the State Administration

Enhancing the efficiency and strengthening the capacity of the administration at central and local level will contribute to improving the business environment and to establishing a favourable investment climate. Measures for human resources development in the state administration are envisaged within the framework of Priority Axis II “Human Resources Development” of OPAC.

In 2011–2012 the following more important measures will be implemented:

- Developing the systems for recruitment and selection of human resources in the administration;
- Introducing a new remuneration in the state administration.

The new remuneration model for the officials in the state administration will comprise two parts – permanent, which depends only on the hours worked, and a variable, not guaranteed one, which is related to the achieved results, the specific features of the work processes and organisation. The ratio between the permanent and the variable parts of the wages is envisaged to be fixed at the level of the wage bill. It is also envisaged to use a metric scale for determining the basic monthly wages in terms of positions – the metric scale will contain definite brackets of the basic monthly salaries for each position, and for each bracket there will be a minimum and a maximum amount of the basic monthly wage. The metric scale will be developed on the basis of an evaluation of the functions and responsibilities of the positions, defined in the Uniform Classifier of Jobs in the Administration. The new remuneration system envisages that the additional payment for length of service will be abolished and, at the same time, that a new type of additional permanent remuneration will be offered, the so-called “retaining supplement”.

- Training for strengthening the administrative capacity and familiarising with the statutory instruments, which regulate the introduction of the electronic government – Law on Electronic Governance (LEG), Law on Electronic Document and Electronic Signature (LEDES), LLARACEA, Administrative Procedure Code (APC);

- Training on conducting impact assessments;
- By 2013 training for strengthening the administrative capacity of the public-private partnership (PPP) units, and development of methodological documents for facilitating the procedures for awarding public-private partnership contracts is envisaged.

In the medium term a system for planning the needs of human resources in the state administration will be developed, which will improve its effectiveness and adaptability. The system will be developed under an OPAC project implemented by the administration of the CoM.

4.3. Introducing Mandatory Impact Assessment

In Bulgaria the impact assessment of statutory instruments is partially introduced in the LLARACEA. In order to avoid the limited scope in implementing the LLARACEA, the implementation of this concept will be regulated in the Law on Statutory Instruments (LSI).

According to the progress report on the implementation in 2010 of the Better Regulation Programme 2008–2010, 509 civil servants have undergone training courses in impact assessment of statutory instruments and 10 officials have been trained as trainers in this field. Out of the prepared 15 impact assessments of statutory instruments, 14 were carried out via awarding contracts under the Law on Public Procurement (LPP).

Measures to be implemented in the short term (2011–2012):

- Institutionalising the process of regulatory impact assessment – assignment functions related to the preparation of impact assessments of statutory instruments to units in the central administration;
- Establishing a network of experts trained in impact assessment in the state administration.

In the medium term, by 2015, a number of measures will be implemented (described in detail in Annex 1), such as:

- Carrying out impact assessments, including ex-post, impact assessments of statutory instruments with substantial influence on the business environment, as well as assessment of the compliance of statutory instruments with the LSI;
- Identifying enterprises with significant influence on the markets at national and regional level, which shall be subject to regular monitoring by the CRC;
- Introducing a mandatory demographic impact assessment of all statutory instruments.

4.4. Reducing the Administrative Burden

With a view to achieving the objective of the Republic of Bulgaria for reducing the administrative burden, resulting from the information obligations stemming from the national legislation, which does not transpose the European requirements, by 20% by the end of 2012, adopted with a CoM Decision as of 12 March 2009, 33 laws and secondary legislations are to be amended. These laws will be revised in accordance with the five-component model for reducing the administrative burden, namely: submission of information, collecting data from other state authorities instead of from the business, removing the information obligations, simplification of the terminology, reducing the complexity of the regulations. The expected benefits for the business will be the reduced costs, respectively a reduced administrative burden, in the amount of approximately EUR 13.3 million. The work on assessing the

administrative burdens imposed by further 20 laws has started; it will additionally increase the benefits to the business. According to the progress report on the implementation of the Action Plan, it is expected that administrative burden reduction by 17% will be achieved already by the end of 2011.

In order to stop the continuing practice of the local authorities to administer regulatory regimes, which have not been stipulated in a law, the Better Regulation Programme (2010–2013) envisages the following measures:

- Drafting of a Law on the amendment of the Law on Local Self-governance and Local Administration (LLSGLA), which will specify the powers of the municipalities to introduce regulatory regimes. The current law is too general with regard to the framework of the powers of municipalities to define the requirements for the economic activity of natural persons and legal entities in the territory of the municipality;
- Improving the control mechanisms of the Regional Governors by an amendment to the Law on Administration or the LLSGLS;
- Identifying and proposing the abolition of illegal regulatory regimes, applied by the municipal authorities, by involving in this activity the regional administrations.

Measures to be implemented in the short term (2011–2012):

- Identifying the problems related to the self-regulating authorities, which administer regulatory regimes and the control over their implementation – preparing an analysis and a project for influencing the process;
- Developing a concept paper about a new Law on the Fees, which is to replace the currently in force Law on State Fees - adopted in 1951 and not well harmonised with the current national and European legislation. The activity will be implemented by the Administration of the CoM under an OPAC project;
- Implementation of the Action Plan for achieving the national goal of reducing the administrative burden by 20% by the end of 2012 – pursuant to CoMD No. 235 as of 23.04.2010, every quarter the MEET summarises and presents to the CoM a report on the implementation of the measures included in the Action Plan;
- Statutory introduction of tacit consent in regard to the registration regimes, which will allow reducing the time for launching business initiatives³¹;
- Developing a draft Law on Public-Private Partnership and a Law on the amendment of the Law on Concessions.

In the medium term, by 2015, a number of measures will be implemented (in accordance with Annex 1), some of which are:

- Limiting the scope and abolishing the inexpedient regulatory regimes which do not stem from the European acquis;
- Strengthening the capacity of branch and/or professional organisations for administering and/or controlling regulatory regimes (by introducing standards for monitoring and influence on part of the state), where the need to do so has been proved;
- Active dialogue with the stakeholders for the purpose of reducing the burden in regulatory regimes;

³¹ With CMD No. 113 of 25.02.2011 amendments were adopted in the form of Law on the Amendment of the LLARACEA, which is currently being discussed by the National Assembly.

- Reducing the regulatory burden stemming from the spatial planning and the investment process. A project under OPAC has been elaborated for the implementation of this measure.

4.5. Simplifying the Administrative Procedures, Electronic Governance and Electronic Services of the Administration

Introducing the information and communication technologies (ICT) creates real conditions for improving the administrative services. The use of ICT provides the opportunity for higher transparency in the relationships between the administration and the client, for eliminating the preconditions for corruption practices, for reducing the time necessary for receiving services and for expanding the access to them.

In order to successfully establish and develop the electronic governance, it is necessary to both carry out organisational changes in the administrations and enhance the administrative capacity to work with ICT. Together with introducing the principle for providing services and information by electronic means, an adequate communication shall be ensured among the administrations, as well as between the administrations, on the one hand, and the citizens and the business, on the other.

Under Priority Axis III “Quality Administrative Service Delivery and E-governance Development” of OPAC, activities related to the improvement of the administrative services delivered to citizens and the business, including the development of e-services and e-governance, are being financed.

The Electronic Governance Council will work for improving the interdepartmental coordination of the electronic governance policy and the related projects and initiatives by providing the necessary support to the institutions for the practical implementation of the electronic governance.

A Roadmap on the implementation of the adopted Electronic Governance Strategy of the Republic of Bulgaria (2011–2015) has been elaborated³². The Roadmap will be submitted to the CoM for adoption in April 2011. The Roadmap embeds the conclusions from the report³³ of the Minister of Transport, Information Technologies and Communications on the current state of play and the readiness of the administrations to actively participate in the electronic governance.

Measures to be implemented in the short term (2011–2012):

- Launching the Administrative registry with a view to achieving openness, accessibility and coordination in the work of the state administration.

The implementation of an OPAC project, which will aim at providing electronic services administratively and at exchanging electronic documents between administrations in applying the administrative regimes, as well as at providing complex administrative services and optimising the administrative procedures/processes for their provision through the development of clear procedures, is expected to start.

³² With Decision No. 958 of the Council of Ministers dated 29.12.2010

³³ According to the report, 74% of the administrations define the services they provide as services of highest public effect; 12% do not provide services to the citizens and the business under the Law on the Public Administration; 4% declare that the specific nature of the services they provide does not allow these services to be electronic; and 2% state that the provisions of their services by electronic means would not result in material economies.

- Expanding the e-governance infrastructure – the Ministry of Transport, Information Technologies and Communications (MTITC) implements an 18-month OPAC project. The project will ensure the implementation of priority electronic administrative services, improvements in the portal, and further development of the e-government system. Another OPAC financed project of MTITC aims at improving the information and communication environment for better delivery of administrative services through upgrading the central systems of the electronic government (identities register; enhancing the Integrated Environment for Electronic Document Exchange (IEEDE); establishing centralised system for monitoring and management of the information security and interoperability, etc.).
- Possibilities for using an Improved Electronic Signature (IES) – the technical maintenance of the different IES formats shall be ensured by all EU Member States by 1 August 2011. This will contribute to improving the cross-border interoperability of electronic procedures.
- In 2011 “Licensing and Registers” information system in the CRC will be introduced³⁴. This way, a new approach of communication with citizens and business, which is in line with the EU requirements, will be established and the access of external individuals and entities to the complex administrative services and public databases of the regulator will be considerably facilitated.
- Updating the National Strategy for Broadband Internet Access and elaborating a National Operational Plan for the implementation of the strategic objectives in this field until 2020, in connection with achieving the priorities of Flagship Initiative “A Digital Agenda for Europe” under the Europe 2020 Strategy. It is expected to be adopted by the CoM at the end of July 2011.
- Enhancing the Unified Information System for Counteracting Crime (UISCC) and raising the quality of the services provided to citizens and the business by enhancing and developing the system and of the centralised portal of the e-justice. This measure is implemented under Sub-priority “Improving the service delivery provided by the judiciary through developing the information technologies” under OPAC Priority Axis III “Quality administrative service delivery and e-Governance development”, co-financed by the ESF;

In the medium term, by 2015, a number of measures will be implemented (in accordance with Annex 1), some of which are:

- Developing a secure and protected administrative electronic communication network for the state administration and the electronic governance;
- Implementation of the Roadmap to the adopted Electronic Governance Strategy of the Republic of Bulgaria (2011–2015);
- Establishing an integrated system for management of the processes in the administration (central and municipal);
- Upgrading software applications for the development of the e-governance.

³⁴ Entirely with the financial support from the EU mechanisms under OPAC and financed from the European Social Fund.

4.6. Implementing the Services Directive

The Directive 2006/123/EC on services in the Internal Market was transposed in the national legislation in the Law on the Activities Related to the Provision of Services (promulgated, in SG Issue No. 15 of 23.02.2010, effective as of 23.02.2010).

Amendments were made to the Law on Tourism, Law on the Spatial Development, the Law on the Bulgarian Construction Chamber, the Law on the Chamber of Architects and Chamber of Engineers in Investment Design, the Law on Energy Efficiency, the Law on Crafts, and the Law on Consumer Protection. These amendments were orientated towards simplification of the administrative procedures and eliminating the obstacles to the activities related to the provision of services. They are aimed at ensuring the *recognition of certifying documents issued by other Member States on part of the Bulgarian competent authorities*, which are considered as equivalents of the Bulgarian documents, as well as the *recognition of commercial registration* under other Member States legislation, *imposing the principle of tacit consent*, etc.

In regard to the necessity to especially focus on the full transposition of and harmonisation with the Services Directive, and in regard with the results from the 2010 assessment of its transposition, carried out jointly by the Member States, in the short term Bulgaria will:

- Align the draft laws in the legislative programme of the government, which concern the provision of services, with the Law on the Activities Related to the Provision of Services, which transposes the Directive provisions in the national legislation.
- Identify and propose amendments to the specific legislation in the field of services in order to eliminate the remaining regulatory barriers, which unjustifiably impede the freedom of services provision.

Single Contact Point for Services' Providers

The task of a Single Contact Point (SCP), pursuant to the Law on the Activities Related to the Provision of Services, is performed by the Integrated National Portal for Access to Electronic Administrative Services. At present the administrative services which need to be accessible through the SCP are provided at informational level, and their electronic realisation shall be implemented by the competent authorities, which provide them. The maintenance and the improvement of the SCP is synchronised with the policy in the field of e-governance and is thus related to the Roadmap on the implementation of the adopted E-Government Strategy of the Republic of Bulgaria (2011–2015).

In the medium term, by 2015, full operationalisation and a gradual electronic realisation of the administrative services, provided through the Single Contact Point (SCP) of the services' providers is envisaged, in accordance with Directive 2006/123/EC on services in the Internal Market.

4.7. Access of Bulgarian Enterprises to Financing

The increased recently requirements towards the potential users of bank credits made it necessary to introduce, in cooperation with the European partners, new, innovative instruments for financing the Bulgarian enterprises. In this regard, within OPC the implementation of activities under Priority Axis III "Financial Resources for the Development of the Enterprises" has started. The successful implementation of these activities will not only create access to the financing needed by the enterprises but will also result in a more rapid development of the financial sector in Bulgaria as a main factor to economic growth.

In 2010 four calls for expressions of interest were announced under procedures for instruments of financial engineering:

- Risk Financing Fund(s) – total capital of EUR 30 million, 70% of which will be provided by the JEREMIE Holding Fund. The deadline of the call for expression of interest by financial intermediaries under this instrument was 2 November 2010 and 12 declarations of interest were received within the deadline.
- First Loss Portfolio Guarantees Financial Instrument – total budget EUR 74 million. This instrument will improve the access of enterprises to financing and will also reduce the interest rates and the collateral required for providing loans. The deadline of the call for expression of interest by financial intermediaries under this instrument was 17 January 2011 and 11 declarations of interest were received within the deadline.
- Growth Capital Fund(s) – total capital of EUR 60 million, 50% of which will be provided by the JEREMIE Holding Fund. The objective of this financial instrument is to provide growth capital for financing the growth or the expansion of companies which are profitable or close to being profitable. The capital can be used for financing production expansion, market expansion or product development, or any other investment aimed at the company's expansion. The deadline of the call for expression of interest by financial intermediaries under this instrument was 17 January 2011 and 8 declarations of interest were received within the deadline.
- Mezzanine Fund(s) – total capital of EUR 60 million, 50% of which will be provided by the JEREMIE Holding Fund. The Fund will provide Mezzanine financing – hybrid financial instrument combining debt and equity financing. The deadline of the call for expression of interest by financial intermediaries under this instrument was 17 January 2011 and three declarations of interest were received within the deadline.

III.5. Improving the Quality and Efficiency of Education and Training Systems

The reform in the education and training systems will contribute to increasing the of labour force, competences, qualification of low-skilled workers, and to better reflecting the development of modern society and addressing the labour market needs in line with IG 9. The successful implementation of formulated measures aimed at improving the framework of education and training systems is closely related to the achievement of national target 4 and will also allow the achievement of national targets 1 and 4 in line with IGs 7, 8 and 10.

The reform in this sector will be complemented by the expertise of the World Bank. The latter will provide analytical and advisory assistance for *improving the quality of primary and secondary education* by strengthening reporting requirements for schools and *enhancing the quality and importance of higher education* by their better governance, strengthening the control over the accreditation and ensuring performance-based budgetary funding of higher schools. The concrete measures in the primary and secondary education will include improving the system for external assessment of the quality of education, as well as establishing school-based mechanisms for strengthening the role and the commitments of parents and municipalities in management school decisions. The World Bank will also assist the government in the implementation of the prepared reform of school education.

5.1. School Education

The currently in force Law on National Education (LNE) was adopted in 1991 and since then was amended 21 times. Major public relations are thus regulated by the secondary legislation, which creates parallel and frequently contradicting with the LNE regulatory framework. Stronger harmonisation is also necessary in view of the implementation of the EU priorities and targets within the Strategic Framework for European Cooperation “Education and Training 2020”, which aim at achieving the targets of the Europe 2020 Strategy. Comprehensive and systematic policies, provided for with the human, financial and physical resources and enjoying wide public confidence and support, need to be designed and implemented in order to efficiently achieve the objectives of equal access and high-quality education.

Measures to be implemented in the short term (2011–2012):

- Establishing a network of career development centres.

To enhance the quality and effectiveness of secondary education and to ensure transition from education to the labour market, the project “Establishing a system for career development in schools” will be launched. Within the framework of this project **28 regional career development centres** will be established with the objective to provide information, consultancy and advisory services to pupils at all stages of secondary education. The **information search system**, which is planned to be established, will contain structured information about the national network of secondary and higher schools, the profiles, professions and specialities, as well as diagnostic instruments.

- Elaborating Law on School and Pre-school Education and the respective secondary legislation to outline the new educational environment focused on the child and the pupil.

- Implementing the nine national programmes for the development of the secondary education, approved with a Council of Ministers Decision as of 4 April 2011.

In the medium term, by 2015, a number of measures will be implemented (in accordance with Annex 1) **for modernising the educational system.** Some of these are:

- **Introducing a new educational structure** to ensure equal access to education. This will support the process of overcoming the main shortcomings of the existing educational structure, namely the existing inequality between pupils in different types of schools following the different general educational minimums; the restrained intra-system mobility and the lack of provisions for issuing a diploma (only a certificate of completed stage of education is being issued); insufficient conditions for developing the potential of each child while taking into account its interests, needs and abilities.
- Providing a **full-day school** for the first grade pupils in state and municipal schools.
- **Optimising the school network** in line with the demographic trends to ensure better efficiency in the use of resources. Enhancing the system for school and education inspection.
- **Developing the system for evaluation and quality control of education** at different levels as a fundamental opportunity for developing and implementing policies for prevention of school dropping out (also contributing to the achievement of the national target 4) and for attaining higher educational levels. The system encourages the participation and assuming responsibility, which is directly related to the social inclusion and the reduction of social isolation (in pursuance of national target 5).
- **Developing an efficient system for qualification and career development of teachers and lecturers,** which will contribute to improving the quality of secondary education. The new Law on School and Pre-school Education will place the qualification of pedagogic staff as a main priority in the field of secondary education. For the first time, in view of the specificity of the profession and the need for continuous improvement of teachers' knowledge and skills, the qualification will become compulsory and will aim at satisfying the changing needs of children and pupils. **The qualification of pedagogic staff** will be oriented towards attaining specific approaches and methods for work with children with special educational needs, children with different ethnic origin, talented children and children and pupils exposed to the risk of dropping out of school. To enhance the quality of education and improve the correspondence between the educational sector and the labour market needs, the following activities will be developed:
 - Planning, improving and evaluating the inherent processes in the kindergarten and school in order to guarantee the best performance of each child and of the school community as a whole in line with the initially defined targets and objectives. This will allow to improve the quality of teaching methods in the pre-school and school education;
 - Developing a network of career centres;
 - Developing mechanisms for vocational training of pupils and students in real working environment;
 - Improving the quality of professional education;
 - Introducing a management system for professional education;

- Introducing training and qualification programmes for experts in the field of energy and new technologies, and energy management;
- Improving the quality of general education;
- Providing opportunities for consultations and additional activities for supporting pupils in primary and lower secondary stage of education experiencing learning difficulties (in the form of additional activities in small groups and individually tailored programmes).

Quality enhancing measures in the field of general and professional education as well as measures providing opportunities for consultations and additional activities for supporting pupils in primary and lower secondary stage of education experiencing learning difficulties will be implemented in order to improve the educational performance.

5.2. Higher Education

The reforms in the field of higher education aim at providing an adequate connection between higher education and the labour market in line with IGs 9 and 8.

The achievement of the objectives of the reform will be supported by the introduction of a **rating system for higher schools**, which will provide an objective tool for comparison. The system will be based on **evaluation indicators of the actual quality of education in the network of higher schools**. These measures will increase the competitiveness of students on the national and European labour markets and will ensure transparency regarding performance/attainment and quality of higher education. Providing opportunities for **vocational training of students** in real working environment will also contribute to improving the quality of higher education and the interaction between education and business. A **motivation promotion system providing for better performance in education** in the form of additional scholarships and awards will be introduced to ensure equal access to education, which will in turn lead to a higher motivation and involvement of students in the educational process.

The implementation of the **Students Loan Programme** will create conditions for increasing the inflow of public and private resources to higher education. The implementation of the Law on Providing Credits to Graduate, Post-graduate and PhD Students is expected to enable the sharing of educational costs between the state and students as well as to promote competition among higher schools to improve the quality of education and to ensure equal access to higher education, regardless of the social status of the candidates. The successful implementation of this programme will help addressing factor to growth 2, related to improving the efficiency of public spending and ensuring a reallocation of public expenditure towards growth-enhancing activities, as well as to achieving national target 4.

In the medium term, by 2015, a number of measures will be implemented (in detail in Annex 1), including:

- Updating the legal framework in the system of higher education and science;
- Developing mechanisms for maintenance and development of actual rating system for higher schools in the Republic of Bulgaria, which was published in 2010;
- Developing mechanisms for vocational training of students in real working environment;
- Providing student scholarships and grants for equal access to education and for higher motivation for better performance;

- Developing a system for qualification and career development of academic staff.

The successful implementation of the latter will contribute to improving the quality of educational services provided by Bulgarian higher schools. This is related to increasing the competencies in key areas such as language skills, skills for using the information and communication technologies (ICT) in the educational process as well as to the attainment of specific professional knowledge and competencies linked to the contemporary educational methods. With a view to improving the quality of educational services, **project mechanisms for monitoring, evaluation, forecasting and planning of training events for increasing the qualification of lecturers in higher schools** will be developed.

5.3. Development and Introduction of a Quality Management System of Education at Different Stages

The development and introduction of a **quality management system** at different stages of education will provide an opportunity for the development and the implementation of policies for preventing the school drop-out and for achieving higher levels of education, which will thus contribute to the achievement of national targets 4 and 5.

Improving the system for control and inspection of education is *a short-term measure (to be implemented in 2011–2012)*, which aims to achieve higher efficiency of the educational services and to improve the quality of education.

III.6. Infrastructure to Improve the Access to the Single Market

Improving the infrastructure is key precondition for attracting more and of high quality foreign investments.

The Structural Funds and the Cohesion Fund (SCF) in Bulgaria will have a crucial role in financing transport and environmental infrastructural projects.

6.1. Transport Infrastructure³⁵

Indisputable success in this area is the ongoing successful implementation of projects financed under OP “Transport”. Under 2007–2013 OP “Transport” (OPT) as of the middle of September 2010, 54 projects have been approved and their contracted value amounts to EUR 1.070 billion, thus accounting for more than 53% of the funds under the programme.

The scope of OP “Transport” was expanded³⁶ with additional projects in all priority axes aiming at better absorption of the funds under the programme.

In addition to realization projects funded by OPT, an overall road sector development strategy until 2020 will be elaborated.

Table 12: Progress in the financial implementation of OP Transport by priority axes and priority projects as of 15.03.2011

Priority axis / Project under the corresponding axis	Total indicative budget for axis / project (EUR million)	Number of approved projects	Total value of the contracted financial assistance under the axes / contracted financial assistance contracted and project financing under OPT (EUR million)	Paid contracted grants (EUR million)
1. Development of the railway infrastructure	580.0	5	498.4	11.6
2. Development of the road infrastructure	989.6	3	360.2	30.6
3. Improving the intermodality for passengers and freight transportation	211.1	2	185.4	85.6
4. Improving maritime and inland-waterway navigation	156.9	0	0	0
5. Technical assistance	66.0	44	26.0	7.7
TOTAL:	2,003.5	54	1,070.1	136.5

³⁵ This section reflects the priorities of the Strategy for Transport System Development of the Republic of Bulgaria by 2020, adopted by the CoM on 04.04.2010

³⁶ Pursuant to a decision of the eight meeting of the Monitoring Committee of OP “Transport”, held on 7 and 8 June 2010.

Box 1. The priority projects under OPT, for which direct award procedures for grants have been opened, are:

Priority Axis “Development of railway infrastructure along the Trans-European and major national transport axes”:

- “Electrification and reconstruction of Svilengrad-Turkish Border railway line” – financing in the amount of EUR 29.8 million;
- Sofia Metro Extension Project:
- Stage II, Lot 1 “Obelya – Nadezhda” and Lot 2 “Mladost I – Tzarigradsko Chaussee” – financing in the amount of EUR 250 million;
- “Rehabilitation of the railway infrastructure in sections of the Plovdiv – Burgas railway line” – financing in the amount EUR 218.6 million.

Priority Axis “Development of road infrastructure along the Trans-European and major national transport axes”:

- Finishing the construction of Trakia Motorway, Lots 2, 3 and 4 – financing in the amount of EUR 357.7 million;
- Development of a technical design for: Struma Motorway, Lot 2, section Dupnitsa – Blagoevgrad from km 322+000 to km 356+000 – financing in the amount of EUR 1.5 million.

Priority Axis “Improvement of intermodality for passengers and freight”:

- Sofia Metro Extension Project, Stage I – “Road junction Nadezhda – Central Railway Station – Sv. Nedelya sq. – Cherny vrah blvd.” – financing in the amount of EUR 185 million.

Projects, which implementation is planned not later than the next programming period 2014–2020 - construction of the Vidin – Sofia railway line; Struma Motorway - Lot 3 (Kresna gorge), Kalotina Highway – Sofia ring road, Black Sea Motorway, Hemus Motorway and other projects in accordance with the priorities for building the road infrastructure in Bulgaria by 2020, as well as constructing the third metro-diameter of the Sofia Metro.

The successful implementation of Operational Programme “Transport” will improve the road infrastructure management and quality. The sectoral ministries are negotiating with the World Bank the provision of knowledge and consulting services in the fields of roads and railways, to be financed by the Operational Programmes. The currently specified directions of assistance on roads, are: review and update of the 2020 Road Strategy, including sectoral Operational Programmes; operational assistance for MRDPW, MTITC and the Road Infrastructure Agency (RIA) for the projects’ implementation, and a review of the functional management structure to improve the results of the road infrastructure modernisation and management. The services will be provided upon conclusion of an agreement between the government, the EC and the international financial institutions on such financing.

- Under the “Rehabilitation of the road infrastructure” project, financed with a WB loan in the amount of EUR 90 million, rehabilitation of the road network of the country (I, II and III class roads) is currently being carried out; the institutional development component and the implementation of an integrated package of measures for improving road safety are being financed. The project is being restructured towards reducing the volume of physical road rehabilitation to 307 km and extending the scope of the institutional development component with a special focus on technical assistance for full and timely absorption of EU Funds for the road sector in Bulgaria during the current and the next programming period.

- Under the “Second Trade and Transport Facilitation Project”, financed with a World Bank loan in the amount of EUR 40.9 million, currently are undertaken activities for strengthening the capacity, efficiency and quality of the services of selected border points along the external borders of the EU in Bulgaria with a special focus on the Trans-European Transport Network. The main investments are for equipment, reconstruction and modernisation of the main Border Control Check Points and the construction of an approach section of about 3.4 km., which links Maritsa Motorway and the border with Turkey.
- Negotiations with the World Bank for the provision of financing amounting to EUR 240 million for reforming and restructuring the railway sector in order to ensure sustainable system development and new investments through more efficient absorption of the SCF, are under way. The modernisation of Bulgarian railways will start through structural financing under three Development Policy Loans. The assistance will consist of three loans of EUR 80 million each. The first structured loan is planned for 2011 and will support the financial stabilisation and restructuring of the Bulgarian railways, the improvement of the management and the results of the two public companies – the National Company “Railway Infrastructure” (NCRI) and “Holding Bulgarian State Railways” EAD.
- Under the “Rehabilitation of the railway infrastructure” project additional EUR 70 million are earmarked for purchasing equipment for maintenance of railway tracks and the contact network, managed by the NCRI in order to improve the quality and efficiency of the railway infrastructure services in Bulgaria. The investment loan will be used for investments related to the implementation of the railway infrastructure reform.

6.2. Investments in Environment Infrastructure

The investments in **environment infrastructure** are an important factor not only for ensuring cleaner and healthier environment and “green” economic development, but also for increasing the employment and the social inclusion.

Operational Programme “Environment” (OPE) for the period 2007–2013 and the Pre-accession Programme ISPA are the main instruments for the development of infrastructure for reducing the water basins contamination by untreated municipal waste waters and for improving the quality of drinking water, as well as for developing regional waste management systems in the country. Under OPE funding more than EUR 1.5 billion are envisaged. They are designed to be allocated to the construction of water supply and sewerage infrastructure in the biggest cities and of municipal waste management systems in 23 regions servicing over 5 million people. OPE is targeted at:

- Construction of a centralised sewerage network and ensuring biological treatment of waste waters for all agglomerations with over 2 000 equivalent citizens by 31.12.2014.
- Preparation for reuse and recycling of waste materials, including paper and cardboard, metal, plastic and glass from households up to at least 50% of their total weight, not later than 2020.
- Preparation for reuse, recycling and other utilisation of materials, including in filling operations, through replacing other materials with waste, non-hazardous waste from construction and demolition, except for materials in a natural state, up to at least 70% of their total volume, not later than 2020.

- Reducing the quantity of biodegradable municipal waste: to 50% by 2013; to 35% by 2020.

Table 13: Progress with the financial implementation of Operational Programme “Environment” for the period 2007 – 2013 by priority axes as at 28.02.2011

Priority Axis	Total indicative budget for the axis (EUR million)	Number of contracts	Total value of the contracted financial assistance under the axes (EUR million)	Paid contracted grants (EUR million)
Priority Axis 1: Improvement and development of water and wastewater infrastructure in settlements with over 2 000 equivalent citizens and in settlements below 2 000 equivalent citizens within urban agglomeration areas	1,284.2	190	468.9	121.6
Priority Axis 2: Improvement and development of waste treatment infrastructure	366.7	36	18.4	4.7
Priority Axis 3: Preservation and restoration of biodiversity	103.3	31	28.6	4.7
Priority Axis 4: Technical Assistance:	46.5	58	11.8	2.1
TOTAL:	1,800.8	315	527.7	133.0

Source: Unified Management Information System (UMIS) of the EU structural instruments in Bulgaria

As a result of the overall reform of OPE requirements, procedures and priorities with a view to ensuring efficient and transparent spending, as of the end of February 2011 the contracted funds amounted to EUR 527.7 million as compared to EUR 399.3 million as of the end of July 2009, and the paid contracted grants amounted to EUR 133 million as compared to EUR 23.5 million as of the end of July 2009.

Box 2. OPE Implementation – “Water” Sector and “Waste” Sector

In the “Water” sector the EC has approved two large infrastructural projects under OPE with a total value of EUR 132.9 million. The first successfully completed and operational project in the “Water” Sector was the Sewerage and Sewage Pump Stations in the town of Primorsko. Five more projects have been put in operation. Under Priority Axis I “Water” of OPE, 2 calls for proposals were launched for 124 priority agglomerations for investment in construction or reconstruction of town waste water treatment plants (TWWTP). The signature of contracts under these procedures with a total value of EUR 741.4 million is expected. Under the procedure for technical assistance and construction a total of 19 proposals have been submitted.

In the “Waste” sector the project proposals submitted under OPE Priority Axis 2 “Waste” for the regions of Vidin, Burgas and Pernik are currently evaluated and are expected to be launched in 2011. The constructed new facilities under this axis will service a population of over 1.88 million people. In 2011 at least 25 project proposals for municipal regional waste management systems, to be developed in stages by 2014, in total value of EUR 113 million, are expected to be submitted. These systems will cover a population of over 2 million people. As of 2011 OPE will also finance the purchase of waste containers for separate waste collection and vehicles for their transportation. This will support the development of operational regional systems and will provide the municipalities with the opportunity to apply the so-called “soft measures” (e.g., to introduce a flexible “waste fee”). In the “Water” sector contracts with a total value of at least EUR 357.9 million, and in the “Waste” sector contracts with a total value of over EUR 58.8 million are expected to be concluded by the end of 2011.

6.3. Sustainable and Integrated Urban Development

Improving the urban competitiveness and, in particular, promoting the successful and sustainable interlinked urban areas, which provide to each other and to adjacent rural areas opportunities, is an important prerequisite for improving the competitiveness of the Bulgarian regions and achieving Europe 2020 Strategy targets.

The development of cities will contribute to the regional development through the integration of surrounding territories and the less urbanised areas and accelerating their economic, social, territorial and environmental potential. The implementation of financial engineering instruments in support of the sustainable and integrated urban development is an important incentive for attracting investments and promoting public-private partnership in cities.

Measures to be implemented in the short term (2011 – 2012):

- Projects under OPRD: Support for critical, protected, secure and reliable public ICT infrastructure:
 - Projects under OPRD: “Support for integrated urban transport” schemes in the Sofia Municipality, in the 5 big cities and in the Municipality of Burgas;
 - Projects under OPRD: “Support for the reconstruction/modernisation and equipping the municipal medical institutions in the urban agglomerations” scheme;
 - Projects under OPRD: “Support for rehabilitation and reconstruction of second- and third-class roads” scheme.
- Implementation of the Joint European Support for Sustainable Investment in City Areas JESSICA³⁷:
- Projects under OPRD: “Support for appropriate and effective state social infrastructure, contributing to the development of sustainable urban areas” scheme;
- Developing and implementing of Integrated Plans for Urban Recovery and Development.

In the medium term, by 2015, broadband internet access to remote and less urbanised areas will be developed in order to overcome the digital separation and to boost the economy of target regions³⁸. Projects under OPRD will be financed for “Development of Integrated Plans for Urban Recovery and Development” in 36 municipalities in agglomeration areas. Regional Development Strategies and Municipal Development Plans for the period 2014–2020 will be elaborated by the end of 2013. Regional Development Integrated Information System at

³⁷ On 19.10.2020 the Financing Agreement between the government of the Republic of Bulgaria and the European Investment Bank (EIB) on the establishment of a Holding Fund under the Joint European Support for Sustainable Investment in City Areas (JESSICA) entered into force. The total value of the Financing Agreement is EUR 33 million, provided from OP “Regional Development” 2007–2013 (of which EUR 28 million from the European Regional Development Fund) and the agreement is concluded for a period of three years. The main task of the EIB, in its capacity of a JESSICA Holding Fund, is to set up City Development Funds for the 7 big cities in Bulgaria – Sofia, Plovdiv, Stara Zagora, Burgas, Varna, Ruse and Pleven. The City Development Funds, in turn, will finance city development projects in the form of public-private partnerships and other urban projects by providing loans, bank guarantees and share participation.

³⁸ National Strategy for Broadband Internet Access in Bulgaria (2010–2013), adopted by the Council of Ministers on 25.11.2009, which sets out the short-term and medium-term objectives to neutralise the uneven Internet and electronic services distribution and to achieve the average indicators of the EU Member States. It is in line with the trends underlying the programming documents of the European Union effective at that time – the i2010 Initiative.

regional level will be introduced; it will service level 2 regions, the regional and municipal administrations (it will contribute to better business environment).

IV. THEMATIC CO-ORDINATION

IV.1. National target 1 “Reaching 76% employment of the population aged 20-64 by 2020”

Defined sub-targets:

- ⇒ Reducing the level of unemployment among young people (aged 15–29) to 7% in 2020;
- ⇒ Achieving a level of employment among elderly people (aged 55–64) of 53% in 2020.

In order to achieve the national target for employment of 76% by 2020, the employment rate should grow by 0.67³⁹ percentage points per year on average, which is achievable after emerging from the crisis and returning to growth in 2011–2012 (and maintaining stable albeit not very high growth, afterwards). During the period 2000–2010 the average growth in the employment rate for the people aged 20–64 was about 1.3 percentage points per year.

In order to overcome the identified challenges and hindrances for the development of the labour market and to achieve the national target and sub-targets in the field of employment, a set of structural reforms will be implemented, focused not only on launching new initiatives for job creation (including through initiatives and policies of the sectoral ministries) and on improving the quality of the already existing ones, but also such aimed at improving the efficiency and the efficacy of the national and regional measures, programmes and initiatives which has been already in process of implementation. The main reforms and actions in the medium term will be orientated towards increasing the levels of economic activity and employment, improving the matching of skills to the labour market needs, and efficient investments in human capital development.

The measures aimed at achieving the target for a 76% employment rate by 2020 overlap with the measures for improving the functioning of factor to growth 3 – more efficient utilisation of the labour potential - and will contribute not only to increasing the levels of economic activity and employment but also to preventing the transformation of the high unemployment into structural one, in accordance with the recommendations of IG 7. In the long term these measures will contribute to reaching some of the most important priorities defined in the country’s demographic policy, related to the improvement of the qualitative characteristics of the human capital, overcoming the negative impact of the ageing population and creating equal opportunities for all.

Measures to be implemented in the short term (2011):

In implementing the 2011 National Action Plan on Employment (NAPE) and the operative schemes under Operational Programme “Human Resources Development” a set of measures for social integration of the unemployed people and for training the employed and the unemployed people, are being implemented, including:

- National Programme “Assistants to People with Disabilities”, under which the “Personal Assistant” activity is being implemented. The programme provides

³⁹ The calculations are made based on the assumption that by 2020 the trends for demographic development in Bulgaria will remain the same as during the last 10 years.

employment to 3,000 unemployed people who permanent care for people with permanent disabilities on a constant basis in the capacity of personal assistants (budget – EUR 5 million).

- National Programme for Employment and Professional Training of People with Permanent Disabilities, under which financing of EUR 3.3 million is provided for the employment of 1,979 unemployed people.
- National Programme “New Chance for Employment” (employment to 1,575 people and training for 1,000 people for EUR 1.9 million). Before being orientated to an employer for inclusion in subsidised employment, the people are included in motivation training, training for professional qualification and training in key competencies. The programme also includes a module for the people made redundant as a result of failure to satisfy environmental standards, which leads to the closure of enterprises.
- Programme “Career Start” – provides an opportunity to young unemployed people with higher education to gain length of service (employment for 1,851 young people, provided EUR 1.9 million).
- Implementation of encouragement measures for subsidising the employment of 11,180 people (EUR 7.5 million) in the private sector for integration on the labour market of young people, long-term unemployed, mothers with children aged up to 5 years, etc.
- Implementation of 153 regional programmes proposed by the regional employment commissions, which will be implemented in all regions of Bulgaria. Under them 2,092 jobs will be created in areas like road network repair and maintenance, planting, archaeological activities, social services, etc. The funds allocated for this purpose amount to EUR 1.9 million.
- “Development” Scheme under OP HRD provides training and subsequent employment of unemployed people and has an indicative budget of EUR 25.2 million for 2011.
- “I can” and “I can more” schemes under OP HRD for training through vouchers of employed and self-employed people, with a total indicative budget of EUR 15.5 million for 2011.
- Providing services like “Social assistant” and “Personal assistant” under OP HRD schemes, with a total indicative value of EUR 17.4 million for 2011.

In the medium term, by the 2015, measures (described in details in Annex 1) will be implemented in the following priority directions:

Priority 1: Increasing the participation of young people in the labour market and shortening the periods of their unemployment. Providing a “new start” to 27% of the unemployed young people by 2015.

The high unemployment and the low economic activity of young people are among the main challenges for the labour market in Bulgaria, identified by the EC as problematic areas, which might hinder the achievement of the national and European employment targets and the realisation of high and sustainable economic growth rates. In order to increase the employability of young people and improve their access to the labour market, a set of measures will be implemented with the objective to enhance their knowledge and skills in line with the labour market needs, initiatives facilitating the transition from education to employment (practices, apprenticeship, first employment, opportunities for combining education and employment), as well as to create opportunities for starting their own business. The implementation of the “*Creating employment for young people through providing*

opportunities for work experience” scheme, under which paid internships for a period of six months will be organised for young unemployed people aged up to 29 with secondary or higher education, continues. The priority will be to ensure a smooth transition from education to employment and to increase the share of the young people within the framework of a “new start” in the form of training and employment within 4 months of their registration as unemployed.

The implementation of the identified measures will also directly contribute to the achievement of the objectives of Flagship Initiative “Youth on the move”.

Priority 2: Improving the flexibility and security of the labour market including through active actions of the social partners

The facilitation of the labour market transitions, their attractiveness, and the provision of opportunities for reconciling personal and professional life and career development will be of key importance for reducing the segmentation of the labour market in Bulgaria. Amendments to the statutory regulations will be adopted and implemented as a priority with the objective to improve the flexibility and security of the labour market. Measures will be also implemented in order to facilitate the reconciliation of personal and professional life, as well as of education and employment.

The implementation of the identified measures will also directly contribute to the achievement of the objectives of Flagship Initiative “An agenda for new skills and jobs”.

Priority 3: Activating the long-term unemployed and the inactive people, and integrating the vulnerable groups on the labour market, including increasing the employment of elderly people, providing a “new start” to 35% of the unemployed people by 2015

The population ageing renders it necessary to undertake measures for activating all labour resources and implement initiatives and opportunities encouraging people to join, remain in or re-join the labour market. To encourage an active behaviour on the labour market among long-term unemployed and discouraged people, the Employment Agency will offer specialised services, such as individual consultations, organisation of labour exchanges, implementation of specialised measures and programmes, including jointly with municipalities, non-governmental organisations, private labour intermediaries and the social partners. Furthermore, the share of the unemployed people included in “new start” in the form of training and employment within 12 months of their registration as unemployed will be increased as a precondition for limiting the unemployment growth. With a view to the efficient integration of the vulnerable groups among the unemployed people on the labour market through well targeted active labour market programmes and measures, they will be provided with opportunities for learning to read and write, training, and subsequent inclusion in subsidised employment, including for “green jobs”.

The achievement of the national target for 76% employment by 2020 will also be supported by the **integrated promotion of investments and jobs created with the help of a set of measures**, including financial ones, in implementing the Law on Investment Promotion (LIP) and the Regulation on its implementation⁴⁰. As of 2011 a set of measures, including financial ones, for promoting priority investment projects which create new jobs (at least 200, or 100 in high-tech branches or municipalities with unemployment rate above the country’s average) will start to be implemented. These measures (described in details in Section IV.2) aim at mobilising the growth drivers through integrated promotion of capital and labour, for increasing the competitiveness of the Bulgarian economy and creating new jobs. During the

⁴⁰ SG, No. 62 of 2010

forecast period by 2015 the objective is to realise new investment projects worth about EUR 800 million per year and creating and maintaining 1 200 new jobs in new or existing enterprises. To achieve the employment target and to activate the unemployed people, the “*Back to work*” scheme, under which unemployed people are hired to look after children aged 1 up to 3 years, will also be applied.

Priority 4: Providing efficient employment services to ensure quick transition of unemployed people to work

The need for improving the efficiency of employment services was identified by the EC among the macro-structural challenges which Bulgaria faces. This is also confirmed by the net impact assessment of the public employment services⁴¹. With a view to the quick establishment at work of the unemployed people registered in the labour offices, “one-stop shops” will be introduced in all labour offices. The introduced in all labour offices in 2010 general information system, which provides for faster and higher-quality services to the job-seekers, will have an important contribution to the quicker establishment at work of the job-seekers. In the medium term efforts for expanding the co-operation with the private employment agencies on the labour market with the aim of enhancing the scope and quality of the provided employment services among others, will be pursued.

Priority 5: Improving matching between labour demand and supply

A national system providing a regular and systematic research, analysing and forecasting the needs of employers of labour force with certain competences and skills will be established in the medium term in order to achieve a better match of labour demand and supply. The information and the forecasts will be used when planning and defining the number of students in certain subjects in the secondary and higher schools, which will influence the characteristics of the labour force entering the labour market, and also on the process of adults’ training (employed and unemployed) for a timely meeting of labour market demand. The effects from the development of this system will be further enhanced and strengthened by the development of mechanisms for school and students' practices, the initiative “Let's convert knowledge into skills”, the establishment of a career orientation system within the school education, etc.

Priority 6: Increasing the labour force knowledge and skills through life-long learning activities

The high levels of education and qualification of the labour force influences directly the productivity and the economic growth. The future development of the economy will be based on knowledge and innovations, which in turn makes it necessary for the labour force to be prepared for the required knowledge, skills and qualifications. In this connection, the voucher mechanism for training of the employed and the unemployed people, which significantly facilitates the access to training, will continue to be implemented.

Raising the knowledge and skills level will be carried out by providing a set of high-quality services related to information and consultation, professional orientation, motivation, training for acquiring professional qualification, training in key competencies, training for literacy, practices, and apprenticeships. At the same time, actions for encouraging the participation and access of the population to all forms of training, in particular through ensuring accessibility of

⁴¹ This assessment was carried out within the framework of project "Impact assessment of public employment services as an instrument for the successful integration of the vulnerable groups on the labour market" implemented by the Ministry of Labour and Social Policy (MLSP) with the financial support of the European Commission in the framework of the Progress Programme.

infrastructures and networks which facilitate knowledge dissemination, qualification services and employment promotion, will be implemented. The implementation of the “Development”, “Adaptability” and “I can” schemes under Operational Programme “Human Resources Development”, which are directly targeted at increasing the level of knowledge and skills of the workforce, will continue in the medium term.

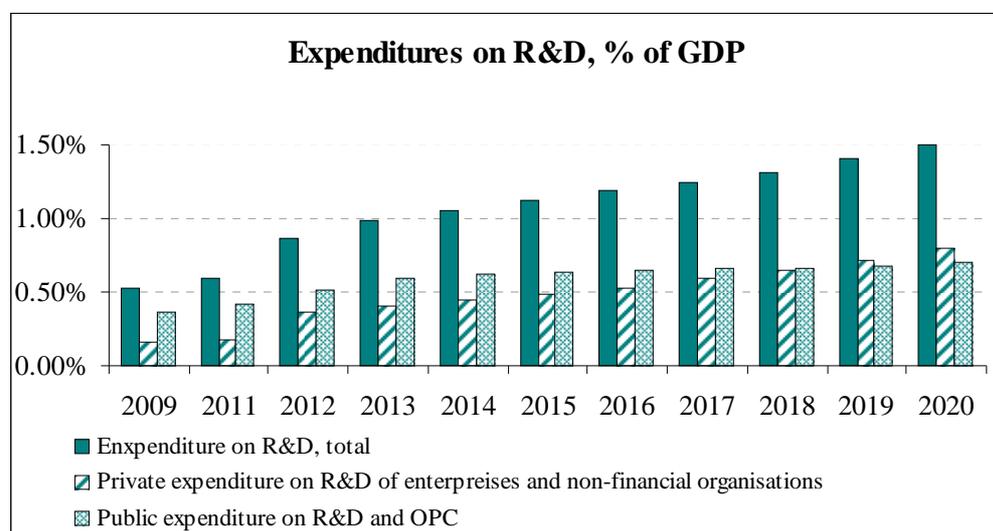
Priorities 5 and 6 have an immediate impact of the supply of labour force with the necessary knowledge and skills in line with the labour market needs and on encouraging of lifelong learning in pursuance of the recommendations in IG 8.

IV.2. National target 2 “Investments in R&D in the amount of 1.5% of the GDP”

According to a number of surveys of the European Commission on innovations⁴², Bulgaria is identified as a “moderate innovator”, but still it is one of the most rapidly catching up Member States in the innovation activities.

The expenditures on R&D in Bulgaria amounted to 0.53% of GDP in 2009, of which 0.37% GDP were public and 0.16% of GDP – private (as compared to only about 0.1% of GDP in 2005). In 2010 0.7% of all budgetary expenditures were allocated to science (of which 2.6% for capital expenditures, including research infrastructure). In 2011 0.8% of the planned total budgetary expenditures will be allocated to science, of which 2.8% will be capital expenditures.

Figure 6. Public and Private Financing of R&D



Over the last 6–7 years a considerable increase in the private sector investments in innovations has been observed. The private sector investments in innovations significantly surpass the forecasts of the EC⁴³, which on the basis of a linear extrapolation had estimated that the expenditure on R&D and innovations in Bulgaria would reach only 0.55% of GDP in 2020. We consider that the linear extrapolation does not take into account the opportunities of Bulgaria to use additional funds for research and innovations under the European programmes.

At the same time, we expect that the EU Fund’s absorption for R&D and innovations will increase by 2020, thus contributing to the increase of the overall public investments in this area. The loss of competitiveness in the lower added value sectors as well as the expectation for reorientation and restructuring of the economy towards innovation-intensive sectors will press the private sector to increase the funds invested in R&D relatively fast. In this regard, the forthcoming draft Law on Innovations, which will create favourable business environment for investments in research and innovations, will play key role.

⁴² Community Innovation Survey и European Innovation Scoreboard (2007, 2008, 2009, 2010)

⁴³ Eurostat.

The successful implementation of promotion measures in innovations and investments areas, as well as in science, will contribute to increasing and utilising the innovation potential of the country, and to achieving the national target for expenditures on R&D and innovations in the amount of 1.5% of GDP by 2020. Contributing to the latter will also have the cooperation with IFIs, which are prone to supporting the national authorities in the process of formulating and implementing national programmes for R&D and innovations development. The IFIs expertise will be also focused on improving the institutions' efficiency in order to provide for high quality R&D.

Box 3. Projected indicators for R&D and innovations for the period 2011–2020

Method of assessment. The projected value of the investments in R&D in the amount of 1.5% of GDP by 2020 was calculated under the following assumptions:

1. Using at least 15% of the Structural Funds designed for Bulgaria during the next programming period for financing research and innovations. In comparison, the average share of the expenditures on innovations in the total amount of the Structural Funds in the EU is over 30%.
2. Nominal growth in the national co-financing for R&D of 5% per year, which is close to the expected inflation.
3. Pace of increase of the enterprises' investments in R&D and innovations of 15% per year as compared to over 20% per year during the period 2005–2009.

Starting position:

- Gross national expenditures on R&D in the amount of 0.53% of GDP in 2009 (*Bulgaria is on the 22nd place among 26 countries for which data are available) as compared to an expected average of 2.01% for the EU27;*
- Exports of high-tech products as a share in the total exports (*in 2006 Bulgaria is on the 26 place among the 27 current EU Member States with a share of 3.34% as compared to a 16.645% share for the 27 EU MS;*
- Business sector expenditure on R&D in the amount of 0.16% of GDP based on preliminary data for 2009 (*Bulgaria is on the 25 place among the 26 countries for which data are available) as compared to the average of 1.25% of GDP for the EU27.*

Indicator	Expenditures on R&D	Private expenditures on R&D of enterprises and non-financial organisations	People employed in R&D activities in the private sector
Year	% of GDP	% of all expenditures on R&D	Number, full-time equivalent
2011	0.6%	30.58%	3,580
2012	0.87%	29.47%	3,800
2013	0.99%	39.89%	4,100
2014	1.06%	41.21%	4,500
2015	1.12%	42.91%	5,000
2020	1.50%	53.68%	7,000

Source: MEET

* The increase in the private expenditures on R&D in 2012 results from the expected positive effects of the entry into force of the Law on Innovations and the better reporting of the actual costs on part of enterprises to NSI. The increase in the public expenditures on R&D in 2012 results from the expected improvement of the absorption of EU Funds for R&D under OP “Competitiveness of the Bulgarian Economy” and the resumption of the activities of the National Innovation Fund as an element of the new Law on Innovations.

2.1. Support for scientific research and infrastructure (in line with IG 4 and Flagship Initiative “Innovation Union”)

Preserving, developing and ensuring the competitiveness of the Bulgarian research area will be realised in accordance with the national traditions, experience, competence, and the European and international challenges.

The policy orientated towards improving the quality and the efficiency of the educational and the training systems with a view to enhancing the quality of the human capital (in support to factor to growth 5 and in accordance with the recommendations of IGs 8 and 9) will also have a key role for increasing the investments in R&D. The statutory instruments in the field of science and higher education need to be improved in order to promote scientific research in higher schools.

➤ “National Strategy for the Development of Scientific Research 2020”

The adoption and the implementation of a National Strategy for the Development of Scientific Research by 2020 will contribute to an accelerated usage of the R&D results, modernisation of the scientific process and the introduction of efficient European models and practices. The strategy takes into account the EU priorities for establishing a European Research and Innovations Area and, in particular, the need for concentrating the public funds in priority scientific areas. The necessity to support the research infrastructure, including through SCF, to activate the role of the industry in the R&D and innovation processes, to encourage the free movement of people, knowledge and technologies, are among the key priorities.

The National Scientific Research Strategy will define the priority areas for development of R&D and innovations; it also envisages a regular assessment of the progress towards achieving the objectives. The strategy will also contain specific financial instruments for the implementation of its tasks, thus ensuring continuous monitoring and feedback on the implementation of the specific measures.

➤ “Science – Business” Project

Under the “Science – Business” Project,⁴⁴ two very important activities with regard to the scientific potential, will be implemented – qualification of young scientists for work with high-tech complexes, and support for publishing the scientists’ work in magazines with high influence. The project is targeted at the establishment of efficient instruments for creating favourable environment for active interaction between science and the business. The most important components of the “Science – Business” scheme are as follows:

- Developing an interactive Internet-based system ensuring active communication between academia and the business;
- Publishing national bulletin for monitoring, analysis and assessment of the relationships between business and science (National Scoreboard);
- Providing specialised services to scientists and specialists in order to develop administrative capacity for private-public partnership;
- Establishing long-term partnerships among secondary, high schools, scientific organisations and the business.

In the medium term, by 2015, a number of measures will be implemented (described in detail in Annex 1), such as:

⁴⁴ It will be implemented under Operational Programme “Human Resources Development” over a period of 18 months; a budget of EUR 2.6 million is earmarked.

- Introducing a system for assessment of scientific organisations and scientific activity.

With a view to increasing the efficiency of scientific activity and to ensuring opportunity for participation in high-class scientific research, a system for regular internal assessment of high schools and scientific organisations as well as of an independent system for international assessment of scientific organisations, programmes and projects, will be introduced. The system will contribute to increasing the efficiency of the scientific activities, introducing a differentiated approach for state subsidies to high schools, and consolidation of the scientific fields. The system will be introduced in 2013 in pursuance of the Law on the Amendment of the Law on Scientific Research Promotion, adopted in November 2010.

- Financing research and development projects through the National Science Fund (NSF)

NSF⁴⁵ plays a key role in establishing good practices in the scientific community for using project financing as one of the major approaches for efficient allocation of the public funds, earmarked for science. The policy of the Fund for the usage of international assessments and for the introduction of thematic priorities resulted in higher share of interdisciplinary research, the establishment of multinational science networks, and created conditions for benefiting from the EU RTD framework programmes. The beneficiaries are state and private higher schools, scientific organisations and company structures. In 2008 the total number of submitted project proposals was 1,038, and in 2009 – 1,050. Following the fiscal restrictions, no new competitions were launched in 2010.

- Participation in the European initiative COST

COST⁴⁶ provides financial support for partner initiatives of scientific groups within Europe and for the coordination of these research networks. The funds cover the cost of the network activities – meetings, conferences, seminars, short-term scientific exchange and dissemination activities. To this end, the Ministry of Education, Youth and Science (MEYS) provides national co-financing for the implementation of the obligations of the Bulgarian partners in the projects. It is provided on a project-competitive principle on the basis of the work programme and after clear work and financial plan has been presented.

- Internationalisation of the Bulgarian science and its integration in the European Research Area:

This activity aims at improving and supporting the participation of Bulgarian teams in the 7th Framework Programme of the EU for research, technological development and demonstrations through targeted schemes, supporting the preparation and participation of the national scientific community in the programme and other scientific initiatives; access to European and international organisations and to scientific infrastructure. MEYS organises the wide involvement of all interested organisations and structures in the discussion of the

⁴⁵ NSF finances the implementation of scientific research on a project – competitive principle on the basis of model programmes, such as research in a specific thematic scientific fields; supporting and promoting university scientific research, as well as joint projects of universities and Bulgarian Academy of Science; support for young and established Bulgarian scientists; bilateral scientific cooperation; development of the scientific infrastructure; development of centres of excellence; increasing the innovations in small and medium-sized enterprises.

⁴⁶ COST – European cooperation in Science and Technology – is one of the European instruments with the longest history, supporting the cooperation among scientists and researchers across Europe. Established in 1971, COST is an intergovernmental framework for European cooperation in Science and Technology, which providing for coordinating the research financed by the individual states at European level. COST Shares cover the main and pre-market research, as well as community activities.

COST contributes to reducing the fragmentation of investments in research and development in Europe and to the opening of the European Research Area for cooperation without geographical boundaries. COST does not finance the research itself.

structure and priorities of the next-generation EU Framework Programmes. A priority in this regard is also the improvement of the coordination of Bulgaria's participation in R&D initiatives at all levels – national, regional and European; implementation of new regional initiatives within the Danube Strategy and the Regional Cooperation Council for South-eastern Europe; expanding the scientific and technical cooperation with third countries.

➤ Establishing centres of excellence in the field of science and innovations

This measure aims at strengthening and developing the existing scientific centres in Bulgaria through developing their scientific potential (human resources and physical infrastructure), widening the opportunities for dissemination of their scientific results to the industry and establishing national networks, which bring together science and business. The contribution of the centres which will be tangible, especially in the long term, will be manifested mainly in:

- Recognising leading scientific units in priority subject areas for the Bulgarian economy on the basis of a long-term scientific and innovation programme, expanding and upgrading the existing equipment, and establishing lasting internal and inter-institutional cooperation;
 - Conducting interdisciplinary research, expanding the scope of the scientific activities of the organisation and connections with other regional institutions;
 - Providing opportunities for access to the scientific equipment for using / servicing on part of other universities, scientific organisations and company structures;
 - Creating opportunities for development and introduction of intellectual property products (patents, useful models, integrated circuits, trademarks, licences, etc.);
 - Creating conditions for young scientists to participate (**including PhD students and undergraduate students**) in the team.
- Implementing the National Roadmap for Scientific Infrastructure.⁴⁷ It covers scientific complexes and/or facilities of national importance, situated at the territory of Bulgaria, which have potential for development at national, regional or European scale

The National Roadmap is synchronised with Council Regulation (EC) No. 723/2009 as of 25 June 2009 on the Community legal framework for a **European Research Infrastructure Consortium (ERIC)**. The legal framework makes it possible for the European structures to acquire status of “international organisations”, which facilitates the regulation of the membership of all the Member States; the definition of the financial contribution and relieves for infrastructure in terms of taxes, customs duties, state aid and public procurement. The implementation of the Roadmap ensures:

- Focusing the efforts of the participants in the science and innovation system on priority areas with tangible strategic impact, providing competitive results;
- Establishing infrastructures of national, regional and European importance; applying different approach to each of these categories;
- Promoting internationalisation of research and innovations through linking some of the scientific infrastructures to regional or European infrastructural complexes or networks;

⁴⁷ Adopted with CoM Decision No. 692 as of 21 September 2010

- Identifying “Allocated infrastructures”, which provides for access to different groups of scientists and for an adequate concentration of researchers and equipment;
- Supporting the establishment of groups of scientists and industrial users, providing cooperation and co-financing of projects of mutual interest;
- Creating conditions for faster commercialisation of scientific products and services, which will increase the economic development dynamics;
- Developing and maintaining electronic infrastructures, which comply with the requirement for stability and security of information;
- Creating conditions for new training methods in order to attract and retain young people.

2.2. Support for promoting R&D and innovation activities of enterprises (in accordance with IG 4 and Flagship Initiative “Innovation Union”)

Innovations are an important factor for increasing the competitiveness of the economy, for promoting economic growth and jobs. An integrated approach in formulating and implementing a policy for promotion of investments will be applied to the benefit of citizens, enterprises and researchers.

With a view to achieving the national target for investments in R&D, and the implementation of the European Flagship Initiatives “An industrial policy for the globalisation era” and “Innovation Union”, the government policy will be focused both on promoting the R&D and innovation activities of enterprises and on creating the necessary prerequisites for the business, and especially the SMEs, to innovate, develop and/or implement in practice the results of their own or other people's scientific work. This is a prerequisite for increasing the labour productivity with a view to enhancing the Bulgarian economy in the context of globalisation and growing competition from the developing countries. It is necessary to ensure and guarantee the efficiency and effectiveness of public investments in R&D and innovation; the latter shall keep their role of “leverage” for promoting without crowding out the private investments in this area.

Measures to be implemented in the short term (2011–2012):

- Elaborating a Law on Innovations.

The draft Law on Innovations, which is expected to be adopted by the end of September 2011, will regulate the public relationships regarding the formulation and the implementation of the innovation policy in order to introduce modern organisation and management of the innovation processes by all stakeholders in the innovation system. This will be done with a view to increasing the competitiveness of the economy and transforming it into knowledge-based growing and sustainable economy, capable of facing the challenges of the globalised world. The draft law eliminates the existing disproportions in the way of financing of enterprises' research and innovations by defining new financing mechanisms as well as new areas for state influence on innovation activities of entrepreneurs, while encouraging the companies to invest in the development of their own business.

The law institutionalises the existing National Innovations Fund, which from a grant scheme will be transformed into a financial instrument for implementing the government policy in the field of innovations.

The law introduces tax credits in order to encourage the private sector to invest in R&D, in new, globally competitive products, and in modern production management and control systems.

- Draft “National Strategy for Creative Industries”.

The Strategy aims at encouraging the development of creative industries as a source of high added value for the economy, mostly in the sectors of publishing, architecture, film industry, television and radio, music industry, etc. The objective is to encourage the training in the field of intellectual rights protection, the copyright and the related rights, to guarantee that these regulations are being observed, to stimulate the development of clusters in the sector of creative industries, and to increase the competitiveness of these enterprises.

- Financing of research and development projects⁴⁸ and technical feasibility projects⁴⁹ with funds from the National Innovations Fund.⁵⁰ NIF started its operations in 2005 and till present 378 contracts under projects financed from it have been signed. The main objectives of the NIF financing are to:
 - Increase competitiveness, to attract private capital for the financing of scientific research and development of new products and services;
 - Encourage the cooperation between enterprises and research organisations;
 - Encourage enterprises to invest in their own development.
- “Support for research and development activities of Bulgarian enterprises” (the procedure under OPC will be launched during the second quarter of 2011). Under it the enterprises can receive grants for the development of innovative products, processes and services, for protection of intellectual property rights, testing trial models, etc.
- Participation in Enterprise Europe Network

The Enterprise Europe Network will provide assistance to small and medium-sized enterprises (SMEs) to develop their full potential and innovation capacity by offering high-quality services for increasing the competitiveness of these enterprises. For the first time the network integrates two dimensions: regions and innovations. The financing provided by the EC covers 50% of the network expenditures for the newly-acceding countries, while the remaining funds are provided from the national budgets. Since the beginning of 2011 MEET is a member of a consortium implementing the project.

- Project “Establishing and developing centres for promotion of entrepreneurship in high schools”

The objective of the project is to prepare the students in the technical universities to start their own business, to support them in assessing the possibilities for the realisation of technological ideas and in studying market demand for their product, to provide financial resources and to support start-ups established by graduating students. It ensures the implementation of measure 10 of the National Innovation Strategy and contributes to strengthening the capacity of higher educational institutions for training in entrepreneurship and for providing incentives to

⁴⁸ The maximum amount of the subsidy is EUR 0.26 million with an implementation period of 3 years. The expenditures on industrial scientific research are subsidised up to 50%, and the expenditures on experimental development – up to 25%.

⁴⁹ The maximum amount of the subsidy is EUR 0.026 million for projects with an implementation period of 1 year.

⁵⁰ The rules on the management of the NIF funds are notified, in accordance with Regulation EC 800/2008. The Law on Innovations will allow for transforming NIF from a grant scheme into a financial instrument for the implementation of the government policy in the field of innovations.

students' entrepreneurial activity⁵¹. The planned measures included in the approved strategic and financial plans will be implemented during the period 2009–2012.

In the medium term, by 2015, a number of measures will be implemented (described in detail in Annex 1), such as:

➤ **Innovation Promotion Fund**

The objective of the Fund, which will be established with the adoption of the draft Law on Innovation, is to provide a financial instrument for the implementation of national, bilateral and international programmes and projects for encouraging innovations and creating an appropriate environment for innovative enterprises. The Fund will support enterprises in the introduction of modern technologies, which will ensure their competitiveness on the international markets; it will support programmes and projects for development of the human potential both at medium-technical level and at senior management level in order to provide the needed human resources.

➤ **Active participation in the European initiative EUREKA**

The EUREKA initiative is an organisational and management framework, system of mechanisms, which offers services for finding partners, dissemination of information and other services for industrial enterprises, scientific research organisations and universities for cooperation in the field of applied technological research. Awarding a status “EUREKA project” is a trademark for quality in Europe, a guarantee for the research and security for market realisation, and attracts venture capital for experimenting new technologies in real production and market environment.

➤ **Joint Programme EUROSTARS**

The objective of this programme is to support those SMEs, which intensively use knowledge and for which the activity is based on technologies/innovations. The target group of the programme are enterprises with explicit focus on clients, endeavouring to achieve strong international position through the implementation of market-orientated projects with high added value. The programme supports those SMEs, which will conduct joint research or innovation projects in partnerships with one or more SMEs, a large enterprise, or research organisations (minimum two participants from at least two member countries of the programme). The projects to be financed must benefit the enterprises, and the final product of the project must be two years away from its market introduction. EUROSTARS encourages joint international and innovation projects by facilitating the access of enterprises to financing for development of new products, technologies and services. The budget of the programme amounts to EUR 400 million, of which EUR 100 million is granted by the EC and the remaining funds are from the national budget for a period of 6 years. These funds will mobilise further financing of EUR 400 million from the private sector. The participation in the programme is financed by NIF (CMD 306/2010).

The following measures are envisaged under OP “Development of the Competitiveness of the Bulgarian Economy”, co-financed by the European Regional Development Fund:

- “Meeting internationally recognised standards and introducing management systems in enterprises” – under the procedure the enterprises can obtain grants for introducing quality management systems, good production practices, resource management systems and product compliance systems.

⁵¹ On 09.11.2009 contracts were signed with four universities for a period of 36 months – University of Forestry – Sofia; Technical University – Sofia, branch Plovdiv; Technical University – Gabrovo, and International College “Albena” – Dobrich.

- “Technological upgrade in small and medium-sized enterprises” – the objective is to provide the Bulgarian enterprises with the opportunity to renew their production base and, thus, to increase their competitiveness.
- “Support for cluster development in Bulgaria” – the enterprises can receive grants for establishing an administrative body of the cluster, for implementing projects with quick results and investment activities, in accordance with the cluster development strategy.

2.3. Innovative infrastructure and infrastructure for SMEs development

Enhancing the innovative infrastructure is of crucial importance for the improvement of the links between science and business. With a view to encouraging the activity and the innovative nature of the Bulgarian companies, OP “Development of the Competitiveness of the Bulgarian Economy” will be also employed. The successful implementation of the procedures listed below will also significantly improve the conditions for business operations in the country. Currently, the following procedures are open for submission of project proposals:

- “Establishing new and strengthening the existing technological centres” – support for the establishment or expansion of technological centres in a field that would benefit the development of a certain branch, relevant to a priority innovative area such as ecological innovations, ICT, healthcare.
- “Support for the establishment of technological parks” – under this procedure research organisations can participate in a consortium with enterprises for *preparing the project documentation (investment project)* for construction of a technological park in a field that would benefit the development of a certain branch.
- “Establishing new and strengthening the existing offices for technological transfer” – under this procedure the enterprises can participate, on their own or in consortia, including with research organisations, for the establishment or the expansion of offices for technological transfer in a field that would benefit the development of the specific enterprises or the branch.

In 2011 under OPC the following procedures, which are also related to the improvement of the business environment, are planned to be launched:

- “Developing applied research in research organisations in Bulgaria”, aimed at modernising the applied research infrastructure and equipment of Bulgarian research organisations, thus improving the environment for creating innovations.
- “Innovation network BG”, aimed at improving the business environment through optimising the relationships between the participants in the Bulgarian innovation system.
- “Construction of technological parks” – the enterprises can participate in consortia with research organisation for the physical construction of a technological part in an area which would benefit the development of the branch. The measure is targeted at the physical construction of and at equipping the technological parks.
- “Establishing regional business incubators” – providing conditions for start-up enterprises to start and develop their business during the riskiest initial stage of their existence.

IV.3. National target 3 under the “Climate – Energy” package – “Achieving a 16% share of renewable energy sources in the gross final consumption of energy and increasing the energy efficiency by 25% by 2020”

The prosperity of Bulgarian society in the long term depends on the introduction of sustainable production and consumption models, which conform to the capacity abilities of the ecosystems to recover, in accordance with the recommendations of IG 5. This means achieving “green” economic growth through developing a cleaner, low-carbon, energy efficient and, in the wider sense, a resource efficient economy which does not contaminate or damage the environment and does not lead to irreversible depletion of natural resources. Achieving this target will also contribute to achieving the European Flagship Initiative “Resource efficient Europe”.

The transition to “green” economy requires the adoption of strategies for more sustainable production and consumption, including pricing which takes into account all environmental and social costs in order to discourage unsustainable models of production and consumption models. This way, the energy and natural resources use will be reduced while improving the quality of life and welfare of people.

On the basis of the current trends of renewable sources (RS) energy production in Bulgaria and the available information on projects for constructing new RS power facilities at different stages of their realisation, it is expected the RS energy production in Bulgaria to increase to 1,955 ktoe per year as of 2020.

Table 14: Expected RS energy production in Bulgaria during the period 2010–2020 by sectors, ktoe

Energy sector / Year	2010	2012	2014	2016	2018	2020
Heating and cooling	741	799	900	983	1,029	1,103
Electricity	333	374	487	581	609	648
Biofuels (transport)	26	68	133	182	155	205
Total	1,100	1,241	1,520	1,746	1,793	1,955

Source: Bulgaria, Forecast Document in compliance with the requirements of Directive 2009/28/EC, 2009

The main priorities of the energy policy for the next ten years are to raise the share of RS in gross final energy consumption and to increase the energy efficiency. Consequently, a National Action Plan for RS Energy⁵² was submitted to the European Commission, where the specific actions and mechanisms to meet the national targets are outlined:

- ⇒ a 16% share of the energy from RS in the gross final energy consumption by 2020;
- ⇒ At least 10% share of the RS energy in the final energy consumption of transport.

The implementation of the policy in the field of renewable energy and energy efficiency is ensured by the Law on Energy (LE), the Law on Renewable and Alternative Energy Sources and Biofuels (LRAESB) and the Law on Energy Efficiency (LEE).

⁵² Pursuant to the requirements of Directive 2009/28/EC.

Box 4. Analysis of the forecasts for reducing the greenhouse gas emissions

Bulgaria has not set a target to reduce the greenhouse gas emissions by 2020. The achievement of this goal at EU level is guaranteed by uniform emission ceiling for the EU as a whole, which declines by a linear coefficient of 1.74%. This will ensure the achievement of the EU commitment to reduce its emissions within the scope of the EU Emission Trading System (EU ETS) by 21% by 2020 as compared to the 2005 levels. The quantity of tradable quotas increases – at least 50% of the quotas will be auctioned as of 2013 as compared to 3% during the period 2008–2012. This will increase the environmental efficiency and the economic activity of the system.

- For the period 2013–2020 free allocation of quotas to installations participating in the EU ETS will be implemented on the basis of 52 EU product indicators to promote greenhouse emissions reduction and energy efficient technologies. The indicators are determined on the basis of a sample containing the 10% most efficient greenhouse gas emission installations from a given sector or sub-sector in the EU and represent threshold for free quotas which a given installation can obtain for a unit of production.

When determining free quotas of the installations, the following will be taken into account:

- Installations in sectors or sub-sectors with considerable risk of “carbon leakage” are allocated free quotas amounting to 100% of the quantity or quotas determined by the indicators.
- Sectors, which are not endangered by “carbon leakage”, in 2013 obtain 80% of the quotas determined by indicators, and by 2020 this percentage is linearly reduced to 30%.
- As of 2013 no free allocation for electricity production is allowed, unless that the country benefits from derogation for transitional free allocation.
- By 30.09.2011 Bulgaria shall define National Implementation Measures, which to contain draft allocation of free quotas for each installation in EU ETS on the territory of the country.

If the total amount of free quotas, defined in the National Implementation Measures of all Member States, exceeds the total ceiling of the EU emissions, a correction factor reducing the free quotas for each EU ETS installation will be calculated.

Any difference between the total emissions ceiling and the free quotas will be allocated among Member States for auctioning. Bulgaria will sell its quotas on a European platform. Pursuant to a Decision of the European Council as of 11 and 12 December 2008 on the “Climate – Energy” package, 50% of the funds from sales of quotas can be considered budget revenue. The remaining 50% must be spent on environmental projects to reduce greenhouse emissions.

Emissions from sectors not covered by the EU Emission Trading System (EU ETS), such as transport, agriculture, waste management, etc., are covered by the Effort-Sharing Decision (Decision No. 406/2009/EC). It introduces binding national targets for each Member State by 2020. **The Bulgarian target is to increase emissions of sectors outside the EU ETS by less than 20% by 2020 as compared to the 2005 levels.**

According to transport sector data in the latest Annual Greenhouse Gas Inventory for 2008 (published in 2010), Bulgaria is among the first countries in Europe registering emission reduction. The reduction of the greenhouse gas emissions in transport results mainly from the increasing number of gas and diesel vehicles. Meeting the EU biofuel target by 2020 will result in additional reduction of greenhouse gas emissions in this sector.

Second important gas emission source in Bulgaria (after the “Energy” Sector) is the “Waste” Sector with a 14% share in the national greenhouse gas emissions. This results mainly from the big delay in the implementation of waste management good practices. The National Strategic Plan for Phased-in Reduction of the Quantities of Biodegradable Waste Sent for Landfilling, approved in July 2010, aims at a phased-in reduction of biodegradable waste subject to landfilling by 2020. The reduction is envisaged in three stages, up to 35% of the total quantity of biodegradable municipal waste, generated in 1995, will be landfilled by 2020.

The electricity production from waste landfills methane is subject to specific measures. According to the Law on Energy, the distribution network operator is obliged to preferentially buy RES electricity. Since the landfill methane is considered RES, the energy sales are guaranteed.

The listed measures will result in a significant reduction of the greenhouse gas emissions from this sector.

The emissions from agriculture amount to approximately 7.61% of the total emissions. In this sector a reduction is also observed as compared to 2005. Manure is the largest source of methane in agriculture. Implementing modern management practices, such as engineering of standardised structural components for landfills construction, cleaning and transportation with bulldozers of dry manure in containers, etc., will result in additional reduction of greenhouse gas emissions from this sector.

The additional reductions in greenhouse gas emissions in the sectors outside the EC ETS can be traded within the EC – through auctions, by using market intermediaries, acting as representatives, or through bilateral agreements.

Measures to be implemented in the short term (2011–2012):

- **Energy sector restructuring – separation of transmission operators** to accelerate the establishment of an integrated and fully operational domestic energy market ensuring uninterrupted gas and electricity supply, equal access to energy networks, as well as beneficial development of network infrastructure.
- **Organising an energy exchange** in order to guarantee transparent pricing, flexibility, maximal utilisation of inter-system transmission capacity and simultaneous distribution of energy and capacity.
- **Establishing a uniform coordinating administrative authority in the field of RE – Agency for Sustainable Energy Development (ASED)** to eliminate the existing administrative barriers and to ensure the implementation of activities and measures for achieving the national objectives in the National Action Plan for Energy from Renewable Sources (NAPERS).
- **Accelerated implementation of a National Public Information System for RES** – providing available up-to-date information on the capacity of national electricity networks to connect new producers, and on territories with limited capacity for connection of new RES facilities, due to environmental legislation.
- **Mechanisms for the integration of RES electricity producers into electricity networks** by regulatory incentives for investments in network infrastructure and for appropriate development of networks, including the “smart networks” concept.
- **Extending the activity of the “Energy Efficiency” Fund on financing RES projects** – identification, elaboration and financing feasible projects to improve energy efficiency and promote RES technologies, resulting in reduced greenhouse gas emissions.
- **Elaboration and adoption of a National Energy Efficiency Strategy of the Republic of Bulgaria** – improving competitiveness by reducing energy intensity; increasing energy security, decreasing the need for additional generating capacities and improving the health of the nation, creating new jobs, increasing the energy comfort of low-income households.
- **Financial incentives for energy efficiency measures** through “Energy Efficiency” Fund schemes, specialised credit facilities, European Funds and programmes for setting up additional schemes and instruments.
- **Elaborating and adopting a Programme for an Accelerated Gasification of the Republic of Bulgaria** to accelerate gasification of Bulgarian households by 2020, which will contribute to the substantial improvement of the energy efficiency resulting from switching to gas for heating.

- **Elaborating a National Action Plan on Climate Change for the period 2013–2020**, comprising policies for limiting greenhouse gas emissions, promoting low-carbon economy and the efficient use of raw materials and energy.
- **Elaborating a National Action Plan for Encouraging “Green” Public Procurement** - to promote the most rational use of commodities, raw materials and energy, as well as to reduce the quantity of generated waste while taking into account the products’ overall life cycle, to promote environmental technologies, environmental innovations and the production of environmental products as a factor for business development and to achieve “green” and sustainable economic growth.
- **Introducing charges for 1 ton of waste disposed**, owed by those disposing waste in regional and municipal landfills for harmless and inert waste to promote waste reuse and recycling. Increasing investments in the sector and applying the “producer responsibility” and the “polluter pays” principles in integrated waste management.
- **Improving the existing legislation on regulating activities related to recycling and reuse of widespread and specific waste streams** – more rational utilisation and storage of natural resources, as well as limiting harmful impact of waste on the environment and the public health.
- **Introducing clear and justified criteria and requirements regarding the construction waste management** – developing an integrated framework for construction waste management to reduce its impact on the environment; improving the efficiency of using resources; increasing the responsibilities of polluters; promoting investments in construction waste treatment facilities.
- **Developing legislation on biological waste management in Bulgaria** – increasing the quantities of recycled and utilised biological waste to preserve the natural resources and the environment.
- **Introducing economic incentives to discourage the consumption of primary natural resources in construction and using “substitute” resources** with a view to enhancing the efficiency of natural resources utilisation.
- **Introducing high fees for the use of polyethylene bags** with a view to improving the effective use of natural resources.
- **Introducing economic incentives to promote ecological briquettes from waste biomass production and market** – reducing the emissions of nitrogen oxides, sulphur dioxide and other air pollutants, as well as of the greenhouse gas emission from using fossil solid fuels. Utilisation of waste biomass.
- **Projects under OPRD scheme “Support energy efficiency in multifamily residential buildings”**.
- **Construction of Bulgaria – Serbia inter-system gas connection** with a view to diversify energy sources and supplies and improve energy independence.

In the medium term, by 2015, a number of measures will be implemented (described in detail in Annex 1), such as:

- Incentive Programme for implementing EE measures by households and purchasing energy efficient appliances and equipment;
- Introducing training and qualification programme for experts for the energy and new technologies and energy management;

- Introducing incentives to promote the development, production and marketing of reusable products;
- Incentives for economic agents to use recycled materials in production.
- Updating and implementation the National Housing Renovation Programme on the Republic of Bulgaria with the accompanying Action Plan

In 2011 under OPC procedures, which contribute to meeting the national targets under the “Climate – Energy” package, are planned:

- “Introducing energy saving technologies in enterprises” – by the end June 2011 a memorandum of understanding joint implementation of the scheme is to be signed with the EBRD;
- “Introducing renewable energy sources in enterprises” – by the end of June 2011 a memorandum for joint implementation of the scheme is to be signed with the EBRD.

IV.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”

The educational institutions shall apply practices and methods that identify and meet the different needs of pupils by providing each of them with an opportunity to develop their potential through lifelong learning, regardless of their social and economic status.

As a result of targeted actions for reducing the number of early school leavers and for increasing the educational level of the Bulgarian population, Bulgaria has reported a significant progress since 2001. This progress is partly related to the results of the study on the subject “Factors for dropping out of school in Bulgaria” carried out under a joint project of MEYS and UNICEF “Prevention of the school drop-out of pupils”. Under the project pilot measures for the prevention of the school drop-out have been realised at municipal level. The measures were targeted at developing school and municipal policies for reducing the number of early school leavers among school-aged children. Another project within the framework of the Operational Programme “Human Resources Development” was implemented – it was under a procedure for direct provision of grants under the scheme “Educational services for talented children and for pupils who are lagging behind in educational programme” – the value of the project was EUR 1.48 million, of which EUR 1.28 million from the ESF. The implementation of the project provided additional training to over 7,000 children and pupils in primary stage of education and in pre-school age as well as methodological training to 1,344 teachers in pre-school and primary education for working with children with learning difficulties and children whose mother tongue is not Bulgarian.

The National Programme “Care for every pupil” extends the project for providing additional education to children in mandatory pre-school classes and pupils in primary school with learning difficulties.

The planned measures for achieving national target 4 are specified in the following priority areas:

4.1. Increasing the Number of Children Included in Different Forms of Pre-school Education

A short-term measure (to be implemented in 2011 – 2012) will be the gradual widening of the scope of the mandatory pre-school education.

In the medium term, by 2015, a number of measures will be implemented for improving the educational achievements (presented in detail in Annex 1), which are targeted at:

- Providing opportunities for consultations and additional activities supporting the pupils in primary and lower secondary stage of education with learning difficulties;
- Raising teachers’ qualification.

4.2. Preventing and Limiting the Early School Leaving

The reasons for dropping out of school and for incomplete inclusion of children and youth in mandatory school age in the educational system are complex. A favourable change in these phenomena requires the implementation of comprehensive measures and adequate coordination among the institutions operating in several different sectors at each level of governance – national, regional and local.

The Ministry of Education, Youth and Science (MEYS) takes main responsibility for the implementation of the national policy with regard to mandatory education. MEYS shall be the national coordination centre for inter-sectoral activities targeted at reducing the number of pupils in mandatory school age which are excluded or have dropped out of the educational system.

- Providing opportunities for consultations and additional activities supporting the pupils in primary and lower secondary stage of education with learning difficulties (additional activities in small groups and individually-tailored programmes) – by 2011.
- Providing opportunities for full-day school for children in primary stage of education – by 2013.

4.3. Creating Incentives for Achieving Higher Education Levels

Increasing the share of young people with higher education is targeted by the project for the development of a **system promoting the motivation for better performance in education**. The system will be based on the provision of additional scholarships and grants ensuring equal access to education, which will lead to a higher motivation and involvement of students in the educational process. This measure directly addresses the need for improving the overall framework of educational and training systems (factor to growth 4).

In addition, **the implementation of the Student Loans Programme** will increase the attractiveness of higher education by ensuring equal access to higher education to all candidates, regardless of their social status. The implementation of this programme will also contribute to improving the overall framework of educational and training systems (factor to growth 4) and to address factor to growth 1 related to higher efficiency of public spending and better reallocation of public expenditure towards growth-enhancing activities.

The successful implementation of the **reform of the statutory instruments in the field of higher education and science**, introducing and developing the rating system for higher schools and creating opportunities for students' vocational training in real working environment, as well as enhancing the quality of higher education (addressing factor to growth 4) will contribute to the additional increase in the attractiveness of education and the achievement of national target 4. These measures will also allow addressing factor to growth 1 and achieving national target 1.

IV.5. National target 5 “Reducing the number of people living in poverty by 260 thousand”

Bulgaria is among the EU Member States where the risk of poverty of the population is above the EU average level. In 2008 the poverty level in Bulgaria was 21.4%, or about 1.63 million people were poor. In terms of age groups, the risk of poverty is highest for children up to the age of 18 years (26%) and for the population above active age (34%). For the population aged between 18 and 64 the risk of poverty is 17%. In terms of economic status, the risk of poverty is highest for the unemployed (55%), the pensioners (32%) and the other economically inactive people (24%). Working poor people represent 7.2% of the employed people, which inevitably has an impact on the level of poverty among children. About 27% are the poor people above active age, 20% are children below the age of 18, and 53% are people in active age.

In view of the above, four sub-targets to the national target for reducing the number of people living in poverty by 260 thousand, or 16% of the poor people in 2008, have been defined, namely:

- ⇒ Reducing the number of children aged 0–18, living in poverty, by 78 thousand (30% of the national target and 25% of the number of poor children in 2008)
- ⇒ Reducing the number of people aged 65 and more, living in poverty, by 52 thousand (20% of the national target and 10% of the number of poor elderly people in 2008)
- ⇒ Reducing the number of unemployed people aged 18–64, living in poverty, by 78 thousand (30% of the national target and 25% of the number of poor unemployed people aged 18–64 in 2008)
- ⇒ Reducing the number of employed people aged 18–64, living in poverty, by 52 thousand (20% of the national target and 22% of the number of poor employed people aged 18–64 in 2008)

By defining these specific sub-targets a link with the national target 1 to reach a level of employment among the people aged 20–64 of 76% by 2020 and the respective defined sub-targets is made. The employment promotion will contribute to the reduction of the level of poverty both among the unemployed and the employed people in active age, as well as among the children and the elderly people as members of their families. Achieving the target in the field of education will also contribute to the reduction of the poverty in the country. The successful reduction of the poverty in the country is strongly dependent both on the achieving of the objectives of the above specified policies (in accordance with IGs 7, 8, 9 and 10), on the implementation of successful initiatives at national level under the European Flagship Initiatives “European platform against poverty and social exclusion”, “An agenda for new skills and jobs” and “Youth on the move”, as well as on the economic growth and development of the country.

The forecast of Bulgaria’s contribution to achieving the European target to promote social inclusion, in particular through poverty reduction, is assessed at 2.5%. This figure corresponds to a reduction of the total number of materially deprived people⁵³ by 504 thousand (13%), but under the assumption of an annual real growth in GDP per capita by

⁵³ The number of people deprived of at least 4 of a total of 9 important goods and services.

1.25% during the period 2010–2020. The forecast also corresponds to the share of poor and socially excluded people in Bulgaria in the total number of the poor and socially excluded people in the EU – 2.4%.

In its fight against poverty the Bulgarian government will be also supported by the World Bank. An important focus of the cooperation with the World Bank is the financing of the “Social Inclusion” project which aims at ensuring the social inclusion among children from risk groups – children from low-income families, children with disabilities, children from vulnerable ethnic groups. A key instrument is the improvement of the readiness for school and the expansion of the network for services for children aged 0–7. In order to integrate the Roma population in Bulgaria, in May 2011 the WB plans to organise a seminar in May 2011, thus bringing together all stakeholders, in order to define the national challenges and activities for Roma population inclusion. This seminar will be of a preparatory character in view of the forthcoming high-level forum on Roma population in June 2011.

Measures to be implemented in the short term (2011 – 2012):

- Drafting of a new Law on Child;
- Bringing together of the legal norms in the field of social economy into a single statutory law;
- Developing of a National concept paper for active life of elderly people;
- Development and introduction of a mechanism for determining the minimum wage, which takes into account its economic and social functions;
- Support for providing modern social housing for accommodating vulnerable, minority and socially disadvantaged groups and other disadvantaged groups.

In the medium term, by 2015, a number of measures will be implemented (according to Annex 1), such as:

- Impact assessment of the policies and legislation related to material support for vulnerable groups;
- Investments in integrated services for early child development (for children ages 0–7);
- Deinstitutionalisation of childcare (network of social services in the community, programmes for children leaving specialised institutions, foster care, etc.);
- Support for families with children;
- Providing material support, appropriate forms of employment, qualification and retraining, and accessible environment for people with disabilities;
- Establishing a new and supporting the existing enterprises in the field of social economy;
- Increasing the adequacy of pensions;
- Creating a network of long-term care services;
- Construction of social housing, including for the most vulnerable representatives of the Roma community;
- Establishing integrated social, healthcare and educational services for homeless people;
- Survey of homelessness, development of a statistical database on homelessness and its dimensions, and development of an overall strategy for fight against homelessness.

The measures envisaged for achieving targets 1 and 4, as well as for overcoming the challenges to factor to growth 4, will contribute directly to the achieving the target for poverty reduction.

V. HORIZONTAL AND METHODOLOGICAL ISSUES

The development and implementation of the National Reform Programme of the Republic of Bulgaria is being done within the framework of a specially established and functioning Working Group “Europe 2020” to the Council for European Affairs, in which representatives of the government administration and all interested parties participate.

V.1. Political Participation (Parliament, Regional and Local Authorities) and Participation of the Social Partners

The Deputy Prime Minister and Minister of Finance has been appointed national co-ordinator for the “Europe 2020” Strategy⁵⁴. In this capacity he oversees the co-ordination of the national economic and financial policies with the European economic and financial framework.

Targeted actions for more active involvement of the social partners and the non-governmental sector in the drafting of this National Reform Programme 2011–2015 have been undertaken. To this end, the Working Group responsible for the drafting the NRP, included not only representatives of the central government and the local administration, but representatives of the social partners, the non-governmental sector and the academia as well..

On 20 September 2010 a public discussion on the preliminary version of the draft NRP was carried out, where stakeholders actively took part. As a result, their direct contribution in the form of remarks, criticism, and constructive proposals was included in the Programme.

On 28 September 2010 the main priorities and actions for achieving the national targets, included in the draft National Reform Programme of the Republic of Bulgaria (2010–2013), were presented and discussed at a meeting of the Council for Public Consultations. During the discussions the four priority areas, where the efforts of the economic policy shall be directed, were defined, namely better infrastructure, competitive youth, better business environment in the EU, and higher confidence in state institutions. These priority areas were also kept in this Programme.

The Economic and Social Council (ESC) prepared and presented an assessment of the draft National Reform Programme, which was discussed on 25 March 2011 at a special meeting with representatives of the government and the team which prepared the Programme. The main ESC remarks and comments have been reflected in the NRP.

Since the beginning of February 2011 a public discussion of the NRP was launched (through the web site of the Ministry of Finance).

On 28 March 2011 the National Reform Programme of the Republic of Bulgaria (2011–2015) was presented and discussed at a public debate with the participation of representatives of the state administration, social partners, non-governmental organisations, academia and municipalities.

On 29 March the Programme was presented at a meeting of the Council for Public Consultations in the context of the new framework for enhanced economic policies coordination, the so-called “European Semester”.

⁵⁴ By the amendment of the Statutes of the Ministry of Finance, adopted by the Council of Ministers on 9 June 2010.

Most of the proposals and comments, made in the course of these discussions, were reflected in the Programme.

On 30 March 2011 the National Reform Programme was also presented at a joint meeting of the Commission on European Affairs and Coordination of the European Funds and of the Budgetary and Finance Commission at the National Assembly.

V.2. Coordination of Sectoral Policies at Regional and Local Level

The strategic documents for regional and local development after 2013, which will be developed in the period 2011–2013 - National Regional Development Strategy of the Republic of Bulgaria (2012–2022), Regional Development Plans (2014–2020), District Development Strategies (2014–2020), Municipal Development Plans (2014–2020), National Strategy for Demographic Development of the Republic of Bulgaria (2006–2020), can become a key mechanism for achieving the priorities of the Europe 2020 Strategy by mobilising and developing the regional and local potential for achieving intelligent, sustainable and inclusive growth. This way the objectives at European and national level will be to maximum extent given territorial dimension, and specific commitments for their implementation will be undertaken. This will facilitate the identification of the contribution of regions and municipalities to the implementation of the Europe 2020 Strategy and the mobilising of the resources, including the participation of all stakeholders and the development of partnerships at regional and local level. The package of documents for the strategic planning of the regional development is being elaborated while taking into account the strategies for the development of individual sectors, which are in process of implementation, with a view to achieving better interaction and complementarity of the planned activities. The process of elaborating the regional development plans, district development strategies and municipal development plans is supported with financing under Operational Programme “Administrative Capacity”.

The preparation of a national document with a long-term vision on the spatial development of the country and the regions, in line with the national legislation requirements, will also contribute to achieving improved policy coordination.

At the same time, an important new moment with regard to the sectoral policies is the requirement for strengthening their territorial and regional context so that they can better reflect the needs of the individual regions for specific actions and initiatives. Taking into account the specific problems of the level 2 planning regions within the sectoral policies framework will have a favourable impact on the acceleration of the cohesion process both at European and regional level.

A mechanism for coordination between the regional policy and the sectoral policies is implemented not only on the level of strategic documents but also within the implementation of the functions of the regional development councils, members of which are all stakeholders, who participate in the formulation and the implementation of the regional policy and the key sectoral policies. The operation of the regional development councils provides for information and publicity with regard to the regional development policy and the initiatives and the activities of the sectoral policies in the regions.

Ensuring synergies between the individual sectoral policies and their integrated management through the policy for a sustainable urban development will increase the macroeconomic effects from their implementation. Such synergies can be achieved within the framework of Integrated Plans for Urban Recovery and Development, which represents a set of time- and space related projects, activities and investment intentions, implemented in specified urban

impact zones. The Integrated Plan for Urban Recovery and Development combines policies and brings together different participants for the simultaneous implementation of the policies by contributing to the realisation of the urban development vision and strategy, respectively of the specific development priorities defined in the municipal development plan, the general development plan and other strategic documents.

The introduction and utilisation of information and communication technologies and systems in the field of planning, monitoring and assessment of the progress of implementation of the strategic documents as well as the policies' impact assessment will also be the basis for strengthening the coordination and the consistency of the policies.

V.3. Instruments for Monitoring

Bulgaria has an established and well functioning mechanism for monitoring the progress in achieving the targets and implementing the reforms in the National Reform Programme, which can be identified as a good practice in this field. The reporting on the progress of implementation of reforms in the NRP is carried out on a quarterly basis and is defined pursuant to the Council of Ministers Decision No. 416 as of 18 June 2007⁵⁵. It is coordinated within Working Group 31 “Europe 2020” to the Council for European Affairs. On the basis of the contribution of each of the participants in the group the Ministry of Finance (Economic and Financial Policy Directorate) prepares quarterly reports on behalf of the national coordinator for the Europe 2020 Strategy, the Deputy Prime Minister and Minister of Finance Mr Simeon Djankov, which are submitted for consideration and approval by the Council of Ministers.

The National Statistical Institute (NSI) of Bulgaria will include in the National Statistical Programme the regular provision of official statistical information on the indicators measuring the progress in achieving the targets and implementing the reforms defined in the National Reform Programme. The information will be published on the NSI website and will be the basis for the preparation of the quarterly and annual reports of the National Coordinator for the Europe 2020 Strategy. NSI, through its representatives in Working Group 31 “Europe 2020” to the Council for European Affairs, will also continue providing methodological assistance for the development, the production and the dissemination of statistical information to the institutions involved in the progress monitoring mechanism in line with the principles of the European Statistics Code of Practice.

V.4. External Evaluations of the National Reform Programme

At the beginning of February 2011, through the website of the Ministry of Finance, a public consultation of the draft NRP (2010–2013) has been launched. An opinion from the Institute for Market Economics (IME) has been received. At the same time, the Economic and Social Council (ESC) sent its official position on the draft NRP to the Ministry of Finance. The two analyses discuss the implemented and the planned by the government for policies and specific measures for achieving the respective targets.

The EC recommendations, as well as most of IME and ESC recommendations, have been taken into account and on 21 March 2011 a revised version of the NRP was published on the

⁵⁵ Decision No. 416 of the Council of Ministers dated 18 June 2007 for defining the mechanism of reporting on the implementation of the measures and actions set out in the National Reform Programme (2007 – 2009) and in the Summary of Challenges, Policies and Governance – National Reform Programme of the Republic of Bulgaria (2007 – 2009) (CoM Decision No. 416 of 2007). Its updating is forthcoming.

website of the Ministry of Finance as a basis for the public discussions held on 28 March 2011.

V.5. Commitments of Bulgaria in the Implementation of the Euro Plus Pact

At the European Council on 24 March Bulgaria joined the “Euro Plus Pact – stronger economic policy coordination for competitiveness and convergence”. Pursuant to the European Council conclusions, each Member State, which joined the Pact, should present in its Stability or Convergence Programme and National Reform Programme specific commitments for achieving the goals of the Pact, namely to:

➤ Foster competitiveness

With a view to achieving this objective, the Bulgarian government commits to implement economic policy measures for increasing productivity through:

- improving the quality of education, the functioning and efficiency of the education and training systems, including their better connection to the labour market for labour force with specific qualification (Section III.5);
- promoting R&D and innovations (Section IV.2);
- providing for a favourable business environment, especially for SMEs, with regard to the development of their business (Section III.4);
- reducing the number of early-school leavers and providing incentives for attaining higher education (Section IV.4).

In Bulgaria, except for the minimum thresholds which are being updated each year, the level of wages is determined in respecting the market principles.

➤ Foster employment

Bulgaria considers that the reforms for employment promotion, as pointed out in the Annual Growth Survey, are of key importance for improving the living standards of the citizens and for ensuring fiscal stability in the medium and the long term. The policy in this field will also create prerequisites for social inclusion and reducing of poverty.

For the purpose of achieving this goal, the Bulgarian government commits to implement measures, described in detail in Sections III.3 and IV.1, which are aimed at increasing the employment rate to 76% in 2020 and at reducing poverty.

At the same time, the implementation of policies for the achievement of this objective, together with the implementation of policies for promoting R&D and innovations, as well as the implementation of an integrated industrial policy, is directly related to the return to growth and the preservation of a high pace of economic growth, and for increasing the labour productivity.

➤ Contribute further to the sustainability of public finances

The government of the Republic of Bulgaria will continue implementing conservative and prudent fiscal policy (in accordance with the priorities in the Convergence Programme of the Republic of Bulgaria (2011–2014).

A three-pillar pension system is fully operational in Bulgaria and the country is among the pioneers in this respect. With a view to the considerable budgetary pressures, *Bulgaria undertook measures for consolidating the pension system and increasing the adequacy of*

pensions as already in 2010 with a view to the long-term stabilisation of the system and in accordance with the expectations about the demographic development of the country.

The Bulgarian government also undertakes substantial changes with regard to the introduction of *concrete fiscal rules*. In February the Ministry of Finance put forward for discussion the so-called Financial Stability Pact, which consists of the following fiscal rules:

- The redistribution role of the state shall not exceed 40% of GDP
 - The budget deficit cannot be higher than 2% of GDP.
- Reinforce financial stability

The financial sector in Bulgaria, despite the global financial crisis, is stable, well functioning and capitalised, and ensures efficient financial intermediation. In this regard, Bulgaria fully achieves the financial stability goal, but will continue undertaking measures for harmonising the national legislation with the European *acquis* in this field.

VI. CONTRIBUTION OF THE STRUCTURAL FUNDS AND THE COHESION FUND TO THE IMPLEMENTATION OF THE NRP UNTIL 2015 (N+2)

VI.1. Measures for Improving the Absorption of the Structural Funds and the Cohesion Fund

The instruments of the European Union Cohesion Policy are an instrument complementing the national budget, thus providing significant resources for the achievement of the national targets included in the National Reform Programme of the Republic of Bulgaria (2011–2015) in the implementation of the Europe 2020 Strategy.

1.1. Measures in process of implementation

In the context of the continuous monitoring and interaction with representatives of the European Commission, including missions and peer reviews, a number of bottlenecks have been identified and the corresponding corrective actions have been undertaken in order to optimise the management and control systems (MCS) of the Structural Funds and the Cohesion Fund (SCF) and their operation.

In 2010 **institutional changes**, related to the coordination of the EU funds' management, were carried out.

With CMD No. 70 as of April 2010, amending CMD No. 229 as of 23.09.2009, the Minister for the management of the European Union Funds was appointed the responsible person for the overall organisation and management of the system for coordination of the European Union Funds management. His activity is supported by a Central Coordination Unit (CCU) at the Council of Ministers (CoM). With the same CMD a Council for Coordination of the Management of the European Union Funds to the CoM (CCMEUF) was established as a collective body for coordinating the measures for the implementation of the government policy for economic, social and territorial development of the country, financed with EU funds. The Chairperson of the Council is the Minister responsible for the management of the European Union Funds, and members of the Council are the Ministers of Foreign Affairs; Economy, Energy and Tourism; Regional Development and Public Works; Labour and Social Policy; Transport, Information Technology and Communications; Environment and Water; Agriculture and Food, as well as the Deputy Minister of Interior appointed by the Minister of Interior. The CCU is also the Secretariat of the CCMEUF.

Within the CCU operates an administrative unit, responsible for the preparation of a National Development Programme (NDP): "Bulgaria 2020", which will cover the investment priorities of the country, including all sources of financing. CCU is also responsible for coordinating the implementation and the assessment of the NSRF for the period 2007–2013, as well as for the development of a National Strategic Programming Document for the EU financial perspective for the EU funds (2014–2020). This way, by establishing a single coordination centre, the coordination between the objectives of the EU Cohesion Policy and the national investment policies is ensured.

The horizontal and specific (by Operational Programmes) measures for improving the

absorption of the EU funds are orientated to:

➤ Improving the financial management and control

Under the methodological guidance of the CCU and with the assistance of interdepartmental working groups, established by the CCU, the following methodological guidelines and general instructions in connection with the management of the European Union Funds were developed and introduced in the practice of the Managing Authorities and the Intermediate Bodies:

- General guidelines for avoiding conflicts of interest in the meaning of Article 52 of Regulation 1605/2002 and for following the principle of impartiality and independence in the management of the operational programmes under SCF.
- Methodology for determining the amount of the financial corrections under the Operational Programmes.

As a precondition for the efficient and effective MCS, a Unified Monitoring Information System (UMIS) for SCF was introduced and is operational. UMIS provides support in the management at all levels of the administration and of the beneficiaries by ensuring tractability and carrying out the key processes electronically in the following directions: registration of projects and beneficiaries; evaluation of project proposals, project management, financial management and payments; on-the-spot checks and irregularities management; monitoring, public information.

➤ Changes in the legislative base for SCF management

With a CMD the mechanism for expenditure verification and payments of grants under the Operational Programmes, co-financed from the European Union SCF, was defined; it sets deadlines for expenditure verification and carrying out activities for the beneficiaries on part of the administrative structures, which manage the programmes. Amendments were made to the CMD, which defines the terms and procedures for determining grants under OPs, which aim at optimising the rules and procedures, including by introducing an appeals procedure at the stage of evaluation of the project proposals.

➤ Accelerating the actual and financial implementation of projects

With a CoM Decision the increase of the maximum amount of advance payments under contracts for grants to beneficiaries of projects under Operational Programmes Regional Development, Transport and Environment, in which the main share of the investment in base infrastructure is focused, was ensured.

At present a Fund for Local Authorities and Governments – FLAG operates, which with state participation and capital from the EBRD, municipalities and municipal companies implementing projects, approved by the MA of OP “Programme for Development of Rural Areas”, loans and services, related to the granting of loan finance and preparation of project proposals, provides the beneficiaries, under certain conditions and on the basis of preliminary criteria, with services, among which loans and “bridge financing”.

A mechanism for using the funds from the Loan Agreement with the EIB for a structured programme loan, **Bulgaria – co-financing under the EU funds 2007–2013, between the Republic of Bulgaria and the European Investment Bank** in the amount of up to EUR 700 million has been established. This mechanism allows for the funds to be provided for national co-financing and for covering financial shortages of the public beneficiaries under infrastructural projects.

➤ Strengthening the administrative capacity

Training events for regional and local authorities, co-financed under a CCU project approved under Operational Programme “Technical Assistance” are being organised. A Decree of the Council of Ministers has been approved and currently additional experts, as assistants under the Labour Code, are appointed in the corresponding units for management and control of European programmes for the purpose of performing specific tasks in support of the administration. The CoM holds regular meetings with the National Association of Municipalities in the Republic of Bulgaria, the non-governmental sector and the Sofia Municipality to discuss current issues. The CoM also organises weekly meetings with sectoral Deputy Ministers, responsible for the Operational Programmes. On a monthly basis “Open Doors Days” are being organised, where potential and actual beneficiaries meet representatives of the administration and exchange information and guidance on a number of issues related to grant management.

The opportunities for provision of expert and consultancy support by the IFIs, such as EIB, EBRD and the World Bank, for improving the process of strategic planning and project management are actively used.

1.2. Planned measures

➤ Activities related to the development of UMIS

By the end of September 2011 the elaboration and the introduction of “Electronic services for beneficiaries” is envisaged. The process of integrating the EC system for monitoring and reporting of payments – LOTHAR, in UMIS continues. In 2011 an interface will be developed between UMIS and the Information System for Fund Management of the European Community – SFC2007. An interface between the Cross-border Cooperation Programmes and UMIS will also be developed. The process has started and the discussions on agreeing the type and the format of the data to be exchanged are under way.

➤ Activities related to the legislative framework

A concept paper for amendments to the Law on Public Procurement has been adopted. The objective is to elaborate all the procurement procedures in a single statutory instrument. In addition, the Law introduces the requirements of Directive 2009/81/EC of the European Parliament and of the Council as of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC. The statutory regulation is being supplemented and the practical cases, which were not previously regulated, are being embodied.

➤ Activities related to the implementation of the programmes

The capacity for ex-ante control over the spending of funds from the EU budget will be strengthened; this control will be performed in a centralised manner by the Public Procurement Agency. With technical assistance from OP, standard document templates for public procurement, comprising the contract dossier, shall be developed and introduced in practice.

In the context of active usage of the joint instruments of the EC and the IFIs, further expansion of the assistance under JASPERS and the establishment of special mobile expert groups for ad-hoc, short-term assistance to municipalities under projects under OP “Environment” and OP “Regional Development”, are envisaged.

VI.2. Contribution of the Structural and the Cohesion Funds to the financing of the NRP measures at present

Although Bulgaria is not obliged to set in its 2007–2013 programme documents any specific amounts from the EU Structural Instruments for financing measures related to the achievement of higher growth and more jobs⁵⁶, over 60% of the financial resources under the Operational Programmes – EUR 4.08 billion are being allocated exactly for such areas. These resources are allocated among five of the Operational Programmes – “Transport”, “Development of the Competitiveness of the Bulgarian Economy”, “Human Resources Development”, “Regional Development” and “Administrative Capacity”.

According to data from the Unified Management Information System for the EU Structural Funds and the Cohesion Fund as of 01/02/2011:

- Under OP “Human Resources Development” 43 procedures have been launched on priority subject areas, contributing to the achievement of the objectives of the Lisbon Strategy. Under these procedures up to now 1,724 contracts have been signed with a total value of the European funding of EUR 426.71 million.
- Under OP “Development of the Competitiveness of the Bulgarian Economy” until now 24 procedures have been launched on priority subject areas, contributing to the achievement of the objectives of the Lisbon Strategy, with a total value of EUR 713.37 million. Under these procedures 759 contracts have been concluded.
- Under OP “Regional Development” 13 procedures have been launched, contributing to the achievement of the Lisbon Strategy. Under these procedures 293 contracts have been concluded with a total value of the European funding of EUR 978.99 million.
- Under OP “Transport” 9 contracts have been concluded under procedures, contributing to the achievement of the objectives of the Lisbon Strategy. The total value of the European financing amounts to EUR 312.37 million.
- Under OP “Administrative Capacity” until now one procedure has been launched with a subject area, contributing to the Lisbon objectives. Under this procedure 34 contracts have been concluded with a total value of the European funding of EUR 9.08 million.

By priority subject areas this allocation is as follows:

Table 15: Financing of measures related to the achievement of the objectives of the Lisbon Strategy, UMIS data as at 1 February 2011, MEUR

Code of the priority subject area	Priority subject area	Amount of the concluded contracts in EUR million (European financing)
2	R&TD infrastructure (including physical plant, instrumentation and high-speed computer networks linking research centres) and centres of competence in a specific technology	0.5

⁵⁶ It should be emphasised that the allocation of the SCF here is in accordance with the special codification, made by the EC, by priority areas under the Operational Programmes, which contribute to the implementation of the Lisbon Strategy. Until now the EC has not provided information about the transition from the Lisbon Strategy to the “Europe 2020” Strategy under the corresponding priority subject areas by Operational Programmes, which might result in overstated/understated values.

Code of the priority subject area	Priority subject area	Amount of the concluded contracts in EUR million (European financing)
4	Assistance to R&TD, particularly in SMEs (including access to R&TD services in research centres)	3.6
5	Advanced support services for firms and groups of firms	0.1
7	Investment in firms directly linked to research and innovation (innovative technologies, establishment of new firms by universities, existing R&TD centres and firms, etc.)	88.1
8	Other investments in firms	37.7
9	Other measures to stimulate research and innovation and entrepreneurship in SMEs	1.0
10	Telephone infrastructures (including bandwidth networks)	2.0
11	Information and communication technologies (access, security, interoperability, risk prevention, research, innovations, e-content, etc.)	0.05
13	Services and applications for the citizen (e-health, e-government, e-learning, e-inclusion, etc.)	4.6
16	Railways	0.01
17	Railways (TEN-T)	12.3
21	Motorways (TEN-T)	156.5
26	Multimodal transport	0.1
28	Intelligent transport systems	0.01
40	Renewable energy: solar	1.3
43	Energy efficiency, cogeneration, energy management	24.3
62	Development of life-long learning systems and strategies in firms; training and services for employees to step up their adaptability to change; promoting entrepreneurship and innovation	54.8
65	Modernisation and strengthening of labour market institutions	3.3
66	Implementing active and preventive measures on the labour market	81.1
67	Measures encouraging active ageing and prolonging working lives	6.1
68	Support for self-employment and business start-up	4.4
69	Measures to improve access to employment and increase sustainable participation and progress of women in employment to reduce gender-based segregation in the labour market and to reconcile work and private life, such as facilitating access to childcare and care for dependent persons	1.1
70	Specific action to increase participation of migrants in employment and thereby strengthen their social integration	0.02

Code of the priority subject area	Priority subject area	Amount of the concluded contracts in EUR million (European financing)
71	Pathways to integration and re-entry into employment for disadvantaged people; combating discrimination in accessing and progressing in the labour market and promoting acceptance of diversity at the workplace	32.0
72	Design, introduction and implementation of reforms in education and training systems in order to develop employability, improving the labour market relevance of initial and vocational education and training, updating skills of training personnel with a view to innovation and a knowledge based economy	13.5
73	Measures to increase participation in education and training throughout the life-cycle, including through action to achieve a reduction in early school leaving, gender-based segregation of subjects and increased access to and quality of initial vocational and tertiary education and training	17.4
74	Developing human potential in the field of research and innovation, in particular through post-graduate studies and training of researchers, and networking activities between universities, research centres and businesses	4.4
TOTAL:		550.4

Source: MMIS.

The contracts concluded up to date under the subject areas contributing to the achievement of higher growth and employment have a total value of EUR 1,076.4 million, which is 26.78% of the total amount of the planned funds and 43.65% of the total amount of the European financing for all contracts concluded up to date under the operational programmes.

VI.3. Projections for funds' absorption under subject areas contributing to the achievement of the NRP targets by 2015

Under Operational Programmes “Development of the Competitiveness of the Bulgarian Economy”, “Regional Development” and “Administrative Capacity” during the period 2007 – 2013 funds (in EUR million) are expected to be absorbed on subject areas contributing to the achievement of the NRP goals by 2015, as follows:

Table 16: Expected Absorption of Funds under OPs by Subject Areas Contributing to the Achievement of the NRP Objectives by 2015

Code	Priority subject areas	Operational Programme 2007-2013			Amount (EUR million)
		OPC	OPAC	OPRD	
02	R&TD infrastructure (including physical plant, instrumentation and high-speed computer networks linking research centres) and centres of competence in a specific technology	54.4	-	-	54.4
04	Assistance to R&TD, particularly in	80.8	-	-	80.8

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Code	Priority subject areas	Operational Programme 2007-2013			Amount (EUR million)
		OPC	OPAC	OPRD	
	SMEs (including access to R&TD services in research centres)				
05	Advanced support services for firms and groups of firms	161.5	-	-	161.5
07	Investment in firms directly linked to research and innovation (innovative technologies, establishment of new firms by universities, existing R&TD centres and firms, etc.)	43.8	-	-	43.8
08	Other investments in firms	139.6		-	139.6
09	Other measures to stimulate research and innovation and entrepreneurship in SMEs	112.0		-	112.0
10	Telephone infrastructures (including broadband networks)	-	-	13.6	13.6
11	Information and communication technologies (access, security, interoperability, risk-prevention, research, innovation, e-content, etc.)	-	-	3.4	3.4
13	Services and applications for the citizen (e-health, e-government, e-learning, e-inclusion, etc.)	-	6.0	-	6.0
22	National roads (second and third class)	-	-	217.8	217.8
25	Urban transport	-	-	53.6	53.6
28	Intelligent transport systems	-	-	35.7	35.7
36	Natural gas (TEN-E)	-	-	51.0	51.0
40	Renewable energy: solar	27.8	-	-	27.8
43	Energy efficiency, cogeneration, energy management	119.4	-	60.2	179.7
52	Promotion of clean urban transport	-	-	89.3	89.3
56	Protection and development of the natural heritage	-	-	64.9	64.9
58	Preservation and protection of the cultural heritage	-	-	64.9	64.9
61	Integrated projects for urban and rural regeneration	-	-	150.7	150.7
64	Development of specific services for employment, training and support in connection with restructuring of sectors and firms, and development of systems for anticipating economic changes and future requirements in terms of jobs and skills	34.9	-	-	34.9
75	Educational infrastructure	-	-	100.0	100.0
76	Healthcare infrastructure	-	-	107.3	107.3
77	Childcare infrastructure	-	-	40.0	40.0

Code	Priority subject areas	Operational Programme 2007-2013			Amount (EUR million)
		OPC	OPAC	OPRD	
78	Housing infrastructure	-	-	32.3	32.3
79	Other social infrastructures	-	-	21.9	21.9
81	Mechanisms for improving good policy and programme design, monitoring and evaluation at national, regional and local level, and the strengthening of the capacity for implementation of policies and programmes		36.8 ⁵⁷	-	36.8
	TOTAL:	774.2	42.8	1,106.6	1,923.4

Source: OP MA

VI.4. Planned financing for the measures submitted by the Managing Authorities of the Operational Programmes under factors to growth and national targets

Under Operational Programme “Development of the Competitiveness of the Bulgarian Economy” 2007–2013 by 2015 funds are envisaged to be absorbed under the measures, growth factors and national goals to achieve the following amounts:

1. Financial sector (financing for small and medium-sized enterprises) – EUR 170 million
2. Addressing the weaknesses in the business environment and improving administrative efficiency, including at regional and local level – EUR 73.96 million
3. National target 2 “Investments in R&D in the amount of 1.5% of the GDP” – total – EUR 539.2 million
4. National target 3 under the “Climate – Energy” package – “Achieving a 16% share of renewable energy sources in the gross end consumption of energy and increasing the energy efficiency by 25% as at 2020” – EUR 175.1 million

Under Operational Programme “Administrative Capacity” 2007–2013 funds are envisaged to be absorbed under growth factor 4 – Addressing the weaknesses in the business environment and improving administrative efficiency, including at regional and local level – in the amount of EUR 42.75 million.

⁵⁷ The amount is an estimate by 2013. In the Action Plan with the measures, included in the NRP, there are measures for which it is envisaged to discuss financing under OPAC. At present the cost of these measures has not been determined and financing for them can be allocated after the corresponding grant procedure is undertaken.

VII. ANNEXES

Annex 1: Action Plan with the measures, included in the National Reform Programme of the Republic of Bulgaria (2011–2015)