



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

RESOLUTION

on

"Recommendation concerning Council Recommendation on the National Reform Programme of Bulgaria for 2016 delivering a Council opinion on the Convergence Programme of Bulgaria for 2016"

COM (2016) 323 Final

(own-initiative resolution)

Sofia, 2016

The 2016 Action Plan of the Economic and Social Council envisions the elaboration of a resolution on "Recommendation concerning Council Recommendation on the National Reform Programme of Bulgaria for 2016 delivering a Council opinion on the Convergence Programme of Bulgaria for 2016. "COM (2016) 323 Final.

ESC President - Prof. Lalko Dulevski submitted the draft resolution for discussion to the Plenary Session.

At its meeting held on 24 June 2016 the Plenary Session adopted the resolution.

ABBREVIATIONS USED

EA - Employment Agency
PPA - Public Procurement Agency
GDP - Gross Domestic Product
BNB - Bulgarian National Bank
GFCF - Gross Fixed Capital Formation
AGS - Annual Growth Survey
VAT - Value Added Tax
EESC - European Economic and Social Committee
EC / the Commission - the European Commission
EP - European Parliament
EU - European Union
ESIF - European Structural and Investment Funds
ESF - European Social Fund
ASA - Amendment and Supplementation Act
PPA - Public Procurement Act
EMU - Economic and Monetary Union
ESC - Economic and Social Council
SSC - Social Security Code
CCB - Corporate Commercial Bank
FSC - Financial Supervision Commission
CFP - Consolidated Fiscal Programme
MH - Ministry of Healthcare
MI - Macroeconomic Imbalances
MES - Ministry of Education and Science
MIT - Minimum Insurance Thresholds
ILO - International Labour Organization
MS - Minimum Salary
CoM - Council of Ministers
MF - Ministry of Finance
NRA - National Revenue Agency
NHC - National Health Card
NHIF - National Health Insurance Fund
NAPE - National Action Plan for Employment
NGO - Non-Governmental Organization
NRP - National Reform Programme
NA - National Assembly
NSI - National Statistical Institute
OECD - Organisation for Economic Co-operation and Development
PIC - Pension Insurance Company
SGP - Stability and Growth Pact
SR - Specific Recommendations
The Council - Council of the European Union
GFBD - Guarantee Fund Bank Deposit
NEET - Not in Education, Employment or Training

I. INTRODUCTION

1. Within the new streamlined European Semester 2016 The European Commission (EC) published in February 2016 reports on individual Member States. This launched the second stage of the European Semester dedicated to review and assessment of the results and Member States' policies in the context of the priorities of the Annual Growth Survey (AGS) 2016
2. The "Report Bulgaria 2016. Including an in-depth Review on the prevention and correction of macroeconomic imbalances" presents the EC's assessment of the overall economic and social development in the context of the Annual Growth Survey 2016 as well as in terms of our national objectives in the Europe 2020 Strategy.
3. In April the government adopted the updated National Reform Programme (NRP) 2016 which presents the actions taken in 2015 and 2016 in connection with the specific recommendations (SR) to our country from previous years as well as the Convergence Programme for 2016, including measures in the area of fiscal policy.
4. ESC notes that the main recommendations to our country from 2015 remain, with the exception of the recommendation in the area of secondary education. In July 2015 four of the ESC's recommendations to Bulgaria addressed areas related to the formation of macroeconomic imbalances that are typical for the current year - fiscal policy, banking and non-banking financial sector, active policy on the labour market and regulatory framework for insolvency. ESC shares the view that the Commission reports as progress in implementing some of last year's recommendations, but also agrees that there is slight improvement or even lack of progress in connection to other imbalance identified in previous inspections.
5. ESC joins the overall positive assessment of the European Commission of measures to stimulate economic growth, although in Bulgaria as well as in some other European countries broad recovery has not yet been observed. In this year's specific recommendations to Bulgaria¹ the Commission acknowledged the efforts to tackle the challenges, the measures taken with respect to the problems in the banking and non-banking sector that occurred in 2014 and were not fully overcome in 2015. Allowing for the necessary period of time for legislative changes that started in the country in May 2015 to take effect, ESC welcomes the fact that the Commission's recommendations and measures in this field cover a period of more than one year.

¹ "Recommendation concerning Council Recommendation on the National Reform Programme of Bulgaria for 2016 delivering a Council opinion on the Convergence Programme of Bulgaria for 2016. "COM (2016) 323.

6. In terms of the barriers to investment outlined in the National Profile of Investment Challenges, ESC notes that according to official statistics, the share of investment in GDP of Bulgaria for 2015 corresponds to the EU average and is at the same level as that of other countries in South-eastern Europe.
7. ESC welcomes the fact that in August 2015 the Bulgarian government adopted a report on the main obstacles to investments referred to by the EC and created 10 working groups that coordinate actions to address these obstacles. ESC believes that on this basis it is possible to increase the opportunities for achieving tangible results, especially in the presence of adequate strategies and plans for their implementation.
8. According to ESC, through establishing national investment profiles the Commission should encourage the poorer countries of the so-called "cohesion group", including through projects under the "Investment Plan for Europe". In this regard, ESC again calls for urgent actions to improve the regulatory environment and reduce administrative burdens, and to achieve the necessary progress in bankruptcy legislation.
9. After in July 2015 the Council finally adopted specific recommendations for each country for 2015, ESC developed four² documents which consider part of the challenges facing Bulgaria that were summarized by the Commission. In them ESC presented its views and suggestions on how to overcome the major social problems of our country, related to the realization of young people, their needs and attitudes, as well as tackling poverty and, in particular energy poverty. ESC also presented its views and suggestions on important economic issues in its opinion "Reduction and Prevention of the Informal Economy in Bulgaria as an Opportunity to Stimulate Growth and Employment" of April 2015, and its resolution on the "Communication from the Commission - Annual Growth Survey 2016 - Strengthening of the Recovery and Fostering Convergence". They retain their importance and relevance in view of the similarity of some of the Commission's specific recommendations to Bulgaria for 2015 and 2016.

II. KEY FINDINGS AND RECOMMENDATIONS TO BULGARIA

² ESC, Analysis "Migration Attitudes among Secondary School Graduates in Bulgaria", September 2015; Opinion "Measures to Tackle Energy Poverty in Bulgaria", December 2015; Resolution "Implementation of Young People in the Labour Market" and "Integrated Policy for Young People in Bulgaria", December 2015.

1. SR (1) "To achieve an annual fiscal adjustment of 0.5% of GDP to achieve the MTO in 2016 and 2017. To continue to improve tax collection and to take measures to reduce the size of the informal economy, including undeclared work."³
 - 1.1. The Commission's recommendation to achieve an annual fiscal adjustment of 0.5% of GDP is retained, as is reflected in the SR for Bulgaria from the previous year. Therefore, according to the ESC, it is necessary to further improve the structure of the budget towards more public investment to complement still unsatisfactory levels of private investment and to support the further recovery from the crisis and accelerate economic growth.
 - 1.2. In connection with this recommendation of the European Commission, ESC welcomes the adopted on 25 May 2016 Amendment and Supplementation Act (ASA) for the Public Finance Act, which introduces additional fiscal rules, extends the prerequisites for increasing the predictability of the fiscal policy and ensures the sustainability of public finances.
 - 1.3. The adoption and implementation of the Fiscal Council Act is also supported by the ESC with the belief that through its activities as an independent advisory body on issues of fiscal management this new council will contribute to improving the quality of official macroeconomic and budgetary forecasts, as well as increase public awareness of the fiscal governance of the country.
 - 1.4. ESC shares the reserves expressed by the Commission towards achieving the medium-term budgetary objectives as these targets are set against the background of a slightly optimistic macroeconomic scenario which can be realized only with additional measures to stimulate economic growth.
 - 1.5. ESC notes with satisfaction that in the Convergence Programme (2016-2019) the government plans to continue fiscal consolidation in the medium term, envisaging that the deficit of the sector "government" for the period 2016-2019 will be continuously reduced reaching levels of 1.9% of the GDP in 2016, 0.8% of the GDP in 2017, 0.4% of the GDP in 2018 and 0.2% of the GDP in 2019. Furthermore, the government recognizes that "the adjustment in the deficit of the sector "government" is linked mainly with measures on the revenue side of the budget, aimed at increasing revenue collection and combating the informal economy, while with regard

³ Recommendation concerning COUNCIL RECOMMENDATION on the National Reform Programme of Bulgaria for 2016 delivering a Council opinion on the Convergence Programme of Bulgaria for 2016 COM (2016) 323

to costs horizontal measures to reduce them are to be applied"⁴which is in line with the Commission's recommendation.

- 1.6. According to ESC, despite the reported 1% increase in 2015 the share of the costs of GFCF in the GDP as compared to the previous year, internal resources to carry out public capital expenditure remain insufficient. They can be offset by achieving a higher degree of absorption of funds under the programs of EU structural and investment funds.
- 1.7. ESC reaffirms its positions expressed in the resolution on SR 2015 for the importance to promote foreign and domestic private investment, providing capacity for the implementation of public-private partnerships and taking full advantage of the possibilities of the "Plan for Investment in Europe."
- 1.8. ESC notes recorded nominal increase in revenue under CFP by 2.8 billion. BGN for 2015 as compared to 2014, which is a result of better macroeconomic development and the accompanying measures to improve tax collection. In this regard, ESC welcomes the adopted by the Council of Ministers in 2015 Unified strategy for adherence to tax legislation and the Action Plan for its implementation during the period 2015-2017, aiming to overcome the challenges associated with tax compliance and to combat the grey economy. ESC appreciates as positive the Draft Decision, prepared by the National Assembly, for taking into account of Recommendation №204 of ILO on the transition from the informal to the formal economy, adopted at the 104th session of the International Labour Conference on 12 June 2015 in Geneva.
 - 1.8.1. ESC declares its support for the planned measures and actions to the NRP in 2016 aimed to ease the businesses and citizens, shortening deadlines for service payers and introducing more options for filing declarations and documents electronically. In this connection, ESC believes that the results from the ongoing analysis of the effects of the implemented measures in the fight against tax fraud must be publicly disclosed.
 - 1.8.2. Furthermore, ESC also welcomes the legislative action of the European institutions against tax evasion - The Commission's proposal for a Council Directive laying down rules against practices to avoid taxes that directly affect the functioning of the internal market⁵ and the adopted on 8 June 2016 European Parliament resolution on the same topic⁶. The Directive against tax evasion reflects the Action Plan of OECD to limit the erosion of the tax base and shifting profits.

⁴ Convergence Programme (2016-2019), p. 24.

⁵ The Commission's proposal for a Council Directive (COM (2016) 0026)

⁶ EP, Resolution № P8_TA-PROV (2016) 0265

1.8.3. According to ESC, "raising the share of official information that is exchanged between institutions and the use of modern technologies in the interaction with payers"⁷ in the age of information technology will have a positive impact on the attitudes of citizens and businesses. In this regard, ESC evaluates as very positive, especially among young people, the national media campaigns to increase collection and prevent smuggling and the informal economy - conducted by the Ministry of Finance, National Revenue Agency and the social partners.

1.9. ESC is concerned with the reported high share of the informal economy in Bulgaria as compared to other EU Member States. Led by the understanding that the informal economy is a global challenge, which is characterized by resilience, diversity and flexibility, leading to serious consequences for the economic and social development of the country, ESC in its acts⁸ on the topic called for implementation of an integrated framework for effective measures and policies to prevent the informal economy and achieve the transition from the informal to the formal economy. In this connection, ESC recommends the development and adoption of:

- emergency package of legislative and administrative measures to achieve real results in the system of budget revenue and to stimulate and accelerate the development of electronic payments in all areas;
- measures to prevent violations of labour and social security laws against improper formation of contracts (including speculations with the amount of wages and hours of work), improper charging due to health and welfare, and against violations of the right to health care and safe working conditions, rest and leave;
- special information and motivation policies and actions in the field of training with which to raise awareness of the incidence and damage derived from the growth of the informal economy;
- a system of incentives for law-abiding citizens and businesses, including reducing the administrative burden and ensuring uniform application of laws to all businesses and citizens.

1.10. At the same time, ESC fully supports the Commission's recommendation to the government to take measures and policies to reduce the size of the informal economy, including undeclared work. ESC believes that poor performance can be improved by applying an integrated approach to commitment, update and upgrade of individual policies. In connection with the implementation of the recommendation ESC proposes:

⁷ NRP - update 2016

⁸ ESC Opinion on "The Informal Economy and Measures for Its Limitation" (2006) and "Reduction and Prevention of the Informal Economy in Bulgaria as an Opportunity to Stimulate Growth and Employment" (2015)

- monitoring and evaluating the impact of different policies and measures;
 - taking specific targeted measures in sectors, industries, activities and regions with the highest prevalence of the practice of informal economy and undeclared work;
 - priority introducing of preventive measures and incentives both for employers and for employees in favour of declared work;
 - development and adoption of measures to promote a culture of intolerance towards practices of undeclared work, addressing measures to all workers and economic units in the informal economy;
 - special attention to be paid to informal work in enterprises in the formal economy, as well as the manifestations of informal work in global supply chains;
 - improving regulations and capacity building of institutions, control and enforcement, and increasing confidence in them;
 - strengthening the role of tripartite dialogue and involvement of social partners in the development and monitoring of policies to facilitate the transition from informal to formal economy.
2. SR (2) "By the end of 2016 to complete the analysis of asset quality and stress tests of banks. By the end of 2016 to complete the analysis of the balance sheet and stress tests of insurance companies, as well as analyses of the assets of private pension funds. To undertake the necessary follow-up actions in these three sectors and to continue improving banking and non-banking supervision."

II.1. ESC joins the assessment of the European Commission that Bulgaria has made "some progress" in the implementation of SP 2 of 2015 - "functioning of the financial sector as a whole has stabilized", taking into account the series of measures for reforming it undertaken during the past year. At the same time, it should also be noted that in the Resolution adopted in relation to the SR in 2015⁹ ESC indicated that despite the global financial and economic crisis, "the Bulgarian banking sector, unlike many European banks remained stable, with good capital adequacy and robust credit policy, which has been repeatedly highlighted as a priority and achievement for our country in all European reports so far."

II.1.1. In this regard, ESC believes that the NRP 2016 contains the necessary measures to implement the recommendations on the banking sector aimed at compliance with European regulations in line with international best practices in banking supervision, capital adequacy and risk assessments of the portfolios of Bulgarian banks, which started in

⁹ ESC Resolution on "Recommendation Concerning Council Recommendation on the National Reform Programme of Bulgaria for 2015 delivering Council opinion on the Convergence Programme of Bulgaria for 2015." COM (2015) 253 Final.

2015 and will be completed as scheduled by the end of 2016. It is also envisaged - after completion of the review and implementation of the stress tests of banks to analyse the results on which the banks will have to update their recovery plans.

II.1.2. ESC expresses its conviction that all planned legislative changes and stress tests will contribute to increasing confidence in the financial system, independent regulators and government institutions to prevent future similar situations, and calls for adhering to the deadline for announcing the results of the stress tests.

II.2. Despite the "resolute action by the FSC, which in close cooperation with European institutions took the necessary steps to launch reviews of pension fund assets and balance sheets of insurers by independent external experts and in line with international best practices"¹⁰, the EC reported "limited progress" regarding reforms in the non-banking sector.

II.2.1. According to ESC, in 2016 the planned review of the assets of 27 pension funds and the balance sheets of the 54 insurance companies operating on the Bulgarian market must be completed, which will assess the risk of insolvency or capital deficiency of insurers, and in case of necessity supervisory measures can be undertaken by the FSC. In this regard, ESC is convinced that a successful conclusion of this process would provide a more complete picture of the state of both sectors and at the same time would help to strengthen public confidence in the non-banking sector.

II.2.2. ESC supports the recommendation of the European Commission aimed at stabilization, strengthening and effective supervision of pension funds, considering that the open, honest and responsible financial management of these funds will have positive impact on the financial stability of our country. ESC notes that the analysis of pension fund assets in 2016, planned in accordance with the NRP, is of key importance to the assessment of the objective performance of PIC almost 15 years after their creation and after the numerous changes made on the CSR.

II.2.3. ESC agrees with the findings in the Report of the European Commission to Bulgaria, which draw the attention of the government to certain risks in the sector of private pension funds, such as transactions between affiliates and concentration of capitals; different strategies of pension insurance companies in investing the funds of the insured persons; the approaching payment of supplementary pension funds to large groups of insured persons, as well as the potential threat of subsequent overload of other social systems.

¹⁰ European Commission "Country Report on Bulgaria for 2016 Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances".

II.2.4. The understanding of ESC is that the reaction of the government, expressed through the actions planned in the NRP, concerning the non-banking sector, with a focus on controlling the activities of pension insurance companies and the improvement of management systems, is adequate and well laid out, with clear deadlines for action. However, according to the ESC, before submitting to the National Assembly of a Bill to amend the CSR, it is necessary to conduct a broad public discussion between the respective ministries, the social partners, experts and representatives of all stakeholders to achieve consensus on the necessary changes.

II.2.4.1. ESC welcomes the proposals to improve the corporate governance of PICs and to strengthen their supervision and regulation, "including through the adoption of requirements of Directive 2009/138/EC (Solvency II)"¹¹ in respect of persons holding a qualified holding in the capital of PICs and their management system, including risk management, internal control and internal audit.

II.2.4.2. ESC also welcomes the proposed steps to improve the control on PICs and the changes related to improving the regime of investment by private pension funds. ESC supports the action taken by legislative changes to improve the regulatory framework in order to strengthen control by the custodian banks on the valuation of assets of pension funds. These changes regulate the daily control of the custodian bank on the valuation of pension fund assets and calculating the value of each share.

II.2.4.3. ESC reminds that in its opinion¹² it insisted that "given the increasing share of the private pension sector in the financial market, it is necessary to achieve stronger control by stakeholders in the pension sector and to introduce best European practices". It also proposed to create a "permanent pension committee with the participation of professionals from relevant institutions, the public administration, representatives of organizations of workers and employers to exercise constant monitoring of the management of pension insurance"¹³. ESC notes that despite the provision of NRP 2015 that - "by the end of 2015 following discussion with all stakeholders, a steering committee to oversee the process of conducting review of the assets of pension funds should be created"- in practice such an advisory committee was not created.

II.2.4.4. ESC is convinced and has repeatedly stated in its acts, that the insurance assets of private pension funds must be managed with

¹¹ Reasons to ASA for CSR posted for public discussion of 24/04/2016.

¹² ESC Opinion on "Social Security and Social Protection" (2010).

¹³ ESC Opinion on "Social Security and Social Protection" (2010).

utmost care and responsibility, effective and transparent control over them is of paramount importance for the financial stability also of other social systems.¹⁴ ESC supports the proposal in CSR to focus on raising the awareness of insured persons in private pension funds.

II.2.5. ESC recommends that, following an analysis of the assets of private pension funds and summarizing their results, broad public debate should be launched with the social partners and civil society organizations and other stakeholders to improve legislation and to adopt European best practices for both pension funds and insurance companies.

3. SR (3) "To strengthen and integrate social services and active employment policies, particularly for long-term unemployed and young people who do not participate in any form of employment, education or training. To increase the provision of quality education for disadvantaged groups, including the Roma. To improve the efficiency of the health care system by improving access to it and funding, as well as health care outcomes. In consultation with the social partners to draw up guidelines and criteria for determining the minimum salary (MS). To increase the scope and adequacy of the general scheme of minimum income."

3.1. EC recommendations on active employment policies in Bulgaria, particularly for long-term unemployed and young people who do not participate in any form of employment, education and training are included in SR 3. ESC notes with concern that under the Commission's assessment of the implementation of this recommendation Bulgaria reported "limited progress", which is a testament to some weaknesses in the labour market and the need to take additional measures to reduce unemployment and economic inactivity.

3.1.1. In the end of 2015 The European Commission published a proposal for a Council Recommendation on the integration of long-term unemployed in the labour market. Given the serious emerging challenge, the governments of European Union Member States, including the Bulgarian government, supported the recommendation aiming to return the long-term unemployed in the labour market and to strengthen action at the national level to reduce the unemployment rate among them .

3.1.2. Despite the increase in total employment, the tendencies of declining and aging workforce, the structural nature of long-term unemployment and the large discrepancies between the supplied and demanded skills make adjustment of the labour market difficult and this is reflected most

¹⁴ ESC Opinion on "Social Security and Social Protection" (2010). ESC Resolution on 'Recommendation Concerning Council Recommendation on the National Reform Programme of Bulgaria for 2015 delivering Council opinion on the Convergence Programme of Bulgaria for 2015 (2015).

noticeably in young persons and long-term unemployed. According to ESC, the retaining factors to employment are still low, unrecovered in the wake of the crisis internal investment activity and weak inflow of foreign investment - factors which do not contribute to the creation a sufficient number of new jobs.

- 3.1.2.1. ESC identifies as a very serious problem the fact that non-working young people remain unregistered, because they need to be registered with the labour offices in order to obtain access and benefit from various programmes and measures for employment and retraining. In this connection, ESC welcomes the planned measures in the updated NRP of Bulgaria for 2016 regarding the integration of young people into the labour market that are implementing the "National Action Plan for Employment (NAPE) 2016" and the "National Plan to Implement the European Youth Guarantee 2014-2020". Part of these measures are aimed at activating inactive young persons, while others - to employment, including internships and apprenticeships for unemployed young people aged up to 29 years.
- 3.1.2.2. Concerning the integration of adults in the labour market, ESC recognizes that NRP 2016 provides a measure in pursuance to NAPE 2016 and a measure to improve policies in the labour market. The first is aimed at the job integration of older people through their inclusion in education and employment in various programmes and measures. The second is aimed at modernization of the activity of the EAs and the provision of better services for employers and job seekers. In this context, ESC believes that more confident and dynamic steps to sustainable employment are necessary, as well as increasing the efficiency and improving the quality of service of EAs, which focus mainly on vulnerable groups in the labour market - adults, young persons, long-term unemployed and low-skilled persons.
- 3.1.2.3. ESC is concerned for the serious social consequences of long-term unemployment and its high share in total unemployment, and the fact that the probability of transition from unemployment to inactivity increases with time spent in unemployment. Therefore, ESC emphasizes the crucial role of reintegration of long-term unemployed in the labour market and that it should become one of the leading priorities of governmental policy in this area. In this connection, ESC supports the intentions of the Ministry of Labour and Social Policy to set as one of its most important priorities the rapid integration into the labour market of long-term unemployed and inactive persons, ~~but~~ recalls that it takes many actions to improve employability to facilitate the transition to employment, increasing employment, fighting poverty and social exclusion.

3.1.3. In a series of its acts ESC alerted to the seriousness of the problem of youth unemployment and the high level of young persons in the group of NEETs¹⁵ in Bulgaria.

3.1.3.1. In this connection, ESC welcomes measures connected with the active policy on the labour market provided for in NAPE 2016 and targeting on several key groups - unemployed young people aged under 29 with the subgroup of persons aged under 25, including young persons in the NEETs group; unemployed persons aged above 50; long-term unemployed; unemployed with low qualification or professional qualifications in low demanded on the labour market, persons with shortage of key competencies; unemployed with low education, including Roma persons; disabled persons; persons outside the labour force willing to work and discouraged workers.

3.1.3.2. ESC recalls that one of the major initiatives undertaken by Member States is the creation of the "Youth Guarantee" one of the highlights of which is the "activation" of young NEETs. NAPE 2016 envisages two major areas of activity - prevention and activation, including in employment and training, and using the opportunities of ESF and strengthening partnerships.

3.1.3.3. In 2016 it is expected for the European Commission to prepare the first report on the implementation of the "Youth Guarantee", based on the data collected so far by Member States. The "National Plan for Implementing the European Youth Guarantee 2014-2020," expected that in Bulgaria by the end of 2015 the share of young people aged 15-24 who are neither in employment, education nor training should fall to 20.5% of the total number of youths in the same age range. According to Eurostat data, the share of these young people for 2015 is 19.3%, lower than 2014 when it was 20.2%. Nevertheless, for the ESC this problem remains very serious, as in the EU on this indicator our country is lagging behind.

3.1.4. ESC calls for more publicity and promotion of best national and European practices and examples in relation to youth unemployment, prevention and reintegration of early school leavers, as well as identification, activation and support for young NEETs.

3.1.5. ESC notes that in its report on Bulgaria for 2016 the European Commission draws attention to the still limited impact of the measure on recruiting youth mediators from public employment services designed to reach and activate young people from the group of the NEETs. At the same time, ESC notes that after assessment of the active policy on the labour market, its best net effect is observed among the group of youths

¹⁵ NEET - young people not in employment, education or training.

under 29 years of age, while a relatively low impact is observed among those over 50 years of age. Moreover, in terms of the acquired education, the net effect is highest among persons with primary or lower education.

- 3.1.6. ESC restates its view that one of the biggest challenges in the labour market in 2016 in Bulgaria will be the high unemployment of persons with the lowest degree of education and those without qualifications. The unfavourable educational and professional situation makes young persons uncompetitive in the labour market and in terms of economic difficulties they are the first to be dismissed from work. Therefore, ESC is concerned that without the implementation of emergency measures aimed at low-skilled workers, many of them will be driven to the informal economy, mainly to sectors characterized by low productivity, low wages and a higher risk of poverty.
- 3.2. In the Report of the European Commission for Bulgaria, as well as in SR 2016, item (11)¹⁶ there are a number of findings related to the reform in the education sector that are fully supported by ESC. Although this year no specific recommendation is made to Bulgaria concerning the educational system as a whole, the Commission recommended an increase in the provision of good-quality education to disadvantaged groups, including the Roma.
 - 3.2.1. ESC repeatedly in their acts and positions has appealed for the need to accelerate reforms in pre-school, secondary, vocational and higher education. In one of its most recent acts¹⁷ adopted in 2015 ESC drew the attention of society to build a working coordination mechanism for the creation and implementation of an integrated educational policy that formulates a National Concept of the Human Capital of the Nation, adopted by the National Assembly, which would clearly define priority directions of development for all educational levels, supported by concrete national policies and measures.
 - 3.2.2. ESC is confident that the new Pre-School and School Education Act, adopted on 30 September 2015, and coming into effect as of August 2016, is an important step toward a comprehensive reform of the school system. A discussion and adoption of the prescribed nineteen state educational standards that are key to improving the quality and results in education is also underway. ESC urges that this be done with the active participation of the social partners.
 - 3.2.2.1. ESC recognizes as a positive measure the introduction of educational standards for inclusive education, which will lay down

¹⁶ Resolution on "An Integrated Policy for Young People in Bulgaria".

¹⁷ Ibid.

requirements for the organization of inclusive education¹⁸ and will essentially implement the reform whose goal is to eliminate all forms of segregation in education, to include vulnerable and isolated (for one reason or another) children, as well as to encourage and foster the participation of all children in the educational process. This inclusion lays a particular emphasis on those groups of learners who are at risk of isolation, who are excluded from education or achieve insufficiently good learning outcomes.

3.2.2.2. ESC's recommendation is that the Standard for Inclusive Education should identify the specific steps and tools that teachers can use in implementing the prevention of learning difficulties and early assessment of needs as well as the right degrees of support at two levels - general and additional support. This support must be preceded by an analysis of the information collected about each student, such as evaluation of progress, conversations with the parents, monitoring the development and behaviour since childhood.

3.2.3. ESC is concerned by a negative trend, which has emerged over the last three years, towards increasing the share of early school leavers by level of education - from 11.8% in 2011 to 12.9% in 2014, and to 13.4% for 2015, despite the adopted strategic documents aimed at solving the problem, and the preventive measures laid down in them.¹⁹ Discomforting are also the indications of a steady trend towards the increasing share of early school leavers in vocational education (18,364 for the period from 1 January 2012 to 31 December 2014) as well as the reasons reflected in this trend - lack of interest in this type of education, expectations for low-paid and non-prestigious work, etc.

3.2.3.1. In its acts ESC proposed in municipalities and schools with a predominant share of children and students at risk of early school leaving to develop, to deploy a comprehensive approach to integrated policy of prevention, based on an agreement to work together and outlining a specific algorithm for interaction between "school - students - parents - local government - local businesses - public organizations" with concrete commitments of all parties.

3.2.3.2. ESC supports a measure already accepted by the Ministry for the development and introduction of an early warning system for possible early leavers from kindergartens and schools in the North-western and

¹⁸ "Inclusive Education" is a process of awareness, acceptance and support of the individuality of each child or student and the diversity of needs of all children and students through activation and involvement of resources aimed at removing barriers to learning and retention and to create opportunities development and participation of children and students in all aspects of community life (§ 1 item 22 of the Additional Provisions of PSEA).

¹⁹ Audit of the Court of Auditors "Vocational Education for Employment" for the period from 1 January 2012 to 31 December 2014.

South-eastern area, where their share is the largest, but is concerned about the delay and distancing of its implementation in time. At the same time, ESC believes that there should be a mechanism for tracking the register of the NSI also of the target group of those who "never attended school", in order to monitor the coverage of children by the school system as well as to introduce electronic enrolment of children in kindergartens and in first year at school.

3.2.3.3. ESC draws attention to the still insufficiently effective action to reintegrate dropouts and early school leavers into the educational process. There is a serious need for objective analysis and reevaluation adjustments to previously implemented policies and measures taken to reintegration into education, especially for disadvantaged groups.

3.3. In the Report on Bulgaria for 2016²⁰ EC reported "some progress" in the implementation of the 2015 recommendation for improving the effectiveness of funding in the health care system.

3.3.1. Despite this finding, the Commission restated the challenges facing the health care system in the country related to limited access to health services, low funding and poor health outcomes. According to the Commission, the problems are caused by inefficient allocation and use of resources, the established practice of informal payments, the lack of policies to attract and retain qualified personnel, and the need to improve the pricing policy for medicines.

3.3.2. Access to finance is a problem to which public and political attention should be directed and urgent measures should be undertaken. In its opinion on the subject ESC stated that the distribution of limited budget is "one of the determinants of the quality of service that limits opportunities for providing adequate medical care"²¹. In this context, ESC expressed its support towards the²² cost optimization of public funds for treatment, as reflected in NRP, but believes that they may not be sufficient to compensate for the deficit in health care.

3.3.2.1. ESC shares the Commission's concern about the fact that 12% of Bulgarian citizens remain uncovered by health insurance or have interrupted rights, and stresses that in 2014 it alerted about the need for "adequate state policy and concrete actions to reduce the number of persons without health insurance"²³. ESC expresses satisfaction that as a result of the change in conditions for reimbursement of

²⁰ Report on Bulgaria for 2016. Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances, European Commission. 17

²¹ ESC Opinion on "Healthcare in Bulgaria - Problems and Possible Solutions", 2014

²² National Reform Programme of Bulgaria, update 2016

²³ ESC Opinion on "Healthcare in Bulgaria - Problems and Possible Solutions", 2014

health insurance²⁴ the government reported increase in the share of citizens regaining their health insurance rights - for the period 1 June - 31 December 2015 their number is 195,726.

3.3.2.2. In its opinion²⁵ ESC proposed the introduction of a model that "would be based on the availability of an essential health insurance package with a gradual upgrade of additional health insurance packages". In this regard, ESC is expecting anxiously the next steps in the implementation of pending reforms envisaging the current package of health coverage to be divided into two parts - basic and supplementary, as well as the full assurance of all categories of persons for which the state has a responsibility.

3.3.3. In connection with the growing problem related to the lack of medical workers in sparsely populated areas, ESC supports the changes introduced²⁶ in the characteristics of the training programmes for professional qualification "nurse" and "medical assistant", according to which each nurse should have the competence to undertake discretionary immediate life-saving measures, as well as in cases of crisis and disaster. Moreover, unified state requirements are introduced for the profession "medical assistant", which allows individuals to carry out medical care under all conditions, individually or in teams under the guidance of a physician.

3.3.3.1. ESC welcomes the planned increase in salaries of workers in the system of emergency medical care, where there is a great shortage of staff and expects thereby to increase the interest in this professional segment.

3.3.4. ESC notes with concern that the Report on Bulgaria for 2016 again highlights the unresolved challenges in long-term care related to "fragmentation of the law" and the provision of services both within the health care system and in the social services. Despite the achieved progress in this area by coordinating the work of social and health care systems to provide long-term care, the Commission considers that the "de-institutionalization of people with disabilities and the elderly is still slow, and the process of deinstitutionalization of children continues to be funded mostly with funds from ESIS. "

²⁴ In particular - in 2015 a six-month grace period was introduced for regaining health insurance right by repayment of the contributions due for the elapsed three years, and since 2016 this period increased to five years.

²⁵ ESC Opinion on "Healthcare in Bulgaria - Problems and Possible Solutions", 2014

²⁶ Decree № 86 of 15 April 2016 for Amendment and Supplementation of the Ordinance on the state requirements for acquiring higher education in professional qualification "nurse" and "midwife" to a degree "Bachelor" adopted by Decree № 248 of the Council of Ministers of 2005 (prom. State Gazette No 95 of 2005; amend. S.G. 82 of 2006 and S.G. 88 of 2010)

- 3.3.4.1. ESC welcomes the government's actions to the statutory regulation of the Centre for comprehensive services to children with disabilities and chronic diseases as a new type of hospital. ESC is pleased to note that in response to its recommendation of 2015²⁷ the government has drafted a concept for the development of the system of care for children and families, and an ordinance will be adopted that will regulate the integrated health and social services related to long-term care for children and adults.
- 3.4. ESC joins the EC recommendation, which it also supported in its 2015 resolution on the Commission's SRs²⁸, the creation of an objective mechanism by which minimum wages vary according to transparent economic, social and financial criteria based on the objectives of social development and economic progress. At the same time, ESC believes that the existence of a mechanism for the minimum wage will improve the business climate and the balance of the labour market and reducing poverty, especially among working people.
- 3.5. ESC also reminds that in 2006 in its opinion "Incomes Policy - An Essential Tool for Improving the Quality of Life and a Factor for Reducing Poverty in Bulgaria"²⁹ it recommend that the minimum salary should be determined after negotiations with the social partners and taking into account the official poverty line and average monthly salary. In another of its acts ESC specified that it is necessary that this be done "in full and consistent application of the method to measure the total effect of the following factors: inflation, productivity, competitiveness and market conditions, social security and tax burden".³⁰
4. SR (4) "To reform the legal framework of bankruptcy to accelerate procedures for administration and restructuring and to improve the efficiency and transparency of these procedures. To increase the capacity of the courts in respect of insolvency proceedings. To strengthen the capacity of the Public Procurement Agency and the contracting authorities and to improve the planning and control of procedures for the award of public contracts. To accelerate the introduction of e-procurement. "
- 4.1. With particular concern ESC notes the challenges registered for yet another year concerning the business environment in Bulgaria, the legal framework for bankruptcy and the capacity of the courts to handle this:

²⁷ Resolution on the SR 2015

²⁸ Resolution on "Recommendation Concerning Council Recommendation on the National Reform Programme of Bulgaria for 2015 delivering Council opinion on the Convergence Programme of Bulgaria for 2015. " 19

²⁹ ESC Opinion on "Incomes Policy - An Essential Tool for Improving the Quality of Life and a Factor for Reducing Poverty in Bulgaria".

³⁰ Opinion on the draft NRP of the Republic of Bulgaria (2006-2009).

unstable regulatory framework and low confidence in the judicial system, etc. At the same time, the Commission recognized the unsatisfactory implementation of reforms in the public administration and e-governance, as well as "remaining weaknesses of the public procurement system".

- 4.2. ESC joins the Commission's finding that "lengthy bankruptcy procedures render the payment of liabilities more difficult and increase uncertainty in the assessment of corporate balance sheets" - a circumstance that is detrimental to both debtors and creditors.
- 4.3. In this regard, ESC calls on the government to accelerate the process of preparing the legislative changes which allow the prevention of bankruptcy by reorganizing the enterprise, even if there is a real risk of insolvency. Thus, by reaching an agreement - before the opening of insolvency proceedings - it becomes possible to restructure the debts of the enterprise in order to rescue and continue operation.
- 4.4. The Economic and Social Council considers that the adopted a completely new Public Procurement Act (in force since 15 April 2016) creates a legal basis for extending the preliminary control by the PPA, as well as strengthens its administrative capacity. At the same time, the European Commission recognizes that progress towards full e-procurement is only "limited".
- 4.5. In this regard, ESC reminds that in its resolution on the SR for 2015 it recommended to accelerate "the development of a national centralized single-platform model for e-procurement to allow a phased introduction of e-procurement by 2016, providing compulsory electronic communication between principals and participants, including electronic submission of tender offers."

(signed)

Professor Lalko Dulevski, Ph.D

PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL