



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

## **RESOLUTION**

**on**

### **KEY POSITIONS**

#### **OF THE ECONOMIC AND SOCIAL COUNCIL ON THE REVIEW OF THE IMPLEMENTATION OF THE EUROPE 2020 STRATEGY IN BULGARIA**

**(own-initiative resolution)**

**Sofia, 2015**

The Economic and Social Council (ESC) included in its Action Plan for 2015 the elaboration and adoption of a **Resolution on the key positions in the Economic and Social Council on the review of the implementation of the Europe 2020 Strategy in Bulgaria.**

The President of ESC submitted for discussion the draft Resolution adopted by the President Board to the Plenary Session.

At its meeting, held on 30 January 2015, the Economic and Social Council adopted the resolution.

## **I. INTRODUCTION**

1. The Europe 2020 Strategy (the Strategy) has as its main objective the creation of a more competitive economy, providing higher quality employment to the citizens of the European Union (EU). The achievement of the five targets in the fields of employment, reduction of poverty and social exclusion, education, innovation, and climate/energy should lead to smart, sustainable and inclusive growth. The implementation of the Strategy is supported by an effective system of economic governance, which must coordinate the efforts of individual Member States.
2. To measure progress in achieving the common European goals laid down in the Strategy each Member State has set its national targets in five areas, in accordance with its current situation and its opportunities for development. Our country is implementing the Europe 2020 Strategy according to the National Reform Programme (NRP).
3. Bulgaria has the right to review its national targets adopted in 2011 half way through the implementation period – in 2015 Bulgaria's targets to be achieved by 2020 are:
  - Reaching an employment rate of 76% among persons aged 20-64 by 2020.
  - Investment in Research and Development (R&D) amounting to 1.5% of the GDP;
  - Achieving a 16% share of renewable energy sources in the gross final consumption of energy and increasing energy efficiency with 25% by 2020;
  - Reducing the share of early school leavers to 11% by 2020 and increasing the share of people aged 30-34 with tertiary education to 36% by 2020;
  - Reducing the number of people living in poverty by 260,000 persons.
4. ESC draws attention to the widely discussed issue whether by achieving the targets set out in the Europe 2020 Strategy, the European economy will actually become more competitive on a global scale. It is necessary on the basis of an extensive survey to assess the opportunities and the needs to set new sub-targets in each of the areas of smart, sustainable and inclusive growth.
5. At the same time, ESC supports the position of the European Economic and Social Committee (EESC) that "the quantification of the objectives should be substantiated by qualitative assessment, since reporting the "smartness" of a socio-economic system cannot be measured solely on the basis of quantitative indicators"<sup>1</sup>. According to ESC, along with indicators showing the number of employed persons and jobs there should be means to account for the quality of the workforce and the created jobs. It is crucial that new technologies should be adequately integrated into the Strategy and that a re-evaluation should be made of the seven initiatives according to targets.

## **II. CHANGES IN THE STRUCTURE, COORDINATION AND EFFECTIVENESS OF THE IMPLEMENTATION OF THE EUROPE 2020 STRATEGY**

1. ESC has established itself as an active participant in the process of monitoring, implementing and coordinating Europe 2020 activities within the framework of the

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<sup>1</sup> EESC, "A review of the strategy "Europe 2020".

European semester. The Council has adopted acts on the National Reform Programme of Bulgaria for 2011, on the recommendations concerning the NRP (country-specific recommendations) addressed to Bulgaria in 2013 and 2014; and concerning two of the EC communications on the Annual Growth Survey (2013 and 2014). In its resolutions on the AGS 2013 and 2014 ESC found a discrepancy between the direction of the main messages of the European Commission (the Commission) and the main directions for achieving the objectives of the Europe 2020 Strategy.

2. An unfavourable development of Europe is the fact that both the recommendations in the successive annual surveys, as well as the specific recommendations to certain Member States, remained unchanged on an annual basis. ESC believes that the main reason for this is the lack of consistency and continuity in political governance and insufficient will to conduct imperative reforms. ESC has already warned that Europe is moving at two speeds and the scenario of the "lost decade" is a true phenomenon.
3. ESC's opinion is that the European Semester does not exercise effective coordination at the Community level in terms of both fiscal policy and structural reforms of labour markets and labour income. However, although the Semester is aimed at supporting Member States in meeting their national targets in the context of the Europe 2020 Strategy, unfortunately still more significant results are not observed.
4. ESC calls on the Commission to make more specific recommendations for each country and at the same time to require from Member States their effective implementation by strengthening the binding nature of such recommendations. ESC also recommends to actively monitor the relationship between the specific recommendations and the preliminary conditions for Partnership Agreements.
5. According to ESC, linking the funding from the Structural and EU investment funds with the implementation of the Europe 2020 Strategy through Partnership Agreements and Operational Programmes (2014-2020,) for each Member State is an effective means of controlling and improving the mechanism of managing the Europe 2020 Strategy.
6. Conversely, ESC believes that there is a need to rethink economic governance and reaffirms its recommendation that in its further development much more attention should be paid to reporting and strengthening its social aspects.
7. In several documents ESC expressed its finding that the limited time frame of the European Semester does not allow individual Member States to conduct a real dialogue on the selection of appropriate measures within the framework of policies to address the identified challenges. This prevents the adequate implementation of specific recommendations and also hinders the implementation of effective multilateral monitoring and the use of peer pressure at the European level.
8. One of the main appeals of the ESC in the process of implementation of the Europe 2020 Strategy is to strengthen the participation of organized civil society at all levels<sup>2</sup>. The role of the social partners in the European Semester evidently should be increased, and not only in the form of consultations, but as an expert debate, leading to the convergence of positions and goals and achieving early consensus on the reforms and the implementation of the recommendations of the Commission.

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<sup>2</sup> ESC Resolutions - AGS 2013 and AGS 2014.

9. In this regard, ESC restates its position that the social partners and civil society, incl. economic and social councils can provide significant support through their expertise to support the processes of consultation and the preparation of documents of national strategic importance.
10. ESC calls on the institutions involved in the preparation of National Reform Programmes to seek more partnerships between all levels of government. At the same time, ESC qualifies the lack of sufficient communication and effective participation at all levels of government, especially at regional and local levels, as a challenge to Bulgaria's implementation of the Strategy. As ESC has repeatedly stressed the long-term economic development at the regional level cannot be managed effectively only through nationwide solutions. It is imperative to make provisions for directly involving and ensuring the commitment of local authorities, which will also guarantee the actual implementation of the objectives.
11. In its documents ESC notes that the Annual Growth Survey of the European Commission is based on forecasts made in the autumn, and calls into account potential errors in them, as they may have implications for the budgetary adjustment required by the Member States. ESC notes that due to the long delay of some data for structural indicators by Eurostat it is difficult to assess how effectively the Strategy is implemented at the European level (such as social indicators and energy efficiency).
12. ESC believes that some of the indicators used to measure progress in achieving the targets of the strategy do not allow the possibility to adequately assess the link between the changes in reported parameters and the actual effects of related reforms. ESC believes that to assess the effectiveness of policies in some of the targets it is not enough to consider only the main indicator, but also to take into account additional related indicators related to other purposes (such as R&D and education targets).
13. ESC notes with concern that in Bulgaria a major challenge in the implementation of the Europe 2020 Strategy is the low degree of continuity in the planning and implementation of long-term policies by the various governments. At the same time, it is also influenced by the insufficient administrative capacity in conducting policies and the inadequate implementation of ready-made solutions and foreign practice, without taking into account national specificities.
14. ESC supports the Bulgarian government<sup>3</sup> in its claim that improving efficiency can be sought in several directions:
  - ensuring consistency between the various policies of the policy mix aimed at achieving a synergistic effect/result;
  - strict monitoring of results (taking into account the existence of a possible time lag) and taking additional measures for implementation in case the results fall short of the predetermined threshold;
  - providing adequate funding for the measures/policies;

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<sup>3</sup> Mid-term Review of the Europe 2020 Strategy - Position of the Republic of Bulgaria.

- greater involvement of the Strategy in the European Semester process, which currently focuses mainly on the challenges of fiscal and macroeconomic stability, rather than on long-term structural reforms.

15. According to ESC, in enhanced coordination and joint action at EU level it is necessary to evaluate the effect of the planned national reforms on certain sectors of other Member States. This will improve results in some areas of policy at the national level and at the EU level.
16. At the same time there are areas such as tax, social security and health care, in which the current state of convergence in income required to comply with national specificities and makes it impossible their enhanced coordination.
17. The European Semester applies via integrated approach in the management of policies to ensure coherence between different policy areas at the European and national level. In practice, however, the country-specific recommendations appear to be non-systematic and there is little connection between specific recommendations as well as between them and national policies and the financial provisions set aside for them. ESC believes that this can be overcome by setting priorities and sequencing reforms, strengthening dialogue and expecting the final effects of specific policies.
18. According to ESC, integrated economic governance somewhat shifts the focus of the recommendations to comply with the requirements of the Stability and Growth Pact and the procedure for overcoming macroeconomic imbalances, leaving discussions of the Strategy in the background.
19. ESC believes that in implementing the Europe 2020 Strategy the main emphasis is on the economic and financial aspects, while achieving the objectives of the Strategy and their expected effect remain in the background in the overall mechanism of the European semester.
20. ESC agrees with EESC that the Europe 2020 Strategy will succeed "only if it has structured multi-level governance in order to meet the many challenges ahead, and only if the general guidelines agreed at European level, lead to concrete actions at the national and regional level"<sup>4</sup>.

### **III. THE NEED TO REVISE AND SUPPLEMENT THE TARGETS OF THE EUROPE 2020 STRATEGY**

1. ESC has repeatedly stated that the targets of employment, education and poverty remain inextricably linked. Data show that in Bulgaria this connection is very strong, since almost half of the population with low education is at risk of poverty; low education also is a major prerequisite for unemployment and economic inactivity.
2. ESC recognizes the commitment of the Europe 2020 Strategy in terms of these three areas, but believes that institutions seek first to reach the quantitative results, and not to carry out structural reforms and achieve qualitative results. Bulgaria's progress with respect to the targets of the Europe 2020 Strategy in the field of employment, education

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<sup>4</sup> EESC, "A review of the strategy "Europe 2020".

and poverty shows both the situation in the country in terms of these three objectives and the adequacy of the conducted policies.

3. ESC believes that Bulgaria should reconsider the objective of employment, which it finds as insufficiently clarified. In this connection, ESC once again calls for the Europe 2020 Strategy to formulate targets that take into account the level of youth employment and unemployment.
4. According to the ESC, it is further necessary to reconsider the goals of education, particularly that of early school leaving, which should be more ambitious than the stated value (below 11% by 2020).
5. At the same time, ESC emphasizes that fighting poverty, as one of the targets of the Europe 2020 Strategy, is connected with the reduction of early school leaving, and in turn with the quality of the labour force.
6. As regards the target – "to increase the level of investment in R&D to 1.5% of GDP by 2020", our country has identified nearly a twice lower target as compared with the EU average of 3%. However, according to ESC, this value is quite ambitious and achievable, given the considerable lag of our country as of 2013 (0.64%) and the planned limited public contribution to R&D investment over the next five years, without taking into account EU funds.
7. ESC again insists that, based on analysis and evaluation of the implementation of the main objectives of the Europe 2020 Strategy, the possibility of supplementing some of them with targets and indicators for monitoring should be discussed.

## **1. Employment targets**

- 1.1. In its resolution on the "Draft National Reform Programme" ESC has paid particular attention to the target that Bulgaria has set in terms of **Employment** and described it as "very ambitious"<sup>5</sup>. According to the ESC that purpose is insufficiently defined and should be linked to the quality of employment and jobs by introducing an indicator to assess not only the growth of the number of employed persons, but also the growth of the number/ratio of persons employed in jobs requiring high qualifications and/or education and higher than the average wages. This objective should also be examined in close connection with the demographic processes and changes in the pension system.
- 1.2. In the context of the European Semester, ESC proposes the removal of an additional sub-target on employment related to the employment and unemployment of young people. According to ESC, the inclusion of these indicators is needed because of the different scope of both factors.
- 1.3. In a series of its acts<sup>6</sup> ESC defines several groups of challenges facing the labour market that are relevant to the achievement of employment targets.

### ***1.3.1. Demographic Challenges***

- 1.3.1.1. ESC evaluates as extremely worrying the emerging trends in the demographic processes in Bulgaria. As a result of these trends, today the population of our

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<sup>5</sup> ESC Resolution on "The Draft National Reform Programme of the Republic of Bulgaria", 2011

<sup>6</sup> ESC, Opinion on the "Challenges to Labour Markets Within the Europe 2020 Strategy"(2011), Resolution "Demographic Challenges to Bulgaria Within the Europe 2020 Strategy" (2011).

country is one of the oldest and most rapidly declining ones throughout the European Union.

- 1.3.1.2. Typical of the external migration of Bulgarians is that it is formed mostly by young people who are not only in fertile age, but most of them are well educated and/or trained. According to NSI data on international migration in 2013, it is possible to make a more general assessment that over 50% of the leavers of Bulgaria are aged between 20 and 39<sup>7</sup>.
- 1.3.1.3. A serious challenge is internal migration. The concentration of jobs in large cities has led to the depopulation of many rural areas and smaller towns. According to official data in 2013 104,948 Bulgarians moved to a different location, and 21% of them have settled in the capital – Sofia.
- 1.3.1.4. The ageing of population puts ever-growing pressure on public finances in Bulgaria. The pension system cannot be funded by the contributions of the insured persons and the deficit has to be compensated from the state budget. Direct impact on public finances have also the increasing costs of healthcare, care for the elderly, and policies for their integration into society. According to ESC, ageing can be defined as a factor reducing labour productivity<sup>8</sup>.
- 1.3.1.5. ESC notes that the birth rate in Bulgaria is characterized by certain quantitative changes and at the same time the country has the lowest average age of first birth in the EU – 25.6 years<sup>9</sup>. On the other hand, it is reported that in 2013 the number of the children born outside of marriage (39,375) significantly exceeds that of children born to married couples (27 203)<sup>10</sup>.

### 1.3.2. ***Economic Challenges***

- 1.3.2.1. The restructuring of the Bulgarian economy is slow and painful for many industries. The specialization of employees is mainly in sectors with low added value, energy-intensive manufacturing and services<sup>11</sup>. On the other hand, companies with competitive production have difficulty in finding qualified staff, despite the high rate of unemployment. Some of the reasons for the imbalances in the labour market are connected with the emigration of skilled workers and the inadequate remuneration, which many companies offer for positions requiring high qualifications. There are insufficient incentives for high-tech sectors and large innovative companies.
- 1.3.2.2. ESC finds that the opportunities for realizing the competitive advantage of Bulgarian economy in areas such as livestock, agriculture, economy and low-carbon power generation diversification, development of tourism (incl. cultural and historical), etc., are insufficiently utilized
- 1.3.2.3. The share of the informal economy in Bulgaria is also significant. In this regard, ESC calls for particular attention to combating undeclared work. According to the results of a survey published in 2014 by "Eurobarometer",<sup>12</sup> the main reason for the existence of undeclared work is the too low rate of remuneration on the labour market (35%), the lack of routine jobs in the labour

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<sup>7</sup> National Statistical Institute (NSI) - "External migration in 2013 by age and sex". Includes only those persons who have declared to the administrative authorities to change the current address from a location in Bulgaria to a location abroad and vice versa.

<sup>8</sup> ESC Resolution "Demographic Challenges to Bulgaria within the Europe 2020 Strategy", 2011.

<sup>9</sup> According to Eurostat - 2012 - data on fertility.

<sup>10</sup> According to NSI data - 2013 Births in 2013 according to place of residence, statistical regions, districts and sex.

<sup>11</sup> ESC, Opinion "Strategic Priorities for the Bulgarian Economy within the Europe 2020 Strategy", 2010

<sup>12</sup> Special Eurobarometer 402. Undeclared Work in the European Union Report. Fieldwork: April – May 2013, Publication: March 2014.



market (29%), the excessive taxes and/or social/health insurance contributions (26%) and the lack of control by the authorities (21%) -respondents were able to identify more than one answer. According to the same study, the percentage of people who do not know what may be the consequences/penalties for undeclared work is the highest in Bulgaria (25%)<sup>13</sup>.

1.3.2.4. Economic growth does not have the potential to create the necessary jobs, which is visible from the data on GDP growth in Bulgaria. Despite the positive figures (1.9%, 0.6% and 0.9% respectively for 2011, 2012 and 2013), employment remained virtually unchanged.

### 1.3.3. ***Educational Challenges***

1.3.3.1. According to ESC, the educational system reacts too slowly to the changing economic reality, and this results in significant structural problems in the Bulgarian labour market.

1.3.3.2. ESC recognizes that reforms were initiated in several areas of education, but they are significantly slowed down by the lack of political consensus. In the meanwhile a number of strategies related to education were adopted, but the problem related to the need of a new Education Act remains.

1.3.3.3. ESC notes with concern that the decline in the number of young people remaining in Bulgaria is paralleled by worsening performance of young people in external evaluation examinations, incl. in internationally accepted standard tests (PISA etc.) as compared to neighbouring Balkan countries. This casts doubt on the quality and learning outcomes achieved by Bulgarian education. Urgent measures are needed to improve literacy, which would be consistent with and complement the policies for lifelong learning.

1.3.3.4. Education is losing its traditional status as a value in the Bulgarian family. A big challenge is retaining pupils in school until the completion of secondary education among young people with minority and immigrant backgrounds. They form a large percentage of early school leavers.

1.4. Besides these main groups of challenges, ESC lays particular emphasis on several vulnerable groups whose realisation on the labour market is particularly important for achieving the target of 76% employment- older workers,<sup>14</sup> people with disabilities<sup>15</sup>, low-skilled workers<sup>16</sup> and young people<sup>17</sup>. Considering the employment of these groups in its documents, ESC has made a number of proposals for supporting their successful integration into the labour market and in society as a whole.

1.5. In its acts ESC draws particular attention to the problems of young people in Bulgaria. ESC believes that the underutilized potential of youth employment and the high youth unemployment lead simultaneously to reducing the effect of the public funds invested in education, to losses of potential revenue for the national budget resulting from the economic activity of young people, as well as to additional burdens for the social security and social assistance systems.

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<sup>13</sup> Ibid., page 98.

<sup>14</sup> ESC, Opinion on "Active Ageing and Solidarity between Generations "(2012)

<sup>15</sup> ESC, Opinion on "Employment of People with Disabilities" (2012)

<sup>16</sup> ESC, Resolution on "Measures to Reduce Early School Leaving" (2013), Resolution on "Demographic Challenges for Bulgaria within the Europe 2020 Strategy" (2011)

<sup>17</sup> ESC, Resolution on "Actions to Support Young People and Tackling Youth Unemployment in Bulgaria" (2013), Resolution on "Towards Recovery and Job Creation" (2012), etc.

1.6. Furthermore, high youth unemployment leads to trends such as: reducing the importance not only of education but also of the acquisition of knowledge, spiritual development, work and career as shared values in the family and among young people and adolescents (especially among population with secondary and higher education and relatively higher level of qualification). This provoked orientation towards alternative avenues to success, which only lead to short-term and sometimes illusory "achievements" or even point to dubious or illegitimate mechanisms to progress in life (informal employment activities questioning human dignity, criminal activities, etc.). In this regard, ESC puts forward a number of reasons showing the need for innovative, targeted and coordinated policies to promote youth employment.

1.6.1. ESC notes that the period after leaving school is one of the most uncertain in young people's lives. Regardless of the acquired degree, finding a first job is a challenge that must be addressed by comprehensive measures, including creating opportunities for internships, apprenticeship, workshops, meetings with employers, etc. During the crisis – owing to factors such as lack of work experience, the most recent time of recruitment, and often insufficient professional qualifications – young people emerged as one of the groups that was first to be dismissed by employers.

1.6.2. At the same time, the lack of experience and insufficient knowledge of the legislation in the area of labour law and social relations are some of the reasons for the recruitment of many young workers in informal employment under extremely unfair terms. Considering these circumstances, the ESC recommended that the scope of secondary education should include the priority of familiarizing young people with employment, social security and health insurance regulations in order to increase their awareness of the harm caused by unregulated employment and labour law violations<sup>18</sup>.

1.6.3. Data on the economic activity of young people aged 15-24 in the EU for 2013 show that Bulgaria (with a rate of 29.6%) is significantly behind the average activity for EU-28 (42.2%). While in this age group it is possible to talk about education as a priority, the data on economic activity for young people aged 25-29 are more troubling. For Bulgaria the rate is (74.4%) one of the lowest in the EU (average 82.4%). If this result is viewed against the level of completed education, the problem becomes clearly visible. The employment of young people with primary or lower education in this age group (25-29) for 2013 is 47.2% in Bulgaria – against an EU-28 average of 71.7%.

1.6.4. When analysing the average rate of economic activity (labour force participation) for age groups by 5-year intervals from 20-24 to 60-64, ESC found that Bulgaria is lagging behind the EU-28 average with respect to young people aged 20-24 and 25-29.

1.6.5. At the same time, in Bulgaria 84% of young people aged 25-29 years who have completed their higher education are economically active (88% on average for the EU-28), and the employment rate for this group is 73.6% (78% on average for the EU-28). Although higher education does not always ensure a job intended for university graduates, it may be identified as a basic prerequisite for finding employment, which is important for young people

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<sup>18</sup> ESC, Resolution on "Actions to Support Young People and Tackling Youth Unemployment in Bulgaria", 2013.

without work experience. In this regard, ESC emphasizes the interdependence of targets to reduce early school leaving and increase the share of people with higher education among those aged 30-34 with the target of reducing poverty.

- 1.6.6. Given the growing demographic pressure in Bulgaria, ESC considers that the qualification of young people with primary or lower education and their engagement in employment should be the main priorities of employment policies.
- 1.7. ESC stresses that the "European Youth Guarantee" is a very timely initiative that provides an opportunity to ease the transition of young people from education to employment. In this connection, ESC adopted a separate Resolution on the problems of young people<sup>19</sup> addressing recommendations to the National Plan for Implementing the European Youth Guarantee.
  - 1.7.1. With this document the ESC supports the changes in the National Action Plan for Employment, by which employers were encouraged to recruit young people by covering the social security and health insurance payments, normally owed by the employer, from the public purse. ESC emphasizes the need for simplification of administrative procedures for the settlement of relations with participants in subsidized employment programmes, trainings or internships to enable small and medium-sized enterprises with less administrative capacity to participate in the schemes.
  - 1.7.2. ESC draws attention to the need for specific policies in the area of social security aimed at young people. It is necessary to provide opportunities for young people of non-traditional and non-permanent jobs to accumulate social security rights for access to unemployment benefits. ESC calls for the promotion of the independent actions of young people registered with the Labour Offices, so that they could find employment as a result of their own efforts.
  - 1.7.3. ESC believes that a priority in the work with young people must be the individual approach tailored to the needs of each person, including family status, education, etc. Training at the regional level, organized by the structures of the Labor Offices, must also comply with the economic characteristics of the area and the local opportunities for employment.
  - 1.7.4. The measures to promote entrepreneurship among young people are especially important for reducing youth unemployment and increasing the activity and the development of the economy through the participation of more innovative and competitive small and medium-sized enterprises. ESC welcomes the "Technostart" project<sup>20</sup> presented by the Ministry of Economy and Energy, and believes that in the coming years more budgetary resources should be set aside for such initiatives and the maximum amount of public funding will be increased (currently BGN 20,000). It is necessary to promote

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<sup>19</sup> ESC, Resolution on "Actions to Support Young People and Tackling Youth Unemployment in Bulgaria", 2013

<sup>20</sup> The "Technostart" project was launched in 2014 with funds from the state budget. The aim is to encourage entrepreneurship among students and doctoral candidates (no later than one year after graduation) who have an innovative business idea.

modern platforms for the exchange of ideas between young entrepreneurs and the so called "business incubators", incl. online ones.

- 1.8. One of the most important conditions for the success of employment policies and social integration of young people, according to the Economic and Social Council is the successful integration of policies on literacy, education and training. In this context the ESC calls on the relevant institutions to improve their dialogue, while more actively taking into account the positions and proposals of organized civil society on issues related with the labour market and education.

## **2. Education targets**

- 2.1. According to ESC, good results in the education of young people are in line with the aspiration for "smart" and "inclusive" growth in Europe. Social investment, investment in human capital should be developed in parallel and even at a faster rate compared to investments in production. Otherwise disproportions and imbalances in national labour markets will deepen rather than be overcome. Future efforts in this area should focus on a better complementarity and synergy between "protective" and "enabling" policies.
- 2.2. Achieving the national target of reducing the share of early school leavers to 11% by 2020, is crucial for Bulgaria and directly contributes to the implementation of the other two targets: reducing unemployment among young people (aged 15-29) to 7% by 2020 and achieving employment rate of 53% among older persons (aged 55-64) by 2020 ESC deems that this target is achievable, but believes that our country should strive to even more ambitious results than the general target for the whole EU – 10%.
- 2.3. According to Eurostat data, the share of early school leavers in Bulgaria (aged 18-24) for 2011 is 12.5%, while in 2011 this indicator was 11.8% – being the closest to the overall national target. In comparison, the average for the European Union in 2013 was 12%.
- 2.4. Realizing the importance of the problem of "early school leaving" and its impact in the long run, during the last four years ESC developed and adopted a number of acts<sup>21</sup> on this topic. ESC finds that early school leaving has serious indirect social impacts, reflecting on the overall state of security and stability in society. For this reason ESC analysed the problem in depth and held a series of regional roundtables on the topic in different regions of Bulgaria<sup>22</sup>.
- 2.5. ESC is satisfied with the adoption of a national "Strategy for reducing the share of early school leavers (2013-2020)" hereinafter referred to as the Strategy, which is consistent with a number of European strategic documents and national development programmes of education and which also take into account major proposals put forward by ESC.
  - 2.5.1. ESC identifies an alarming trend towards a declining "net enrolment rate of the population"<sup>23</sup>. During the past five school years this indicator is

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<sup>21</sup> ESC, Opinion on "Policies Reducing Early School Leaving", Resolution on the "Draft Strategy for Preventing and Reducing the Share of Dropouts and Early School Leavers (2013-2020)" and "Measures and Actions for Reducing the Share of Early School Leavers".

<sup>22</sup> Public discussions were held in the municipalities of the North-Western (Vratsa), South-Eastern (Sliven and Tundzha), Southern districts (Kyustendil) as well as in Sofia, where they were also attended by representatives of the ESC of Spain.

<sup>23</sup> This is the ratio between students enrolled at the beginning of the school year in a certain age group and the total number of population of the same age group.

decreasing among children aged 7-10 and 11-14, as compared to the previous five years (2004-2009,). The data indicate that the rate of enrolment of children aged 7-10 has decreased during the indicated periods from nearly 100% (99.94%) to 97.20%. ESC also notes that children unenrolled in school today, after less than 10 years will be statistically recorded under the category "early school leavers". In this regard, ESC welcomes the new indicators proposed in the Strategy:

- ✓ share of population aged 7-11 in school education;
- ✓ share of the population aged 12-14 years in school education;
- ✓ share of the population who have never been enrolled in school education in age groups 7-11, 12-14, 15-17 and 18-19 years.

2.5.2. Concerning the discrepancy in recorded statistics, related to the early school leavers for a given school year, ESC has recommended to build a unified national database, based on a single education number, bringing together information gathered by all organisations and institutions, and to ensure as accurate as possible reporting on identified indicators.

2.5.3. ESC calls to explore more deeply the structure of school leavers in the EU, because in Bulgaria a major concern is the growing rate of children who have never attended school or dropped out before completing primary educational level.

2.5.4. In this connection, ESC proposed that the Strategy should include a special long-term goal for significantly reducing the proportion of pupils dropping out of school between their first and fourth year, keeping their number below 1.5% of the total number of pupils enrolled during each school year. Unfortunately, this proposal was not included in the document, but the ESC insists that it should be included in the regulations to be adopted in connection with the reform in education and believes that by monitoring this indicator and identifying specific measures to support integration the negative tendency of dropping out of school at an early age can be reduced.

2.6. ESC is seriously concerned by the fact many priorities identified over the years: such as the adoption of the new Pre-school and School Education Act and the introduction of new educational structure, the new Vocational Education and Training Act, the creation and introduction of a system of quality management at different levels of education – have remained unrealised and this will pose a significant obstacle to the full implementation and enforcement of the Strategy and achieving the country's targets in the area of Education.

2.7. ESC proposes that achieving the target related to early school leaving should be monitored in connection with the state of the labour market for persons with primary or lower education, as well as with respect to its impact on public finances and social systems of the country.

2.8. Regarding other target in the area of education – 36% of the population aged 30-34 to have higher education by 2020 -ESC believes that Bulgaria is lagging in its implementation, despite that the data for 2013 for the first time reports an increase in this indicator as compared with 2010 – 29.4% against 27.7% (in 2010).

- 2.9. ESC notes with concern the existence of serious problems in Bulgarian higher education related chiefly to the ability of higher education institutions to provide good-quality education and programmes relevant to the needs of the labour market.
- 2.10. Bulgaria is lagging behind in the development of its higher education as compared to other European states and ESC calls for undertaking serious measures **for** building a modern and efficient system of education and training. The "Strategy for the Development of Higher Education in the Republic of Bulgaria for the period 2014-2020" which was adopted by the Council of Ministers is a step in the right direction and ESC welcomes the policies laid down in it as well as the specific measures provided in the Action Plan, some of which were proposed by the ESC<sup>24</sup>.
- 2.11. ESC stresses that the progress in achieving the target for higher education is also related to improving the access to and participation in higher education of disadvantaged groups (incl. at the regional level) by improving their financial support, by improving the quality of primary and secondary education, tackling early school leaving in order to increase the number and academic success of potential prospective students.
- 2.12. According to ESC, the focus of the education reform, including that in higher education, must be on quality. Quality problems are caused by factors that are both external and internal to the system. ESC proposes that the leading regulator for reforming this sector should be the level of quality, adequacy and competitiveness of learning and the subsequent realisation of graduates in the labour market.
- 2.13. In this regard, in its opinion ESC recommends to higher education institutions to take urgent measures to improve the quality of training at all levels of the educational process.

### 3. Target of reducing the number of people living in poverty

- III.1. The data presented in the draft Joint Employment Report give rise to serious concerns about the growing poverty and social polarization in the EU and in particular to the fact that "the at-risk-of-poverty and social exclusion rate has increased significantly, with growing divergences between Member States." ESC notes with concern that the provision of tens of billions to rescue banks in 2013 was a leading priority in the EU, while this was not the case with respect to the single undertaking at the Community level to increase living standards and reduce the risk of poverty among the citizens that are most affected by the crisis EU.
- III.2. The relatively ambitious employment target of 76% of the population aged between 20 and 64, set in Europe 2020 Strategy, requires significant reforms in the labour market and together with the target of reducing the share of people in poverty falls within the scope of the policy to prevent the emergence of social problems and tensions in society. ESC believes that the Commission rightly puts forward as a key priority the overcoming of the effects of unemployment and social crisis, but the deterioration in employment observed during the past two years calls into question the effectiveness of the existing policy approach.
- III.3. According to Eurostat data, people at risk of poverty and social exclusion in EU-28 have increased by 6.4 million between 2010 and 2012. Their number converted into percentage points and examined at the national level shows that this problem is the most strongly expressed in Bulgaria (49.3%), Romania (41.7%) and Latvia (36.2%). At this stage, the ESC believes that it would be too ambitious to talk about any progress with

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<sup>24</sup> Opinion on "The Strategy for the Development of Higher Education in the Republic of Bulgaria for the period 2014-2020"

respect to this target, as the lack of adequate measures to end the crisis and the lack of employment leads to an increase of people experiencing poverty.

- III.4. ESC calls for rapid implementation of the "National Strategy to Reduce Poverty and Promote Social Inclusion 2020" adopted by the government in 2013, which takes into account challenges such as access to healthcare, education, social services, active market measures, etc. ESC considered appropriate to adopt a plan for the implementation of this strategy and ensuring the funding of its implementation.
- III.5. In a number of opinions, analyses and resolutions ESC has paid special attention to the problems of poverty and social exclusion and has made recommendations for "anti-poverty measures" as well as policies to address them. In its Analysis of "Challenges Facing Labour Markets within the Europe 2020 Strategy", the Resolution on "Communication from the Commission – Annual Growth Survey 2013", and the Opinion on "Social Security and Social Protection" ESC highlights the problem "working poor" as in recent years in some Member States their share has exceeded 15%. In addition, ESC notes that the reduction of working time, freezing wages and pensions, not only leads to lower household incomes, but also to an increase in the share of people at risk as well as to social marginalization.
- III.6. ESC notes with particular concern that children are also seriously threatened by poverty. According to data from Eurostat and the National Statistical Institute, Bulgaria is the EU Member State at the top of the unfavourable rankings for the risk of poverty among children. Against an EU-27 average of 27% in 2010, in Bulgaria it is 51.8% or 663,600 children. This is a huge challenge to achieving the targets of the Europe 2020 Strategy, and in particular the targets for reducing early school leavers, while at the same time creating obstacles to the reproduction of the population and the workforce.
- III.7. Poverty is directly linked to education and in particular to early school leaving and the poor qualification of the future workforce. Taking this into consideration, ESC identifies the factor of "poverty" as a key to the observed problems of increasing illiteracy and early school leaving.
- III.8. However, in a separate Analysis "Demographic Challenges to Bulgaria within the Europe 2020 Strategy" ESC highlighted the direct link between the lack of education, the inability to find work and poverty. Therefore, ESC views the provision of additional public funds to protect people in poverty and social exclusion as a factor for future pressure on public finances in our country.
- III.9. In its Opinion on "Strategic Priorities of the Bulgarian Economy within the Europe 2020 Strategy" ESC proposes the introduction of voluntary boarding-school training for children from disadvantaged groups, which would help to bring out the minors from their usual environment and to integrate them into society.
- III.10. As early as 2009 ESC proposed in its Opinion on "The National Report of the Republic of Bulgaria on Strategies for Social Protection and Social Inclusion 2008-2010," to develop and adopt a strategy for combating poverty and social exclusion, by applying new, but already used in the EU, procedures for the preparation of such a document. ESC also proposed the development of an Emergency Package to address poverty, entirely aimed at limiting and eradicating poverty, reducing social exclusion and supporting social justice by investing in people.

#### **4. "Investment in R&D, coupled with an improved business environment"**

- 4.1. Europe 2020 Strategy includes a target of increasing "the average rate of investment in R&D for the EU to 3% of the GDP". The declared level of this indicator in Member

States averages between 2.7-2.8% of the GDP, while the national target of Bulgaria is 1.5% of the GDP, i.e. nearly twice lower as compared to the EU average. However, according to ESC, even this national target is too ambitious and not achievable, because the data show a significant lag of our country as of 2013 – only 0.64% of the GDP and in order to reach the target investment in R&D should increase by an average of 0.122 percentage points per year by 2020

- 4.2. It should be noted that the data from the analysis of the European Commission on R&D investment of EU-based companies reported an increase of 2.6% in 2013, despite the adverse economic conditions. Compared to the previous year (growth of 6.8%) this growth is weaker and it is also behind the world average increase (4.9%), and the growth of investment companies based in the US (5%) and Japan (5.5%)<sup>25</sup>.
- 4.3. At the same time, the analysis found that in the EU 97% out of the total investments in R&D were made by companies established in 10 countries, but mostly from companies based in Germany, France and Britain, which account for more than two-thirds of the total investments. A positive trend was noted in the growing investment in R&D above the global average of companies based in some EU countries – Ireland (13.6%) and Italy (6.4%) or above the EU average – Spain (4.4%).
- 4.4. The ESC draws attention to the rate of employment in analysed companies which reported that in 2013 they gave work to 48 million persons. Significantly, in the last eight years (2005-2013) employment in EU-based companies increased by 18.2%, and this growth is due mainly to sectors with intensive R&D investment. This trend remains strong, despite the overall slight decrease in employment (0.6%) in EU companies last year and is indicative of the importance of R&D investment for growth and employment<sup>26</sup>.
- 4.5. ESC emphasizes that despite the attempts to change the system of R&D and innovation in line with the Lisbon Strategy,<sup>27</sup> Bulgarian economy still has one of the lowest innovation indicators according to the Index of global competitiveness. Bulgaria has been lagging behind consistently, reporting the smallest number of registered patents at home and abroad per million citizens and occupies one of the last places in the EU in terms of R&D expenditures<sup>28</sup>. Despite this unfavourable economic environment in 2014 there was<sup>29</sup> a growth in innovation activity among local companies, mainly exporters who found niches and received patents for their innovative activities.
- 4.6. ESC expresses its concern about the observed underfunding in all institutional sectors, especially in higher education, as well as deterioration of the technological portfolio of universities. It is also apparent that the state increasingly replaced public financing and its commitment to promoting innovation with European funding. Another trend reported

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<sup>25</sup> The reference-analysis of the European Commission for industrial investment in R&D issued in December 2014 of 2500 leading companies in the world, accounting for about 90% of total business expenditure on R&D. The EU survey on trends in industrial investment in R&D 2014 is based on an expanded sample of 1,000 leading investors in R&D, situated in the EU.

<sup>26</sup> Ibid.

<sup>27</sup> One of the highlights in the Lisbon Strategy adopted in 2000 is the need to strengthen research and development.

<sup>28</sup> The Global Competitiveness Report 2013-2014

<sup>29</sup> Report "Innovations.bg" for 2014 Foundation "Applied Research and Communications"



in the study is the extraordinary concentration of innovation potential in the South-Western region (including the capital) and the neglect of regional innovation systems in other areas. The conclusion that imposes itself with regard to public funding allocated to R&D and innovation in Bulgaria is that it is uncoordinated, unfocused, unsustainable and inefficient<sup>30</sup>.

- 4.7. ESC notes that the updated National Reform Programme (NRP) of April 2014 specifies that the ratio of R&D expenditure between businesses and public funds is respectively – 62:38. Furthermore, the added value of the branches of the innovative group of industry makes up only 26% of the Bulgarian industry, against 46% in EU-27<sup>31</sup> while the share of companies in Bulgaria employing staff to conduct research is still extremely low.
- 4.8. In this context, ESC believes that the main reason for the state of R&D investment in Bulgaria is the lack of vision and long-term consensus between the government and businesses about the future development of a functioning national innovation system<sup>32</sup>. Achieving this objective requires clear and specific definition of the priorities of the country related to its economic and social development, and building a better relationship between the government and businesses.
- 4.9. ESC restates its view that it is necessary to make efforts and establish general conditions, a favourable environment for encouraging investment by the private sector, implementation of well deliberated and timed measures and involvement of public and private resources<sup>33</sup>. The improved environment for innovative enterprises will provide a basis for the development of knowledge economy, increasing spending for research and development through massive public and private investments in knowledge-based industries, high technology, ICT, access to broadband, as well as the development of e-government<sup>34</sup>.
- 4.10. At the same time, changes in the business environment, the improvement of regulations, basic infrastructure, the system of education and training, the parallel increase the level of wages, linked to productivity and ongoing sectorial restructuring, may create conditions for increasing domestic demand for innovation and investment in high technology research and development. In this regard, ESC calls to create the necessary starting conditions and favourable factors through well thought out reforms and a proactive strategy for innovation.
- 4.10.1. One of these conditions is creating a favourable economic environment for the development of science in the corporate environment and investing in research and technological development of enterprises. Action is needed to promote private investment in research and development as well as innovative enterprises; Promotion of high- and medium-technology industries by providing administrative support to the access foreign markets for these companies, and sectors involved in the production of innovative products and services.
- 4.10.2. ESC supports the proposal of the Bulgarian Academy of Sciences (BAS)<sup>35</sup> that the state should direct its efforts towards the establishment and strengthening of innovation intermediaries of different types (clusters, technology centres,

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<sup>30</sup> Report "Innovations.bg" for 2014 Foundation "Applied Research and Communications".

<sup>31</sup> NSI, Innovation, share of innovative enterprises of the total number of enterprises.

<sup>32</sup> ESC, Opinion "Strategic Priorities for the Bulgarian Economy within the Europe 2020 Strategy", 2010

<sup>33</sup> ESC, "Priorities and Policies for the Absorption of EU Funds in Bulgaria for the Period 2014-2020".

<sup>34</sup> ESC, "Strategic Priorities for the Bulgarian Economy within the Europe 2020 Strategy", 2010

<sup>35</sup> Bulgarian Academy of Sciences (BAS), "Outlook on the Major National Objectives and Sustainable Development of Bulgaria".

science and technology parks, technology transfer centres, high-tech incubators, regional centres for technological expertise and advice centres for the commercialization of patents and intellectual property) within the national innovation system.

- 4.10.3. According to ESC, the state must engage in the construction of research facilities through public-private partnerships (PPP). However, it is necessary to actively support the creation of risk investment and guarantee funds through the PPP to engage in many of the processes in research and implementation.
- 4.10.4. ESC supports the idea of the Bulgarian Academy of Sciences<sup>36</sup> to establish an advisory interdepartmental body – "National Council for Science and Technology", to coordinate and monitor the implementation of measures and actions in this area, including in it the competent representatives of science, business and public administration sectors.
- 4.10.5. According to ESC, within the new programming period 2014-2020 it is necessary to exploit the opportunities and to optimize the performance of national and European financial instruments to promote research, innovation and technological development, using the Fund for Scientific Research, the National Innovation Fund, Operational Programme "Science and Education for Smart Growth", "Innovation and Competitiveness", etc.
- 4.10.6. In the European Union there are good opportunities for knowledge exchange and excellent researchers, which makes it a good environment for attracting investment in R&D. Extremely significant is the fact that due to the limited public funds and the importance of attracting private investment in R&D, the new European Commission and the European Investment Bank adopted a new Investment Plan worth 315 billion Euros. It aims to help raise more private investment in riskier projects, which will contribute to the development of R&D in the whole of Europe, and thus to achieving smart growth and building a knowledge economy.
- 4.10.7. ESC again emphasizes that some of the problems can be solved with purely organizational measures the implementation of which requires minimal resources, while achieving the objective in the area of R&D requires a comprehensive and coherent government policy, supported by budgetary means. At the same time, quantity is an insufficient indicator to assess the effectiveness of efforts in the area of R&D. It is necessary to evaluate a number of additional indicators of efficiency and effectiveness, which implies a more detailed approach, on which basis, and in line with EU innovation policy, to achieve appropriate quality of investments.

## **5. Climate/Energy targets**

- 5.1. In its Opinion of 30 September 2010<sup>37</sup> ESC strongly urged to review the draft National Energy Strategy (subsequently adopted in early 2011), incl. the target of 16% share of renewables in final energy consumption by 2020, while other CEE countries with a similar profile of the economy, energy production and consumption (Czech Republic, Hungary) have adopted a target of 13%.

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<sup>36</sup> Bulgarian Academy of Sciences (BAS), "Outlook on the Major National Objectives and Sustainable Development of Bulgaria".

<sup>37</sup> ESC, "Strategic Priorities for the Bulgarian Economy within the Europe 2020 Strategy", 2010

- 5.1.1. The irresponsible approach and lobbying for changes in legislation facilitate the achievement of this goal by building wind farms and photovoltaic parks – which led to a jump in electricity prices for large industrial consumers of over 60% during the period 2008-2014 and drove the National Electricity Distribution Company (NEK) to a pre-bankruptcy state (over 3.5 billion BGN of debt, current loss for 2014 more than 850 million BGN, over 35% negative difference between the purchase and selling price).
- 5.1.2. The envisaged compromises by the European Commission under the package "Climate – Energy" including additional free national quotas for emissions trading (EUA), the derogation for the allocation of free allowances for thermal power plants, raising the ceiling for emissions in the non-tradable sector by about 20% compared to 2005 levels, the low prices of allowances were not able to compensate for the enormous negative consequences, whose overall effect exceeded many dozens of times the forecasted preferences.
- 5.1.3. Regardless of future measures in the energy sector, the inevitable rise in prices for household and industrial consumers will influence very negatively the opportunities for active industrial and sectorial policies, GDP growth, consumption, investment and employment. In this regard, ESC urges for the adoption of a new national energy strategy, abandoning stereotypes and eliminating external pressure on the development of carbon-free nuclear energy, refining the goals of increasing the ratio of final/gross energy consumption (total energy efficiency), promoting the development of renewable energy for their own consumption, to avoid the so called long-term chronic energy poverty<sup>38</sup>.
6. In conclusion, the ESC notes that there is a number of unrealized opportunities for accelerated and sustainable growth, the utilization of which allowed to be adopt a common national strategic objective of 60% GDP per capita in purchasing power parity (GDP PPP per capita) below the average for the EU-27 by 2020.<sup>39</sup> This target was feasible on the condition that Bulgaria would successfully achieve the objectives of the Europe 2020 Strategy and reach an average annual economic growth exceeding at least 2.5 times the average long-term real growth in the EU-28.
- 6.1. ESC notes with concern that at the level of about 47% GDP PPP per capita at present, achieving this goal looks increasingly unrealistic since no serious steps have been taken to:
- carry out the necessary reforms using the natural advantages of the country;
  - restructure of the energy sector;
  - realise the main priorities and reforms to ensure sustainable, inclusive and smart growth;
  - introduce changes in the administrative, incl. the regulatory, environment and radically improve the rule of law and security.

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<sup>38</sup> These proposals are justified in ESC Opinion on "Strategic Priorities of the Bulgarian Economy within the Europe 2020 Strategy, 2010, items 49-58.

<sup>39</sup> ESC Opinion of September 30, 2010

7. ESC calls for initiating and undertaking major reforms in education, employment, social policy, research and development, energy and the economy. In this regard, ESC declares its support to the common position of the social partners for accelerated preparation and submission of a formal application for Bulgaria's accession to the European Banking Union (2016), ERM II (by 2016) and the Eurozone (from 2018) while keeping the exchange rate according to the commitments of the Treaty of Accession of Bulgaria to the EU<sup>40</sup>.

(signed)

Professor Lalko Dulevski, Ph.D

PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL

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<sup>40</sup>ADDRESS of national representative organisations of employees and employers to the 43rd National Assembly and the Council of Ministers of the Republic of Bulgaria.