



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

RESOLUTION

on

"Recommendation concerning Council Recommendation

on the National Reform Programme of Bulgaria

for 2015 and delivering Council opinion

on the Convergence Programme of Bulgaria for 2015."

COM (2015) 253 Final

(own-initiative resolution)

The 2015 Action Plan of the Economic and Social Council envisions the elaboration of 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.

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

At its meeting held on 22 July 2015 the Plenary Session adopted the resolution.

I. INTRODUCTION

1. ESC believes that the coordination of economic and fiscal policies in the EU through the mechanism of the European Semester can seriously accelerate the progress and ensure the effectiveness of reforms in each Member State individually and in the EU as a whole. ESC notes that the Government of the Republic Bulgaria, the social partners, ESC and various NGOs have been actively involved, for four years now, in the discussion process by presenting relevant evaluations, proposals and arguments regarding the findings and recommendations of the Commission. ESC notes that some of the positions taken by the government and NGOs, as well as the actions taken and the results achieved, are not always taken into account in current documents of the European Commission. As a result inappropriate repetition and delay in the process is observed. In this regard, ESC expects the European institutions participating in the European Semester to allow more thorough and adequate proposals and arguments of the Bulgarian government, the social partners and the ESC, to increase the effectiveness of the procedures related to the European Semester.

2. Within the framework of the European semester the European Commission (EC) made a comprehensive analysis of the economic policy of Bulgaria and published it in the country report for 2015 - "Country Report Bulgaria 2015 Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances" of 26 February 2015. It also assessed the Convergence Programme and National Reform Programme (NRP) 2015 as well as the follow-ups in relation to the specific recommendations (SR) to Bulgaria made in previous years. It considered not only their relevance for sustainable fiscal and socio-economic policy in Bulgaria but also their compliance with the rules and guidelines of the EU given the need to reinforce the overall economic governance of the European Union through the contribution at the EU level to future national decisions. In accordance with the "Plan for Investment in Europe" ways to maximize the impact of public resources and unlock private investment are also explored.

3. Within one year the Economic and Social Council (ESC) has developed and adopted a series of acts related to the Commission's recommendations to Bulgaria of 8 June 2014: Opinion on "Healthcare in Bulgaria - Problems and Possible Solutions", Analysis on "Early School Leaving", Resolution on "Key Positions of the ESC on the Review of the Implementation of the Europe 2020 Strategy", Opinion on "Limitation and Prevention of the Informal Economy in Bulgaria as an Opportunity to Stimulate Growth and Employment" and Resolution on "Communication of the Commission - Annual Review 2015".

4. In light of the findings of the Report Alert Mechanism for 2015 in which the Commission found it useful to examine further the continued existence of imbalances or their development, Bulgaria was placed in the fifth category - countries with "excessive macroeconomic imbalances that require decisive policy action and special monitoring". The main reason for our country to go into this 'danger zone' is what happened to the fourth largest bank in the country (Corporate Commercial Bank) in 2014 and the unclear implications of these events for the banking and non-banking financial sector (exposure of pension funds).

5. ESC joins the findings of the Commission that the "negative, although improving, external position, indebtedness of enterprises and weak adaptation of the labour market continue

to pose macroeconomic risks"¹. At the same time, ESC notes that the political crisis in 2014 ended with early parliamentary elections which led to a slowdown of the reform process in key sectors listed in the specific country recommendations in 2014 - namely, education, healthcare and pension system.

6. The report finds that Bulgaria is lagging behind with respect to the quality of several key prerequisites for growth, while the potential for economic growth of the country is assessed as low. The Commission states that "structural obstacles to growth are accompanied by the inefficiency of the judicial system".²Such is the evaluation also of the last Report on the mechanism for cooperation and verification of progress in our country. Since the independent, high quality and efficient judicial system is an essential element of the business of every country, ESC recommends to accelerate the reforms and legislative changes envisioned in NRP 2015 and aimed to reduce the risks and create an attractive environment for investors.

7. ESC confirms its support for the government's intentions for effective coordination and proactive moves on part of the institutions in connection with the participation of Bulgaria in projects under the Juncker Plan, including by seeking opportunities for regional cooperation.

8. In conclusion, the assessment of the European Commission was that "generally Bulgaria has achieved limited progress in the deployment of the country-specific recommendations for 2014."While recognizing some progress on reducing the administrative burden and reforming higher education, the document noted again the need for decisive action to increase tax collection and improve the quality of the administration of the public sector, improve the quality and independence of the judiciary and fight against corruption. Structural reforms are recommended in the pension system and health care to ensure fiscal stability in the medium and long term.

II. KEY FINDINGS AND RECOMMENDATIONS TO BULGARIA

1.1.SR (1)³ Avoid a structural deterioration in public finances in 2015 and achieve an adjustment of 0.5 % of GDP in 2016.

1.1.1. In response to the recommendation of the Commission for improving the structure of public finances, ESC welcomes the adoption of the Public Finances Act and the elaboration of a set of fiscal rules concerning fiscal policy - a proposal which the Council made in its resolution on the specific recommendations for Bulgaria in 2014 According to ESC, this is a prerequisite for improving the predictability of the fiscal policy and ensuring sustainability of public finances in our country.

1.1.2. ESC notes that implementing the recommendations of the Commission for 2013 and 2014 a new Act of the National Assembly was adopted in April 2015 on the Fiscal Council and Automatic Correction Mechanisms that regulate the activity of an independent advisory body on fiscal governance. The objectives of the Fiscal Council include: independent monitoring and analysis of the budgetary framework in order to maintain sustainable public finances and improve the quality of official

¹Recommendation concerning COUNCIL RECOMMENDATION on the National Reform Programme of Bulgaria for 2015 delivering Council opinion on the Convergence Programme of Bulgaria for 2015

² "Country Report on Bulgaria 2015 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances" of 26 February 2015. SWD(2015) 22.

³ Recommendation concerning COUNCIL RECOMMENDATION on the National Reform Programme of Bulgaria for 2015 delivering Council opinion on the Convergence Programme of Bulgaria for 2015

macroeconomic and budgetary projections. The Fiscal Council will prepare a reasoned opinion on the accounts for implementation of the state budget, budgets of state social insurance and other social security funds, administered by the National Insurance Institute and the National Health Care Fund.

- 1.1.3. ESC supports the implementation of the law, as it considers that the Fiscal Council will contribute to raising public awareness regarding fiscal management of the country and its position obligation to publish on the Internet ensure the transparency of its activities. At the same time, ESC emphasizes that the adopted Act of the National Assembly "achieves full transposition into Bulgarian legislation of Directive 2011/85 / EU, whose requirements were put in place as early as the adoption of the Public Finance Act and the Statistics Act, and creates conditions for termination of the infringement procedure against Bulgaria (stage notification letter № 2014/0025)in connection with the country's failure to notify of national measures transposing Directive 2011/85 / EC of 8 November 2011".⁴
- 1.1.4. ESC notes that despite the ambitious plan for investment adopted by the new European Commission, in NRP 2015 the Bulgarian government envisions a retention of the level of foreign direct investment. Provision is made even for a slowdown in GDP growth due to "lower governmental consumption and investment." ESC calls to develop measures that can encourage external (foreign) and domestic private investment, to ensure the necessary capacity to implement public-private partnerships so that Bulgaria can take full advantage of the capabilities of the "Plan for investment in Europe." In parallel, ESC restates its position that "a reasonable new debt policy of the government would provide, through targeted emissions, an important public resource to be invested in the real economy and help restore economic growth of the country"⁵.
- 1.1.5. It also requires adequate actions to regain the interest in Bulgaria of private investors. Factors contributing to increasing investors' interest include: the stability and predictability of legislation, achieving clear progress in structural reforms in education and the labour market, curbing corruption, fighting the informal economy.
- 1.1.6. ESC notes that in its resolution on Annual Growth Survey 2015 it warned that "the implementation of the Commission's recommendations may postpone the sustainable economic recovery from the crisis, increase the "price" of short-term growth, keep the latter low in the coming years and have uncertain and possibly pro-cyclical effects on long-term economic growth of EU Member States".

1.2. Measures to improve tax collection and address the informal economy based on comprehensive risk analysis, and evaluation of earlier measures. SR (1)

- 1.2.1. According to ESC fight against tax evasion and tax fraud should be a top government priority, ensuring greater justice and collection of taxes. ESC has repeatedly emphasized in its acts the clear position that in order to promote employment it is necessary to carry out consistent and adequate tax reforms to improve the conditions in terms of regulatory framework for doing business,

⁴Convergence Programme of Bulgaria for 2015-2018

⁵ ESC 2015, Resolution on "Communication from the Commission - Annual Review 2015".

encourage start their own business, to ensure easier access to finance for SMEs and to encourage self-employment.

1.2.2. Furthermore, ESC expresses its consistent position that limiting the informal economy and transforming undeclared work into regular employment will help to fulfil the objective of employment within the Europe 2020 Strategy and also to achieve strategic importance for Bulgaria's objectives, such as creating favourable conditions for the development of legitimate businesses, sustainable growth, quality jobs and improving the working conditions.

1.2.3. Over the past few years a significant number of policies and measures were implemented to reduce the informal economy, associated with the collection of VAT, linking cash registers with the NRA, limiting the cash payments, criminalization of social security fraud, introduction of electronic payments, reducing tax burden, etc. ESC welcomes the actions of the government, but also calls for more preventive measures and incentives for employers and employees to voluntarily declare their work and develop a culture of intolerance for such practices.

1.2.4. Given the unfavourable economic situation in the world and the forecasts for slowdown in Bulgaria's economic growth in 2015, ESC considers that the main source of increasing budget revenue is better collection. For this purpose it is necessary to implement emergency measures and joint actions of state bodies and stakeholders which would contribute to significantly reducing the informal economy. In this regard, ESC recommends that future amendments to the regulatory framework - in particular in the labour and social security legislation - to be made after assessing their expected impact on the informal economy.

1.2.5. ESC emphasizes that the high rate of informal economy has an impact on reducing state revenues, which inevitably leads to restricting the provision of public goods and services. Some studies suggest that in countries with a smaller share of the informal economy higher levels of tax collection are reported. This can be explained to some extent by lower tax rates, more effective regulation, fewer cases of corruption facing entrepreneurs. Taking all this into consideration, ESC recommends and urges for

- transparency of the tax system and the spending policy of the state and public finances in general;
- more efficient administration and more efforts to fight corruption; public control over the work of the administration;
- tougher laws and more serious penalties for intentional non-payment of wages;
- focusing on the necessary reforms of institutions as well as the systems for clarifying and communicating the need for such reforms;
- introducing instruments of direct democracy to solve national and local issues of utmost importance, including the development of the model of the tax system.

1.2.6. At the same time, ESC emphasizes the need for consistent legislative and

administrative reforms to create a regulatory environment that takes into account emerging new developments and challenges in the country, such as the need for new technologies and engineers, demographic problems, the credit crunch, the depopulation of certain areas, etc.

1.2.7. Repeatedly in its acts ESC has recommended the creation and development of the existing "e-government", which includes the so-called electronic educational and qualification profile, electronic employment file and electronic employment service record for Bulgarian citizens. This would help the better collection of taxes, social security and health insurance contributions, etc., by discontinuing the practice of the state demanding from citizens and businesses information that is already reported by them.

1.2.8. ESC is pleased to see that the government is willing to develop a common vision and integrated measures to prevent and combat tax and social security fraud and increase the collection of budget revenues, which will form the envisaged "*A national strategy to increase tax collection, address the informal economy and reduce the cost of compliance with legislation*". In this regard, ESC notes that in its first opinion on the issue of limiting the informal economy it proposed that a program to combat the informal economy should be developed and adopted as the main approach to counter practices in this area. ESC considers that it is an appropriate measure to create a task force of high level at the Prime Minister of the Republic of Bulgaria to combat tax crimes and informal activities, as well as increase revenue collection.

1.2.9. ESC supports the government's actions aimed at the treatment of the risks of non-compliance with tax and social security legislation to be included in a separate *Program compliance with legislation and reducing the risk levels for 2015*, as well as the development of the *Concept for reducing administrative costs* by the end of 2015, related to tax compliance. ESC expresses its satisfaction with the awareness of the need and the steps taken to limit negative manifestations of the informal economy.

1.3. Challenges to the health care system in the context of maintaining fiscal sustainability - SP (1)

1.3.1. In the report on Bulgaria⁶ the Commission noted several important challenges facing the Bulgarian healthcare system including poor health outcomes, low financing and the serious problems associated with the effective use of resources. In this regard ESC appreciates as a very important recommendation of the European Commission "for Bulgaria to improve the cost-effectiveness of the healthcare system, in particular by reviewing the pricing mechanisms of health care and strengthening outpatient and primary care".

1.3.2. ESC believes that the measures and actions set out in the National Reform Programme of Bulgaria for 2015, in the short and medium term, largely meet the specific recommendations of the Commission, but at the same time ESC draws again

⁶ "Country Report on Bulgaria 2015 Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances" COM (2015) 85 of 26 February 2015

attention to its specific positions stated in the opinion on "Healthcare in Bulgaria - Problems and Possible Solutions" - adopted at the end of 2014.

1.3.3. The challenges identified by the Commission in the Country-Specific Report for Bulgaria in 2015 coincide largely with the findings of the above-mentioned ESC opinion, namely:

- Life expectancy is significantly below the EU average and life expectancy at birth is among the lowest in the EU. Deteriorating health situation highlights the larger needs of health care and long-term care in the future. Severe and deepening demographic processes and especially continuing emigration make these issues even more pressing.
- "Bulgaria has the lowest expenditure on public health per capita in EU (in purchasing power parity for 2012) and a large share of private expenditure in total expenditure on health (46%), with disproportionately high levels of private spending on outpatient medical goods."⁷
- For the last ten years public spending on health in Bulgaria, as a share of GDP has remained at levels around 4%, which is almost two times less than the EU average - 7.4%.
- "There is still no mapping of infrastructure investments, as well as a clear plan for implementation of the National Health Strategy, and in last year there has been no progress in this direction. According to estimates, between 10 and 20% of the population is not covered by the National Health Insurance Fund, since they are not paying their health insurance contributions."⁸
- "The system continues to be based on an excessively large hospital sector."⁹ The Health Insurance Fund is contractually obliged to pay hospitals for treatment at previously fixed prices, which encourages hospitals to provide medical care without adequate purpose.

1.3.4. ESC again emphasizes the fact that "the healthcare reform, as a continuous process of qualitative and quantitative changes of varying scope and impact on the healthcare system, has as its main goal improving the health status of the nation. Therefore changes in the context of the reform should be applied in a coherent and logical interconnection, leading to a lasting and sustainable solution to the problems in healthcare."¹⁰

1.3.5. ESC's assessment of the significant number of concepts and strategic documents for healthcare reforms and policies in the field of healthcare adopted in recent years is that they lack mutual commitment, continuity and consistency, there is

⁷ "Country Report on Bulgaria 2015 Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances" COM (2015) 85 of 26 February 2015

⁸ "Country Report on Bulgaria 2015 Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances" COM (2015) 85 of 26 February 2015

⁹ "Country Report on Bulgaria 2015 Including In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances" COM (2015) 85 of 26 February 2015

¹⁰ 2014 Opinion of ESC on "Healthcare in Bulgaria - Problems and Possible Solutions"

insufficient transparency and consensus in their development. These documents are not subject to a general concept which combines the efforts of government, employers and the public to achieve a new attitude to healthcare.

1.3.6. ESC recommends urgently to prepare an analysis of the status and effectiveness of the operation of the entire system of healthcare management, which would cover the current state of the legislative framework and on this basis proceed with the creation and implementation of changes.

1.3.7. Furthermore, ESC insists on adhering to the principle that the development of the healthcare strategy should be carried out with the participation of the broad public, free of narrow lobbyist interests, that are legitimate representatives of patients, healthcare professionals, employers, trade unions, political parties and public health experts. The strategy should clearly define the nature, scope, content and sequencing of changes in the system of healthcare and health insurance. In this regard, ESC defines as a step in the right direction the Concept "Objectives for Healthcare 2020", adopted by the Council of Ministers, which sets national targets for Bulgaria in the field of protection of citizens' health and defines long-term priorities for the country in the field of healthcare.

1.3.8. ESC reaffirms its concrete proposals on the activity of the National Health Insurance Fund (NHIF)¹¹:

- to carry out valuation of the basic package of health services guaranteed by the NHIF budget;
- based on actuarial calculations to determine the minimum amount of necessary funds which should be made available to NHIF, and on this basis each year to determine the rate of actual health insurance contributions guaranteeing the financing of this package;
- to determine the actual rate of health insurance contributions which the state should pay for the persons insured by it;
- to disallow NHIF funding of activities that are constitutional obligation of the state in terms of health services to the population in order to maintain the solidarity principle and confidence in the system;
- to urgently find solutions for persons without health insurance at all levels - identification, registration, medical services;
- It is necessary to carry out serious changes in the status, management and organization of the health insurance system. First, to provide real tripartite management of the healthcare system that meets the real contribution of the parties in the system. On this basis to define the number, the composition, the participants in the management bodies of the NHIF and the rules for its management;

¹¹ 2014 Opinion of ESC on "Healthcare in Bulgaria - Problems and Possible Solutions"

- NHIF should be provided with the necessary powers to ensure equal access to healthcare for all insured persons at all territorial levels of the healthcare system.

1.3.9. In its opinion¹² ESC proposed to discuss the possibility that the NHIF budget could be paid from the national consolidated budget while the management of financial resources to be right and the responsibility of its management bodies. This would make it possible to discontinue the practice of diverting NHIF funds to the fiscal reserve and/or transferred them to the budget of the Ministry of Healthcare, which in turn leads to

additional financing of the NHIF.

1.3.10. Given the topicality of the problems with the hospitals from the beginning of this year, ESC insists again to review the status of hospitals with a view to converting the medical institutions into economic entities under a special law, not as it is now under the Commercial Act. In this context, ESC proposes to establish an independent state system of objective rating of medical institutions that allow the insured to have a realistic assessment of the quality of service and treatment options in individual hospitals, clinics and wards.

1.3.11. It is also necessary to review and develop diagnostic and treatment algorithms (protocols) as standards of good medical practice, which would help to assess the package of medical and non-medical activities, covered by NHIF and paid to medical institutions, in order to improve the quality of healthcare.

1.3.12. ESC notes that the proposal "to discuss the possibility of the further development of health insurance to apply a model that is based on the availability of a basic health insurance package with gradual upgrade with additional packages"¹³, has been included in the recently prepared Draft Amendment to the Health Insurance Act (HIA). At the same time, ESC believes that the proposed changes do not have the necessary clarity and justification (the services included in the basic package and those included in the additional packages will be determined later by ordinance). There is also no assessment of how the proposed Act will impact the system and human health.

1.3.13. ESC supports the idea expressed in the Concept "Objectives for Health 2020" for integration and connectivity by building a national health information system and ensuring public access to this system through an electronic identifier and a Uniform Information System of health care as a basis for developing e-healthcare with its main components - electronic health records, electronic prescription, electronic direction, web portal, etc. - which corresponds to ESC's recommendation¹⁴.

1.3.14. According to ESC, it is extremely important by the end of 2015, as foreseen in the NRP 2015, to perform an update of the national health map. It is an essential tool for

¹² 2014 Opinion of ESC on "Healthcare in Bulgaria - Problems and Possible Solutions."

¹³ 2014 Opinion of ESC on "Healthcare in Bulgaria - Problems and Possible Solutions"

¹⁴ 2014 Opinion of ESC on "Healthcare in Bulgaria - Problems and Possible Solutions"

regulating the spending of public resources according to the needs of the population for medical services.

1.3.15. ESC again insists that a strategy for managing human resources in healthcare over the next 10-15 years should be developed and proposed, and that this should become top priority for the system. This strategy and its implementation plan should cover all possible directions and mechanisms to provide the necessary human resources for the system. ESC is pleased that the plan to implement the National Health Strategy (2014-2020) includes its proposal to increase the enrolment for the training of health professionals and those in social activities at the expense of other subjects for which the labour market expects contraction in demand.

1.3.16. ESC reaffirms its position that it is necessary for all political forces represented in the National Assembly or outside it to recognise as their main mission the adoption and implementation of a long-term strategy for the development of the Bulgarian healthcare system, providing political guarantees for continuity between governments and sequential treatment in order to achieve positive and stable results for the health of the nation. Solutions of health issues must be non-partisan and not subjected to other than the public interest.

1.3.17. ESC joins the findings of the Commission that "Bulgaria does not have an integrated system for long-term care and is one of the Member States with the lowest expenditure for long-term care as a share of the country's GDP. Furthermore, long-term care services are scattered between the healthcare system and the social welfare system, while access criteria vary. Services related to care are inadequate, particularly with regard to domestic care services, as a result, often having care be provided by family members (predominantly women), which potentially has a negative impact on their participation in the labour market."¹⁵

1.3.18. ESC welcomes the government's actions regarding the adoption in January 2014 of the National Strategy for Long-Term Care, which seeks the expansion of these services, moving from institutional care to community care, strengthening coordination between health and social care and improving measures to support family members caring for sick people. In addition, ESC calls to develop an implementation plan for the strategy and to make better use of EU structural funds as well as securing investment through the national Operational Programmes 2014-2020,

2. ESC accepts the finding of the Commission that "turmoil in the financial sector in 2014 has raised concerns about banking practices in the segment belonging to local shareholders, which may have significant consequences for the financial sector and the overall macroeconomic stability." At the same time, ESC stresses that in recent years of global financial and economic crisis the Bulgarian banking sector, unlike many European banks, remained stable, with good capital adequacy and stable credit policy, which has repeatedly been emphasized as an advantage and achievement for our country in all European reports so far.

¹⁵ "Country Report on Bulgaria 2015 Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances" COM (2015) 85 of 26 February 2015

- 2.1. ESC shares the Commission's concerns that the lack of full transparency in the unravelling of the case Corporate Commercial Bank could become a very serious problem with long-term consequences for the stability of the financial system, and hence to national security. In this regard, ESC considers justified the recommendation to take rapid legislative and other measures to deal with the problem of confidence in the financial system demonstrating the country's ability to respond appropriately to such a situation.
- 2.2. ESC joins the recommendation "Bulgaria to conduct an independent analysis of asset quality in the banking system by December 2015 and subject it to a bottom-up resistance test in close cooperation with European authorities. ... To review and strengthen supervision of the banking and non-banking financial sector, including by strengthening the provisions for deposit guarantee and bank recovery. ... " SR (2)
- 2.3. At the same time, ESC recognizes that in the NRP adopted in 2015 the government has placed a sufficient package of adequate measures to implement the recommendations concerning the banking sector. All necessary actions to achieve compliance with European regulations are spelled out, deadlines for their implementation are provided. ESC expresses reservations about the ability of institutions to manage within the term provided by the Commission - the end of 2015, and defines it as unrealistic in terms of the duration of the procedures envisaged in the NRP.
- 2.4. In many of his acts ESC expressed its position that the pension system in its entirety, not only plays a social role, but it has an important place in the economic development of the country. As stated in the NRP 2015, private pension funds accumulate significant cash resources, which is essential for the macroeconomic stability and the development of capital markets. According to data from the Financial Supervision Commission by the beginning of the next decade the assets of nine pension fund, which now present the majority of non-banking financial sector in Bulgaria, will exceed BGN 20 billion, i.e. a quarter of the size of the entire Bulgarian economy. ESC expresses its conviction of the need for both legislative and strengthened controlling measures over the entire process - from collecting contributions by the National Revenue Agency and their transfer into the funds - to the management of the money from pension funds to the depository bank.
- 2.5. Thus, the willingness expressed in the NRP 2015 that "by the end of September 2015 there will be a comprehensive review of legislation governing the operation of pension funds, incl. risk management, internal audit and management principles and will take the necessary amendments to the relevant provisions in order to harmonize Bulgarian legislation with the European legal framework and adapt the stringent requirements of the "Solvency II" regime, on the organization and control of private pension funds," is an essential step towards transparency, control and stability - principles which the ESC has always championed when dealing financial and in particular the pension system.
- 2.6. ESC supports the assessment made in the Country Report for Bulgaria 2015 that "the market for pension insurance is much more concentrated than the banking market or the market in general insurance and life insurance", and the recommendation of the Commission on the need "to carry out a comprehensive review of the portfolios of

pension funds and the insurance sector." In this regard, ESC appreciates as adequate the stated government commitments "Financial Supervision Commission to complete the general description of the ownership structure of pension funds by conducting a review of the existing legislation governing related party transactions by mid-2015. "

2.7. The ESC recalls that as early as in 2010 in its opinion "Social Security and Social Protection" it insisted, that considering the increasing share of the private pension sector in the financial market, there should be more control of the stakeholders in the pension sector and best European practices may be introduced in this area. ESC proposed to establish a permanent Pension Committee with the participation of professionals from relevant institutions, administration, NGOs, representatives of organizations of workers and employers to exercise constant monitoring of the management of the pension insurance system.¹⁶

2.8. With respect to this ESC is pleased to note that the NRP 2015 this proposal is taken into consideration by ensuring that "by the end of 2015 following a discussion with all stakeholders to create a Managing Committee to oversee the process of conducting review of the assets of pension funds ". ESC accepted as fair and timely action under the NRP 2015 "a review of the insurance market by external independent appraiser should be launched in 2016".

3. SR (3) "Develop an integrated approach for groups at the margin of the labour market, in particular older workers and young people not in employment, education or training. "

3.1. ESC considers tackling the problems facing the labour market a priority and over the years has proven its commitment to this issue through the adoption of various acts¹⁷including concrete recommendations and proposals. ESC has repeatedly pointed out that due to the high unemployment a substantial part of the population is at risk of falling into poverty and social exclusion. In this regard ESC shares the concern expressed in the Commission's recommendations to Bulgaria, giving crucial importance to policies and measures for employment and reducing unemployment.

3.2. In the context of the Commission's recommendations to the Bulgaria's NRP 2015 in the area of the labour market, ESC believes that one of the key group of measures to achieve sustainable employment and growth are actions aimed at young people and their education, so that they can be prepared for satisfying job realization. ESC endorses the recommendation for "extending active employment policies with a view to greater efficiency" and their subsequent development and control of the implementation of the measures, especially the most vulnerable groups in the labour market - young people not in employment, education or training - etc. the group of the NEETs¹⁸.

¹⁶ Opinion on "Social Security and Social Protection" (2010.).

¹⁷ ESC Resolution "Action to Support Young People and Tackling Youth Unemployment in Bulgaria 2013"; ESC Opinion "Current Problems and Policies on the Labour Market 2010"; ESC Analysis "Anti-Crisis Measures on the Labour Market - the Experience of EU Member States 2010"; ESC Opinion "The Labour Market in the Context of the Financial and Economic Crisis - Challenges and Solutions 2009"

¹⁸ NEETs, i.e. Young Persons not in Employment, Education or Training.

- 3.3. ESC is deeply concerned by the latest data on individuals from the NEET group, namely that Bulgaria these young people represent 21.6% of all young people aged between 15 and 24 years. This puts our country in the first place among EU Member States, the average indicator for the EU is 12.9%¹⁹. ESC particularly worrisome is the fact that annual economic losses of non-participation of the NEET group in the labour market is estimated at 1.9 billion. BGN per annum.²⁰
- 3.4. ESC shares with concern that these data indicate insufficient effectiveness of the actions undertaken to tackle the problem and calls for a review of the measures with respect to this group. The Council believes that what is needed is an integrated approach based on comprehensive measures regarding the family environment, education and motivation. In this regard, ESC restates its previously expressed position on the need for personalized approach in the implementation of employment policies to be tailored to the specific abilities and needs of individual young people.
- 3.4.1. Recognizing the link between falling into the group of NEETs and the unemployment rate in some areas, which shows that the proportion of NEETs is higher in regions with high unemployment, ESC recommends a territorial approach and differentiation of measures.
- 3.4.2. In order to cover a greater range of NEETs, except "Labour Office Directorates", it is necessary to provide for other intermediaries, given that most of the persons falling in the NEET group are economically inactive and are not registered with Labour Offices, which is why they are not covered by standard measures to help the labour market.
- 3.4.3. ESC believes that it is necessary to pay serious attention to the factor of motivation - which among the members of this group decreases with each failure of inclusion in the labour market. Measures in this direction are applied by the Employment Agency and should increase the awareness among young people about such opportunities, because in certain cases, inaction is the result of ignorance rather than reluctance.
- 3.5. ESC recommends a specific approach to young people under institutional protection and youth coming from similar institutions after coming of age. Young people leaving such institutions remain outside the attention of the state and are at high risk of falling into the group of NEETs. In this regard, ESC alerts that the country lacks a reliable mechanism to track people coming out of institutional protection throughout their life thereafter. It remains absolutely unclear how many of these children possess the knowledge and skills needed to adapt to life. At present the state has not established a mechanism to help "children in institutions" to become part of society. ESC is very concerned because once they cease to be "children in institutions", many of these

¹⁹ WORKING DOCUMENT COMMISSION STAFF Country Report on Bulgaria for 2015, Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances COM (2015) 85 final

²⁰ The estimate is based on an assessment of the loss of Bulgaria amounting to 2.36 percent of the GDP and GDP of BGN 80.2 billion. for 2013. For more details see: Eurofound, NEETs – Young people not in employment, education or training: Characteristics, costs and policy responses in Europe, 2012.

young people become persons who merely survive due to the fact that they lack the necessary capacity to adapt to the world around them.

- 3.6. Considering these facts, ESC considers it necessary to create a single national registration system, which would simultaneously: follow the lives of young people after the completion of their institutional protection until they grow out of the group of youths, i.e. until they turn 29 years of age,²¹ as well as identify the young persons partaking in the NEET group. ESC is of the opinion that through the development and implementation of such a system, existing measures and policies will be more easily directed specifically at those who are currently not in employment, education or training.
- 3.7. ESC welcomes the action taken by the state regarding the implementation of measures providing temporary subsidized employment, but at the same time notes that only the implementation of such measures does not automatically lead to efficiency and long-term employment. Necessary measures should also include developing the skills to search for information, motivation training, skills acquisition through the application of learning through work, as well as employer training for working with groups located in the margins of the labour market. In this context, ESC believes that the action taken in respect of the group of young NEETs can be made more successful by creating a system for monitoring and evaluating the effectiveness and impact of the policies and measures.
 - 3.7.1. ESC considers objective and reasonable the recommendations of the Commission²² (paragraph 12), concerning the active policies on the labour market, vulnerable groups of unemployed and inactive persons, as well as poverty and social exclusion, incl. among minority groups. This is why ESC has serious expectations from the contribution of the two Operational Programmes (OPs) - "Human Resources Development" and "Science and Education for Smart Growth" and believes that they will significantly increase the attractiveness, improving the quality of learning outcomes and invest in modern infrastructure for vocational education and training.
 - 3.7.2. Therefore, ESC again insists to accelerate the introduction of set principles for planning the training depending on the needs of the labour market, at the national and regional level, the introduction of flexible learning in vocational education and training, promoting training in professional fields of priority areas of the economy, updating curricula in cooperation with the business application of the modular system and credit transfer in vocational education.
 - 3.7.3. ESC welcomes the measures and actions planned and undertaken under OP "Human Resources Development" aimed at the integrated implementation of comprehensive services in support of vulnerable groups through a multidisciplinary and inter-sectoral approach to prevent social exclusion and improving the quality of life and building transition from passive receiving of benefits to the inclusion of people from the most vulnerable groups in the labour

²¹ Youth Act §1 of the Additional Provisions.

²² 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, page 4.

market in permanent employment. However, ESC stresses that by implementing active employment policy the Employment Agency (EA) and its affiliates should play not so much the role of the employer, but to be rather a mediator in the relationship between the unemployed, training institutions and employers in the real economy. In this context, ESC believes that subsidized employment remunerated at the minimum wage is not sufficient motivation for the individual worker.

- 3.7.4. ESC appreciates as worrying the finding²³ of the Commission that after 2009 in Bulgaria a significant decrease is observed in funding for active measures on the labour market as a percentage of the country's GDP. According to ESC, the European structural funds and investment funds should not be used as ce shifting national funding in the application of traditional active policies on the labour market, but rather the realization of innovative social projects in addition to those policies. It is also important to improve the targeting of the programmes of the Employment Agency, to ensure coverage of the most vulnerable groups in the labour market - long-term unemployed, incl. persons with low level of education and qualification, people from the Roma ethnic community and people with disabilities.
- 3.7.5. In its opinion²⁴ ESC has recommended to increase (or at least at least maintain) the share of funds from the European Social Fund (ESF) in the total amount of EU funds. Considering the positive effects that have operations financed by the ESF to promote growth and employment, the government took into consideration ESC's proposal and included in the Partnership Agreement a share of the funds from the ESF above the EU average.
- 3.7.6. ESC is pleased by the fact that in the Report on Bulgaria²⁵ finds a problem that ESC put forth seven years ago in relation to the trend of emigration among Bulgarian specialists and deepening demographic challenges. In 2008 ESC adopted an opinion on "National Strategy of the Republic of Bulgaria on Migration and Integration 2008-2015", which set out the basic positions of the organized civil society on one of the most painful problems facing the country. In its act ESC made proposals both specifically concerning the National Strategy and the policies of migration in general, namely:
- creation of a special agency under the Council of Ministers to deal with migration issues;
 - establishment of registers with information about Bulgarian students abroad, researchers and highly skilled immigrants;
 - developing a system of tax incentives for employers who bear the cost of labour mobility of employees in the regions with a deficit of workforce;

²³ Country Report on Bulgaria for 2015 Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances. SWD(2015) 22 final. Brussels, 26 February 2015, p 56.

²⁴ESC Opinion on "Priorities and Policies for the Absorption of EU Funds in Bulgaria for the Period 2014-2020." 2013.

²⁵ National Report on Bulgaria for 2015 Including In-Depth Review on the prevention and correction of macroeconomic imbalances SWD(2015) 22 final. Brussels, 26 February 2015, p 56.

- reducing the burden of administrative services for issuing and maintaining personal documents of Bulgarian emigrants;
 - research and identification of synergistic action in the national strategic documents for the implementation of migration policy, etc.
- 3.7.6.1. ESC has made recommendations concerning the demographic development of the country in a number of its other acts. In the adopted resolution "Demographic Challenges to Bulgaria within the Europe 2020 Strategy" ESC highlights the thesis that the emigration of young people has an extremely negative impact on the fertile demographic contingent and potential. When emigrants are young and educated citizens, their migration should be evaluated as export of quality fertility and human capital.²⁶
- 3.7.6.2. In order to provide accurate information on the number and movement of Bulgarian population it is necessary to provide opportunities for Bulgarian citizens to perform electronic registration by current address abroad. ESC believes that currently this procedure is cumbersome, it is performed (on the territory of Bulgaria) personally or through a person holding a notarized power of attorney, as well as Bulgarian consular or diplomatic missions (abroad). Therefore, ESC recommends the development of a platform for the electronic completion of address card (or making electronic form of address card) which will save time for submission of personal information and at the same time will improve the keeping of personal information in the National Database "Population" up-to-date.
- 3.7.7. ESC calls for a more detailed coverage of issues and policies on demographic developments within the National Reform Programme 2015 and, accordingly, the state budget for 2016. The seriousness of the problem requires targeted actions, including updating the National Strategy on Migration and Integration 2020. This should be done on the basis of extensive public discussion of the results, the shortcomings of policies, opportunities for improvement, etc. with the participation of social partners and all stakeholder NGOs.
- 3.7.8. According to ESC, currently demographic challenges facing the Bulgarian economy and the labour market still remain a concern and there is no clear vision for their solution. Moreover, new challenges are identified, such as the crucial need for timely and full integration of refugees in Bulgaria.
- 3.7.9. ESC expresses its concern about the findings of the Commission that the country has "*...stricter eligibility criteria for unemployment benefits...*" and that the scope of unemployment benefits is "*...more than three times lower than the EU average...*"²⁷. National Social Security Institute (NSSI) data²⁸ show that for 2014 out of a total of 366,471 persons registered as unemployed, only 100,806 persons were entitled to unemployment benefit. This means that 72.5% of the registered unemployed have not received compensation. At the same time, aggregate data from the statistical bulletin of the Institute for the last three years show that the percentage of

²⁶ ESC Resolution on "Demographic Challenges to Bulgaria Within the Europe 2020 Strategy"

²⁷ National Report on Bulgaria for 2015 Including In-Depth Review on the prevention and correction of macroeconomic imbalances SWD(2015) 22 final. Brussels, 26 February 2015, p 57.

²⁸ National Social Security Institute. Statistical Bulletin of Registered Unemployed Persons Entitled to Monetary Compensation in 2014, p 2.

unemployed persons entitled to such compensation decreased from 32.3% (in 2012) to 31.4% (in 2013) and reached 27.5% (in 2014).

- 3.7.9.1. In its Resolution "Actions to Support Young People and Tackling Youth Unemployment", and later in other of its acts, ESC called for the development of a mechanism to allow the accumulation of benefits to facilitate access to unemployment benefits. ESC believes that those involved in non-traditional forms of employment - for example, seasonal or home workers; those working part time, etc. - are more seriously threatened by poverty and social exclusion. For them, the criterion to have paid social security contributions for unemployment benefits in 9 of the last 15 months before becoming unemployed is difficult to fulfil. In general, the criteria for gaining access to the relevant form of compensation are more more likely to be fulfilled by persons working under a permanent employment contract.
- 3.8. According to the ESC, if no action is taken to change the criteria for access to financial compensation for unemployment, the government must ensure social justice and dignified life of its citizens through other appropriate measures and policies. In the context of the limited increase in employment in Bulgaria and the effectiveness of spending scarce resources for active policies on the labour market, ESC considers that the need for further evaluation of the impact of operational programmes, and to what extent they have helped to increase the number of employees and creation of quality jobs in the country.
- 3.9. ESC supports in principle the recommendation of the Commission, expressed in **SR (3)** the introduction of "a transparent mechanism for determining the minimum wage (the minimum salary)" and points out that the social partners expressed their readiness to adopt a mechanism and factors that take into account both economic and social aspects in determining the minimum wage for the country in accordance with the Convention № 131 of the ILO (unratified).
- 3.10. With regard to the Commission's remark (also in **SR 3**) for the compliance of wage competitiveness ESC stresses that in a number of acts it has expressed its position that Bulgaria should not aim at competitiveness based on low labour costs, because it is unacceptable for a European country. Our country must strive towards competitiveness, building on the innovative technology, high productivity and quality of the goods and services produced.
- 3.11 With regard to the Commission's recommendation SR 3 concerning establishing a transparent mechanism for determining the minimum insurance income (MII) ESC confirms that such a practice exists in Bulgaria.
 - 3.11.1 MII is determined by negotiations between the social partners in the qualification groups of professions according to economic activities based on analysis of the actual proportion between the incomes of employees in these activities, on which they have paid social security and health insurance contributions, and fixed minimum incomes. ESC restates that under the law, social security and health insurance contributions are owed on the actual gross salary of the employees.
 - 3.11.2 It should also be noted that in the years following 2003 different decisions have been taken to increase or maintain MII in economic activities without reaching agreement between the social partners.
 - 3.11.3 ESC believes that efforts should be directed towards the implementation of strong measures to those operators who try to use unfair practices by paying low wages on

MOD official, regardless of the qualifications of workers and the complexity of the work and actually pay additional amounts, but illegally.

4. SR (4) "Adopt the reform of the School Education Act, and increase the participation in education of disadvantaged children, in particular Roma, by improving access to good-quality early schooling."

4.1. ESC accepts and shares the concerns of the European Commission, expressed in paragraph (13)²⁹, related to both the poor quality and scope of the education system, and its non-compliance with the needs of businesses. More than once in its acts³⁰ ESC has called for the rapid adoption of the Public Education Act and the continuation of reforms in vocational and higher education in order to increase the level and relevance of skills acquired at all educational levels.

4.2. ESC repeatedly found that the continuing for years economic, social and values crisis affected the quality of education as well as the financial support for it. The low quality of education is a potential for long-term risks related to participation in the labour market, low wages, minimal insurance, the minimal pension, which inevitably lead to poverty. So far education has not become a true national priority, while at the same time it has accumulated a number of unresolved problems:

- ✓ lack of necessary inclusion in education in early childhood mainly of disadvantaged children, including among others children from the Roma ethnic community;
- ✓ increase in the share of early school leavers;
- ✓ increasing functional illiteracy;
- ✓ unequal access to quality education;
- ✓ lack of connection between training and the actual needs of the labour market;
- ✓ lack of a flexible mechanism for the transition from vocational to general education and vice versa;
- ✓ introduction of dual vocational training;
- ✓ adequate financing for the educational system;
- ✓ low public support and influence the local community on the development of educational institutions;
- ✓ low participation rate of adults in programmes for lifelong learning.

²⁹ 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

³⁰ Opinions on "The Problems of Vocational Education and Training in Bulgaria", "The Educational System in Bulgaria - Problems and Required Reforms", "Policies to Limit Early School Leaving " "Draft Act for Amending and Supplementing the Vocational Education and Training Act", "Strategy for the Development of Higher Education in the Republic of Bulgaria 2014- 2020 "; Resolutions on "Strategy for Reducing the Share of Early School Leavers (2013-2020)", "Measures to Reduce the Share of Early School Leavers", and the Analysis on "Early School Leaving".

- 4.3. ESC has been actively involved in the public discussion of the adopted strategic and legislative documents³¹ which formulate the medium- and long-term policy on education, and has adopted its own acts on the major ones. ESC is pleased to report that most of its proposals and recommendations were taken into account in the strategies and plans for their implementation, as well as in relevant amendments to the regulations. At the same time, ESC expresses its concern over the insufficient financial guarantees for the implementation of such plans and the delay in the effectiveness of envisaged measures.
- 4.4. ESC accepts the recommendation of the European Commission to speed up the reform of pre-school and secondary school education and believes that the new Pre-school and School Education Bill, which was adopted at first reading by the 43rd National Assembly, will be enacted and will be finally adopted during the summer session of parliament.
- 4.5. ESC supports the legislative framework designed to change the philosophy and objectives of pre-school and school education, enshrined in the Bill which largely coincide with the proposals made by ESC in its own acts. They include:
- ✓ Education - a national priority;
 - ✓ Attracting wide social consent concerning the desired change in education by means of the formulated objectives and principles;
 - ✓ Introduction of the National Qualifications Framework (absent from the current model of education) and linking it to the competences, as well as the introduction of standards as a tool for quality management of education;
 - ✓ Associating general education with the key competences and validation of knowledge, skills and competences acquired through informal learning and training;
 - ✓ Requirement for establishing and maintaining a system for quality management in schools and education;
 - ✓ The concept for early childhood development to set the beginning of compulsory pre-school education at least two years prior to the commencement of school and to allow the possibility for more flexible forms of raising, upbringing and educating children;
 - ✓ Creating opportunities for effective partnership with the community through the establishment of the Public Council with the participation of parents - by defining the responsibilities of all participants in the educational process;
 - ✓ Expression of inclusive education as an integral part of the right to education and measures for the full integration of children with special education needs in mainstream schools;

³¹ Draft Strategy for Preventing and Reducing Early School Leavers (2013-2020); Strategy for the Development of Higher Education in the Republic of Bulgaria 2014- 2020 ;Draft Act for Amending and Supplementing the Vocational Education and Training Act.

- ✓ Providing for increased qualification of educational specialists and the acquisition of pedagogical competences for persons without professional qualification "teacher" when they occupy position requiring such qualification.
- 4.6. ESC fully accepts as legitimate the Commission's emphasis on increasing the participation in education of disadvantaged children by improving their access to quality education in the early years of training.
- 4.7. As a result of regional roundtables on the problems of early school leaving, ESC notes that in many places in the country there is difficult access to compulsory pre-school and kindergarten. At the same time, there is a high rate of early school leaving among students at risk due to difficult access to vocational and secondary schools, the lack of legislation on free transport for children above 16 years of age. In this regard, ESC has repeatedly recommended:
- ✓ to provide legislative solution for the problem of single standard cost for children in mixed groups aged 3-6;
 - ✓ to introduce legislatively the status of "focal" and/or "protected" kindergartens and to provide unified standards for funding;
 - ✓ to develop a greater range of opportunities at the municipal level for successfully mastering the Bulgarian language for children aged 4 who do not speak the Bulgarian language;
 - ✓ to regulate in the Pre-school and School Education Act (for students from municipal-centre and protected schools) the provision of transportation to school until completion of secondary education - not until reaching 16 years of age.
- 4.8. ESC proposes that in the transitional and final provisions of the Bill to include provision for the Ministry of Education and the Council of Ministers to carry out periodic evaluations of the impact of reforms on the educational system based on several key indicators: the rate of early school leavers; the rate of functionally illiterate students; the percentage of students proficient in Bulgarian language and mathematics at the end of the educational levels - preschool, 4th year and 7th year of training.
- 4.9. ESC also recommends to respect the principle of transparency and openness in the development and discussion of state educational standards and programmes in disciplines that will be produced following the adoption of the Act and proposes to include representatives of trade unions and employers' organizations in education in the process of developing them. |
- 5. SR (5) "With a view to improving the investment climate, prepare a comprehensive reform of the insolvency framework drawing on international best practice and expertise, in particular to improve mechanisms for pre-insolvency and out-of-court restructuring."**
- 5.1. ESC assesses as reasonable the weaknesses in the legal framework for insolvency and ineffectiveness of these procedures in Bulgaria as identified by the Commission. The fact is that for market participants insolvency proceedings take longer than in other EU countries and the level of collection of receivables is low. This increases uncertainty

and reduces the potential of our country to attract foreign investors. The Commission's recommendation should be seen also in view of the finding of high indebtedness of non-financial enterprises in Bulgaria.

- 5.2. Despite reforms to modernize the administration of the Public Sector the Commission found that "the effectiveness of governmental institutions remains low due to fragmentation of effort and lack of guidance on policy." Of particular concern is the finding that "there are still weaknesses in the institutional aspect and administrative capacity which affect key sectors of the economy and lead to a slowdown in structural reforms and weak absorption of EU funds".
- 5.3. ESC is alarmed by the data put forward by the Commission which shows that in 2014 only 21% of citizens in Bulgaria have interacted with public authorities via the Internet, which is well below the EU average of 47%, and only 7% of citizens have sent filled in forms on the Internet compared with 26% on average for the EU. At the same time, Bulgaria is one of the last EU countries that made its government services accessible on the Internet in a way that is both easy to use and transparent.
- 5.4. ESC finds that the insufficiently development of e-government limits the efforts to increase transparency and reduce administration. In this regard, ESC welcomes the adoption in 2014 of the strategies for public administration reform and the introduction of e-governance, and calls for strong political guidance and coordination in their implementation.
- 5.5. In several of its ESC pointed out as a problem the procedures for public procurement, which are often hampered by changing regulations and insufficient administrative capacity. ESC recommended legislative changes in the regulation of public procurement to ensure interruption of the direct relationship between the administrator of the tender and the contracting authority, as well as transparency and equal access to public procurement, because flaws in the procedures for awarding them in the past led to significant delays in the implementation of programmes funded by the EU, they have negative impact on the business environment, and delay much needed infrastructural improvements.
- 5.6. With respect to this ESC supports the efforts of the government for adoption in July 2014 of a multiannual strategy to address the fundamental weaknesses in procurement and also joins the Commission's recommendation for setting a clear timetable and implementation plan for realizing the concrete steps in this direction in 2015 and 2016.
- 5.7. The Economic and Social Council appreciates the intentions of the government to adopt a brand new law on public procurement by the end of 2015, which will create the legal basis for extending the preliminary control by Public Procurement Agency and to strengthen its administrative capacity. Step in the right direction is the development of a national centralized single-platform model for electronic tenders to allow the gradual introduction starting from 2016 of e-procurement, the provision of mandatory electronic communication between sponsors and participants, including electronic submission of tenders.

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