

Country Report

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# **Bulgaria**

The views expressed in this report are those of the authors and do not necessarily reflect the views of the Open Society Institute – Sofia.

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

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Country Report

## **Bulgaria**

# The Unfinished Business of the Fifth Enlargement Countries

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## About this publication

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

“The Unfinished Business of the Fifth Enlargement Countries” is a policy project of the Open Society Institute – Sofia within the European Policy Initiative (EuPI).

The EuPI aims at stimulating and assisting new Member States from CEE to develop capacity for constructive co-authorship of common European policies at both government and civil society levels ([www.eupi.eu](http://www.eupi.eu)).

The project was implemented from May 2008 to April 2009. The main outcome of the project is a publication comprised of ten national reports and a comparative analysis. The national reports describe and analyse the post-accession state of affairs in the ten new member states (NMS) from CEE. They do not include data gathered after December 2008, and therefore do not reflect the latest impact of the global economic crisis. The comparative analysis may have references beyond this period.

The project’s research methodology was based on the initial hypothesis that although the new EU member states from CEE have formally complied with all EU membership criteria and thus completed the accession agenda, specific problems persist. These problems are, to a certain extent, common among them due to shared historical experiences and legacies. In view of their comparable level of integration in the EU, the new member states could look for common answers to their post-accession challenges and, in doing so, contribute to the competitive advantage of the EU as a whole.

The research hypothesis has been tested through inquiry and analysis conducted by national experts from each of the ten new member states from CEE: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. These national experts adhered to the same methodology and were asked to describe and analyse the post-accession state of affairs in eleven policy areas. Through this process, the experts were able to identify existing and/or potential post-accession “problem areas” in their countries’ political development and governance, economic development, welfare system and social inclusion, health system, educational system, justice and home affairs, migration, research and innovation, agriculture and rural

development, regional development, level of EU funds absorption and their correlating impact.

The national experts were also asked to identify the existing membership leverage for post-accession problem-solving in each policy area and to provide a typology according to the following criteria: active and passive EU leverage,<sup>1</sup> hard and soft mechanisms for influence, and level of significance and effectiveness of their impact.<sup>2</sup>

On the basis of the national experts' ten country reports and the typology of the membership leverage represented by a table (Part C) in each report, a comparative analysis of the post-accession state of affairs was developed.

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<sup>1</sup> The *active* and *passive* leverage typology is defined and used by other authors mainly with regard to the EU's role for stimulating reforms in the candidate countries (Vachudova, M. A. (2002) *The Leverage of the European Union on Reform in Postcommunist Europe*, Paper presented at the Conference of Europeanists, The Council of European Studies, Chicago, 14-16 March, 2002) where the active EU leverage concerns the linking of the progress of accession with the adoption of EU norms while the passive one is the attraction of the EU as a gravity centre of prosperity and successful development. For the purpose of the present study the typology is used to assess the effectiveness of the membership leverage over the new member states from CEE.

<sup>2</sup> After the accession to the European Union the membership leverage over the member states is *active* with the exception of some policy areas, where the EU still exerts *passive* leverage because further integration depends on meeting certain post-membership conditionality (i.e. accession to the Schengen area; accession to the Euro area). Moreover in the policy areas where decisions are taken primarily on the EU level, the membership leverage is *hard* as breaching the rules is accompanied by sanctions and therefore it is *significant* in terms of influence on a national level and *effective* as it manages to ensure the necessary enforcement by national stakeholders. The opposite is evident with regard to the membership leverage in policy domains of national competence where the EU produces mainly recommendations which are not binding and therefore are not accompanied by sanctions (*soft leverage*) and most often neglected by national decision-makers, which makes them *non-significant* in terms of impact and therefore *non-effective* (e.g. the Open Method of Coordination in education and social inclusion).

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## xecutive Summary

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Bulgaria's accession to the European Union on 1 January 2007 coincided with its third successive year of impressive economic growth at over 6%. This trend continued in 2008, contributing to the country's fast catching-up process until the beginning of the global economic and financial crisis.

Two years after EU accession, however, the "unfinished business" in Bulgaria comprises a long list of issues. Unlike the other CEE countries that joined the EU in 2004, Bulgaria and Romania are still not members of the Schengen area and would not be ready to join earlier than 2011. The Bulgarian government's initial expectations that the country would be ready to adopt the Euro in 2010 have proven to be unrealistic – two years after accession, Bulgaria is not even in ERM II.

Unlike the other countries from the fifth enlargement (with the exception of Romania to a certain extent), two years after EU entry there is still a clear need in Bulgaria for continuing reforms in the critical areas of concern that existed even before accession – such as judicial reform and effective fight against corruption and organised crime – as they undermine the functioning of the democratic institutions and the rule of law.

Two years after accession, Bulgaria still needs to develop capacity to effectively exercise the responsibilities and at the same time capitalise on the opportunities provided by EU membership, including ability for effective and transparent absorption of EU funds.

The coalition that governed the country upon entry into the EU (led by the Bulgarian Socialist Party, in partnership with the Turkish minority party Movement for Rights and Freedoms, and the National Movement Simeon II) has survived – but in a context of growing public mistrust in both the political parties and the institutions of representative democracy, constant temptation to employ populism and nationalism and a process of further fragmentation of the party system, accompanied with flagrant signs of political corruption, including direct buying of votes.

There is a need to broaden, deepen and complete reforms in areas that were partly neglected during the negotiation period because of the lack of

*acquis communautaire* in these policy domains (which are entirely within the competence of the national state) – such as education, health, social protection and social inclusion policies – which are important for Bulgarian citizens. Those policy areas have never been part of the accession agenda, but they are part of the transition agenda and they are related to the capacity of the national government for policy formulation and implementation of reforms.

Prior to accession, the main concern was that EU leverage would limit its scope once Bulgaria became a member. The evidence, however, strongly suggests that the EU's influence on Bulgaria's policy development has not only not disappeared but may have in fact increased its significance.

Although the EU has never had effective instruments to influence the political systems, in the case of Bulgaria and Romania, in order to push for a stronger national commitment to the fight against corruption and organised crime, the EU is ascribing political power to technical instruments. Thus in Bulgaria the EU still plays the role of agenda-setter after accession by exercising peer pressure (the "naming, blaming and shaming" instruments) and through the effects of membership leverage in other policy domains. Thus membership leverage is exercised through policies, not politics. The process of "Europeanisation" of Bulgarian political parties is effected through the European Parliament.

Though the specifically established for Bulgaria and Romania Cooperation and Verification Mechanism (CVM) in reforming the judiciary and fighting organised crime and corruption has proven to be not very effective for the purpose for which it was initially designed because of its technical character, it has a certain political significance. The regularly dispatched monitoring reports under the CVM, together with the oversight and management of EU funds resulting in funds blockage in the case of Bulgaria have proven to have an influence on policy-making with a direct impact on politics.

Although the requirements regarding membership in the Schengen area of Bulgaria and Romania, which are preparing to join in 2011, are mainly of a technical nature, the European Commission is trying to use Schengen accession to exercise political pressure too. A draft EC report on the CVM in 2008 announced that the Commission may decide not to recommend Bulgaria's and Romania's accession to Schengen due to failure to produce results in the fight against organised crime and high-level corruption.

After accession, the main form of membership leverage on economic policy is Bulgaria's obligation to join the Euro area. The requirements for adopting the Euro provide for prudent public budgeting and spending, thus limiting populist urges of politicians to lure potential voters by spending public money. However, this tool is not sufficiently effective because of the lack of clear criteria for accepting countries in ERM II, which in the case of Bulgaria results in lack of clarity about the timeframe and the necessary policy steps for Euro adoption. Therefore determining clear criteria for ERM II membership or automatic entry for NMS will increase the effectiveness of the Euro area leverage, which is essential for safeguarding public finances in the current financial and economic crisis.

EU influence over the “unfinished business” of the transition agenda in Bulgaria is very limited in the post-accession period. Membership leverage in the spheres of uncompleted reform (such as health, education, social protection and social inclusion, pensions) is soft, non-significant in terms of impact and non-effective because they are entirely of national competence. In Bulgaria’s case, it is EU public opinion and media that have proven to have leverage on the social services reform (regarding the situation of children in institutions).

Therefore two years after accession, the “unfinished business” in Bulgaria concerns both the accession and the transition agenda. The completion of the transition agenda reforms in the policy areas of citizens’ concern (social protection and social inclusion, health reform and education) depends entirely on the capacity of the national stakeholders to take the driver’s seat and of the decision-makers to effectively formulate and enforce national policies in citizens’ interest. The completion of the accession agenda on the other hand (Schengen and Euro areas accession, JHA reforms, EU funds absorption) still remains largely EU-driven and EU-modified.



# **A** **Analysis of the Post-Accession State of Affairs in Selected Policy Areas**

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Subsection B.1:  
Political Development and Governance

Subsection B.2:  
Economic Development

Subsection B.3:  
Welfare System and Social Inclusion

Subsection B.4:  
Health System

Subsection B.5:  
Educational System

Subsection B.6:  
Justice and Home Affairs

Subsection B.7:  
Migration

Subsection B.8:  
Research and Innovation

Subsection B.9:  
Agriculture and Rural Development

Subsection B.10:  
Regional Development

Subsection B.11:  
Level of Absorption of EU Funds and Their Impact



# Political Development and Governance

## Summary

**EU membership has been the ultimate leverage and anchor for democratic consolidation in Bulgaria.**

**Although the EU itself is not “democratising” countries (except in quasi-protectorates, such as Bosnia and Herzegovina and Kosovo), EU leverage has in fact increased the EU’s significance in politics after accession, not decreased it as was previously assumed.**

**While nationalism and populism have emerged as instruments for political mobilisation, their influence is very much moderated under the influence of EU membership.**

**Euro-scepticism has still not taken foothold in Bulgaria and this is not likely to happen any time soon, especially in mainstream politics.**

## State of Affairs

The coalition governing Bulgaria upon its entry into the EU is led by the Bulgarian Socialist Party (BSP) in partnership with the Movement for Rights and Freedoms (MRF; Turkish minority party) and the National Movement Simeon II (NMSII; now renamed to National Movement for Stability and Progress). The Socialists and the two liberal parties formed an uneasy alliance “in the name of European integration” after two months of negotiations following the 2005 elections, as the country had to prove its stability and continuation of reforms in the run-up to accession in January 2007.

The government has been enjoying a comfortable majority in parliament with 169 seats in the 240-seat assembly, despite

the fact that the NMSII group was subsequently left by 18 MPs. The most formidable challenger to the government emerged with the establishment of the GERB (the Bulgarian acronym for Citizens for European Development of Bulgaria) party of Sofia Mayor Boyko Borissov in late 2006. GERB has remained the most popular party in Bulgaria for over a year, and its leader Boyko Borissov is one of the two most popular politicians together with President Parvanov. GERB claimed the majority of the votes cast in the European Parliament elections in 2007 and in the local elections the same year, and in 2008 joined the European People’s Party as a fellow centre-right party. It is expected that GERB will win the upcoming June 2009 general elections. The two centre-right parties, the Union of Democratic Forces (UDF) and Democrats for a Strong Bulgaria (DSB), are considered to

be potential coalition partners of GERB, but at this point many other options are still open.

### **Issue: Emergence of new political parties**

The platforms of political parties in Bulgaria evolved in a peculiar manner with the beginning of the country's integration into the EU in 2000. The accession consensus agenda dominated the political discourse and all major political parties had to follow the "European agenda" instead of elaborating competing platforms. As a result, ideological differences have been overshadowed by the emerging EU agenda. The party platforms were to a large extent "standardised" by the "European discourse" and this limited the scope for development of more authentic, ideologically specific programmes. The brief period between the opening and the conclusion of negotiations (1999-2004) saw a dramatic change in the party system in Bulgaria. It has marked the decline of the previous party model and heralded the quick rise and success of a new type of parties and party platforms. By all accounts, this pattern will dominate the political behaviour in Bulgaria in the foreseeable future as an EU member state.

The politics of transition in Bulgaria have been dominated by a polarity of competing agendas of the two major parties – the former communists of the Bulgarian Socialist Party and the reformist Union of Democratic Forces. In the 2001 elections, the former king Simeon's hastily assembled political movement won a landslide victory. The popular appeal of his promise that he would "make the country prosper in 800 days", and the charisma of his return helped him win almost 50% of the seats in the National Assembly.

Similarly, the extreme nationalist Ataka party founded in April 2005 won 21 out of 240 seats in the National Assembly in the June 2005 parliamentary elections; the 2006 opinion polls claimed it to be the second most popular party in Bulgaria.

The "third wave" of similar changes came with the establishment of GERB, which was founded as a political party in December 2006. The party very soon gained considerable popular support, winning the largest share of the votes (though with a minimal margin) in the May 2007 European Parliament elections. Since then, GERB has been the leader in public opinion polls and is expected to be the winner in the next parliamentary elections in June 2009.

A new phenomenon since the last local elections in 2007 is the rise of various "business" parties of local tycoons, which is further disintegrating the party system in Bulgaria. Some representatives of the Bulgarian business community have opted for direct participation in politics, rather than relying on the intermediation of politicians. Though their influence is limited at present on the national level, it may grow in future and they ought to be regarded as a significant social force.

### **Issue: Major veto players and their relations**

Bulgaria is a parliamentary democracy and the executive power vested in the Prime Minister and the government yields significant influence. The presidential institution has limited competencies in Bulgaria, mainly in foreign policy, defence and veto powers on legislation. However, President Georgi Parvanov, a former BSP leader who was re-elected for a second presidential term in 2006, has managed to seize control and to play a more significant role in politics and in yielding influence and power.

A new phenomenon since the last local elections in 2007 is the rise of various “business” parties of local tycoons, which is further disintegrating the party system in Bulgaria

### **Issue: Stability of government and capacity to reform**

The government coalition, though controversial, has been stable. Despite its demonstrated efforts for sound liberal economic policies and EU membership behaviour, it has faced numerous scandals and roadblocks, including scathing EC reports and freezing of EU funds because of high-level corruption and mismanagement allegations. The government’s performance in two key EU policy areas – fighting organised crime and corruption, and EU funds absorption – has been assessed as poor. Bulgaria received a score of 3.6 in Transparency International’s 2008 Corruption Perceptions Index, the worst among all members of the EU. The policy delivery mismatch is already affecting political trust, with the government’s public support running at alarmingly low levels of less than 17% (Eurobarometer 69).

In the short and medium term, the present government is unlikely to deliver and implement the necessary reforms. Besides, the forthcoming parliamentary elections in June 2009 are shifting the focus of social expectations.

### **Issue: Populism and extreme nationalism**

EU membership does not in itself guarantee sustainable democratic development. On the contrary, high levels of conditionality and the inability to meet all criteria have generated a certain anti-democratic backlash in specific circles of Bulgarian society. Temptations to employ populism and nationalism are not rare in Bulgaria. The sudden success of both the NMSII after 2001 and of GERB after 2006 has been partly attributed to their populist appeal. However, both are examples of how populist messages can be disciplined – through the necessities of policy-making (“EU requirements”, above all) as well as through the efforts to emulate and join EU peer groups (e.g. the European parties).

## Temptations to employ populism and nationalism are not rare in Bulgaria

Extreme nationalism proved to be an easy way to mobilise voters for the Ataka party in 2005, when it became the fourth strongest political party in Bulgaria virtually overnight, and then again in 2006, when its leader finished

second in the presidential elections after popular incumbent Georgi Parvanov. Ever since, Ataka has maintained a stable electoral support of 7-9%. It is even represented in the European Parliament by three MEPs, following the 2007 EP elections. Extreme nationalism (often openly anti-minority and with racist speech and models) however cannot fully explain the Ataka phenomenon and calls for a more complex reading. There is enough evidence to suggest that Ataka's nationalist message comes secondary to its anti-corruption and anti-establishment rhetoric. It is Ataka's promise to tackle corruption in high-level political circles that has gained it supporters. Furthermore, the party's message targets also those who feel they have lost from the transition and who are afraid of the effects of Bulgaria's opening up as a result of EU accession.

### Issue: Euro-scepticism

Some Bulgarian parties have used Brussels-bashing for political ends, though no party at present questions EU membership. There have been indirect attacks on "Brussels dictatorship" on issues such as that of the Kozloduy Nuclear Power Plant (four reactors had to be closed down as a prerequisite for accession), which has become a convenient *casus belli* for Euro-scepticism and nationalism and has been used by representatives not only of nationalist parties (VMRO, Ataka) but also of mainstream ones like the BSP – especially after the EC's harsh reports and actions against the BSP-led government in the second half of 2008. The claim that Euro-scepticism has not found fertile ground in Bulgaria can be substantiated by the Bulgarian public's growing trust in the EU, which reached a record 63% in 2008.

### Conclusion

Prior to accession, the main concern was that EU political leverage would diminish once Bulgaria became a member. In fact, the evidence strongly suggests that the EU's influence on Bulgarian politics has not only not disappeared but may actually have increased in significance. Public opinion polls strongly support this thesis, with 34% of the Bulgarian respondents claiming in a recent survey (Eurobarometer 69, Spring 2008) that "the EU contributes to democracy in the country". For comparison, only the Romanian citizens are more confident in this effect of membership (40% support), while only 5% of the respondents in established democracies, such as Denmark and Sweden, say that the EU contributes to democracy in their country.

After accession, the EU's ultimate anchor – the promise of membership – is no longer valid, but there are other mechanisms for exerting influence which have ultimately had a political impact. Some of them are direct – such as the Cooperation and Verification Mechanism (CVM) in reforming the judiciary, fighting organised crime and corruption. Though the EU has not resorted to imposing a safeguard clause, the regularly dispatched monitoring reports have proved an efficient tool in enhancing reform. The oversight and management of EU funds is another tool for influencing policy-making with a direct impact on politics.

The first two EC reports under the CVM (in June 2007 and February 2008) only diplomatically expressed hopes for improvement of the government's performance. From January 2008 onwards however, the EC utilised more serious tools by freezing funds on corruption and mismanagement grounds. Criticism from the European Commission and peer pressure from other member states culminated in the summer 2008 reports – two by the European Commission on the monitoring of the fight against organised crime and corruption, and the OLAF report on corruption and mismanagement in the SAPARD programme.

The most serious measure, unofficially discussed (see *Capital* weekly, No. 19, May 2008), was the possible activation of Article 7. This would have suspended Bulgaria's rights in decision-making and isolated the country from the mainstream process in the EU. Whilst this measure was never discussed officially, the very fact that it was in circulation in the discourse of inner circles was in itself a slap in the face and a punitive measure for the government.

The political significance of the mechanisms discussed above lies in the findings and allegations of high-level political corruption associated with senior politicians, public officials and business figures – part of the "naming, blaming and shaming" instruments. Thus the EU has assumed the role – figuratively speaking – of opposition in the country. Of course, this is not to say that the EC has taken sides in Bulgarian politics – but by criticising policies it has disciplined the governing parties and constrained politicians' misconduct.

The EU "stick" seems to be working to a certain extent, mainly as the government deliberated particular measures that otherwise would not have been implemented: (a) taking more seriously the blueprints for action in fighting corruption and organised crime and (b) launching an action plan on improving EU funds absorption. In simple terms, this means providing support to more decent policy-makers, trying to block the access of corrupt officials to public funds and to decrease their influence and legitimacy.

In general, the effects of EU membership have been to moderate the turbulences in Bulgarian political life by setting commonly accepted boundaries of what is acceptable and what is not as well as by injecting predictability in policy-making through its common decision-making mechanisms and rules (sort of "a spillover effect" of the mode of governance). The examples of such indirect influence include the requirement for adopting

the Euro, which provide for prudent public budgeting and spending, thus limiting populist urges of politicians to lure potential voters by spending public money.

The argument about "EU leverage" on national politics cannot be exaggerated. Whereas the EU cannot be a substitute for authentic political culture and mature institutions of democracy, its influence can definitely change political behaviour and tilt policy options towards a more desirable "European way of doing things".

The process of "Europeanisation" in politics, though debatable, has proved to be a step further in legitimising Bulgarian parties through membership in the European political networks. Europeanisation or "EU-isation" has turned into a political tool for exerting indirect influence over political knowledge, expertise, representation and accountability.

The EU influence reflects public perceptions. The Eurobarometer 69 survey (Spring 2008) demonstrated that a vast majority of Bulgarian citizens have more trust in the EU – 63%, as against 17% who trust their own government. In fact, the growing criticism from the EU in 2008 was followed by an increase in the trust of Bulgarians in the EU as a whole and in its institutions. Trust in the EC grew to 51%, up from 46% in the autumn of 2007.

The reforms that EU membership entails will be on the political agenda and should be taken seriously into account in any political debate and campaign. The "unfinished business" issues can turn into a successful campaign platform. However, this requires commitment and readiness to deliver to high public expectations and EU responsibilities.

# Economic Development

## Summary

**Despite demonstrating relatively high rates of economic growth and improving economic performance, Bulgaria still remains the poorest country in the European Union. Significant reforms are required to improve the business environment, raise competitiveness and foster the labour market in order to accelerate the pace of economic development and increase the average income level.**

**After Bulgaria's EU accession, the EU continues to have leverage over economic policy, although its impact is limited as compared to the pre-accession period.**

**The main instrument of EU leverage is Bulgaria's obligation to join the Euro area. However, this tool is not sufficiently effective because of the lack of clear criteria for accepting countries in the EMU mechanism, which precedes membership in the Euro area.**

## Issue: GDP per capita

According to 2007 Eurostat data, Bulgaria's gross domestic product per capita (in purchasing power standards) represents only 38.1% of the EU average. This is the lowest level of GDP per capita in the whole EU. Bulgaria's gross domestic product per capita in nominal value is also the lowest among the EU countries – it is just €3,800 or 6.5 times less than the EU average, although during the past decade Bulgaria's GDP per capita in nominal terms exceeded past values more than three times, and GDP per capita in purchasing power standards increased from 27% to 38.1% of the EU average. Therefore, Bulgaria is yet to meet the challenge of income catch-up.

## Issue: Economic growth

Bulgaria's annual economic growth rate in the 2004-2007 period was over 6%. In 2007

GDP growth was 6.2% and in the first half of 2008 it accelerated to a record 7.1%.

In 2007 the highest growth was recorded in the construction sector (16.9%) and industry (13.2%). A decrease was noted in the agriculture sector (-29.75%) because of the poor harvest. In the first quarter of 2008 the situation changed – agriculture demonstrated a steady recovery with high growth (11.7%), while the growth in the construction sector slowed down to 7.7%. At the same time, the Bulgarian finance sector grew by more than

14%. The economy does not depend on the performance of one single sector and this enabled the continuation of economic growth despite the shocks in some sectors. The largest contribution to the growth of the Bulgarian economy depends on investments (gross fixed capital formation), which have increased by almost 350% in the past decade and have secured high growth in recent years. In 2007 a growth of more than 21% in real terms was recorded. In the first half of 2008 this trend continued, reaching almost 23%.

### **Issue: Inflation dynamics**

In 2007 the inflation rate reached levels of 12.5% on an annual basis (compared with 6.5% in 2006 and 2005). Inflation was driven mainly by the drastic increase in food and fuel prices on the international markets (the poor harvest in Bulgaria also contributed to increases in food prices), which led to an increase in the prices at restaurants and hotels as well as in transportation fares. In addition, in 2008 electricity and natural gas prices also went up as a secondary effect of the increased oil price. At the same time, the huge increase of excise duties (due to the need to harmonise duties with the EU minimum level) also contributed to the general rise of prices. Thus, in July 2008 the inflation rate reached a peak of 14.5% per year. As a result, food and fuel inflation subsided and the inflation rate started falling rapidly, reaching 11.2% in August. Nevertheless, even in non-crisis years inflation in Bulgaria is higher than the EU average level. This is due not only to the EU-driven continuous rise of excise duties, but also to the gradual convergence of all prices toward the EU average level as the economy expands (currently, Bulgaria has the lowest price level in the EU).

### **Issue: Employment, unemployment and labour force**

In recent years employment rates in Bulgaria have been increasing, and unemployment rates have been gradually decreasing. According to Eurostat, unemployment in Bulgaria reached a record low rate of 5.6% in August 2008, which is more than three times lower than the level of unemployment at the end of the 1990s. The level of employment also increased – in the second quarter of 2008 the number of employed persons reached 3.37 million and the employment rate rose to 63.9% (compared with only 53.1% five years ago). However, employment is still far below the requirements of the Lisbon Strategy (70%). The quality of the labour force and the deficit of qualified workers is a problem that is becoming more and more urgent. This problem is also related to the performance of the Bulgarian educational system.

### **Issue: Salaries**

The average salary in Bulgaria has tripled in the last decade, reaching BGN 515 per month in mid-2008. The growth of wages in 2008 reached 25%

per year. Despite this significant increase, the average wage in Bulgaria is the lowest compared to all other EU member states.

### **Issue: FDI flows**

In the last 15 years, Bulgaria has attracted €28 billion in the form of FDI. Almost half of these investments have come in the last three years. In 2007 foreign investments reached €6.1 billion or more than 20% of GDP – one of the highest levels worldwide. The majority of foreign investments come from EU member states. They are concentrated mainly in the following sectors:

- Real estate, renting and business activities
- Manufacturing
- Financial intermediation
- Transport, storage and communication
- Trade, repair and maintenance of cars and motorcycles, personal and household goods
- Construction
- Production and distribution of electricity, gas and water

The economic and institutional reforms, together with EU membership, have enabled the huge inflow of foreign capital into Bulgaria. Still, to sustain this level of investments, Bulgaria needs to conduct additional bold reforms.

### **Issue: Public finance**

At the beginning of the transition period – from 1990 to 1997 – the state budget spent more than it collected as revenue. Annually it accumulated large budget deficits – an average of 6.3% of GDP. After the 1996-1997 crisis the budgetary situation improved dramatically, which has resulted in a budget surplus in most of the years since then (in 2006 and 2007 the surplus reached about 3.5% of GDP, and in 2008 it is likely to exceed this level). These positive developments have considerably reduced the fiscal risks.

Government spending in recent years is about 40% of GDP. The biggest part of the expenditures, about one third, goes for the social security system. The rest goes for public services, government departments and public investment, and for payment of interest on public debt. This is not an unusual distribution of spending, but the main problem lies in the low efficiency of this spending.

The government debt in the mid-1990s reached levels of over 150% of GDP, but in the last decade it has decreased significantly and currently stands at 15% of GDP – that is, among the lowest in the EU. The Bulgarian government has paid all of its debts to the IMF and much of its obligations to the World Bank and other international institutions.

Bulgaria's ranking in the international index of economic freedom has improved significantly

### **Issue: Regulatory and business environment**

Bulgaria's ranking in the international index of economic freedom has improved significantly. According to the latest economic freedom index of the Canadian Fraser Institute, Bulgaria ranks 68th in the world, approximately 40 places higher than at the end of the 1990s. However, the country holds one of the last places in the EU in terms of economic freedom (only three EU countries have a poorer ranking than Bulgaria). Bulgaria's performance in terms of monetary stability and international trade is positive, but the level of legal protection of property and ownership is low as well as the size of government (reflecting the state's involvement in the economy through state companies, taxation and spending). Bulgaria is 59th in the Heritage Index, with good scores on trade, taxes and monetary stability, but property rights and corruption are defined as very weak points. Developments in terms of the business environment are quite similar according to the World Bank ranking. Though there is some improvement, Bulgaria occupies 45th place in the world and one of the last places in the European Union in terms of business environment. According to the World Economic Forum Global Competitiveness Index, Bulgaria is 74th in the world and the last among all EU countries.

### **Issue: Adoption of the Euro and economic convergence with the EU**

Bulgaria is not yet a member of the Euro area and has not adopted the Euro. Despite the political and economic will to quickly enter the ERMII mechanism, a year and a half after joining the EU this has not yet happened (as the media reported, the reason might be the reluctance of the European Central Bank). Although not a member of the ERMII, Bulgaria meets most of the Maastricht criteria for convergence and membership in the Euro area (only the inflation rate is higher than required). Bulgaria runs a budget surplus and low government debt, has a fixed exchange rate and qualifies for the long-term interest rates criterion. The problem with inflation is related to the need to increase excise duties in order to achieve the minimal levels in the EU and to gradually increase prices and incomes, closing the gap with EU levels. Fast economic convergence drives fast income and price convergence – an inflation factor that was not present in Western Europe, but that is important for Bulgaria in its catching-up process.

### **Issue: Export(s), import(s) and competitiveness**

Bulgaria's exports increased rapidly – by 22.5% on a yearly basis, according to data on the balance of payments from July 2008. While exports of goods and services in 1998 amounted to only €5.3 billion, in 2007 they

reached €18 billion. Imports also increased rapidly, from €5.2 billion in 1998 to over €24 billion in 2007.

Bulgaria's biggest trading partner is the European Union – 60% of the country's total exports go to the EU and 51% of total imports originate from the EU. Other important trading partners are neighbouring countries and Russia (mainly in oil and energy imports). The biggest import items are raw materials (38%), investment goods (27%), and energy (19%); the remaining share of about 16% comes from consumer goods.

The significant rise in exports is a good indicator of the improved competitiveness of Bulgarian companies. Another indicator is the share of exports in GDP, which was almost 67% of GDP in the first half of 2008. In recent years, Bulgaria has been one of the few countries to increase their share in international trade. Still, as in the case of GDP, competitiveness and trade should increase much further.

## **Conclusion**

Following Bulgaria's entry into the EU, there are fewer instruments and mechanisms to level economic activity. Although Bulgaria is a member of the EU, the Union continues to have leverage over its economic policy. Firstly, this is due to the fact that economic policy issues represent an important criterion for entry into the Euro area and Bulgaria must comply with the recommendations of the EU in order to achieve its goal. Secondly, the Lisbon process (including the national reform programme and better regulation programme) as well as the accomplishment of the common market work as a stimulus for policy change. For instance, some reform initiatives were launched only because of the Lisbon agenda demands and the common market requirements (especially better regulation and the introduction of an electronic commercial register).

However, the tools for influence are not as effective as they were before the country's accession to the EU. The unclear policy and lack of criteria for admission of new countries into the ERMII further lessen the effectiveness by hindering countries in determining whether the conduct of certain reforms would allow fast entry into the Euro area or not. While countries already in the ERMII know precisely the content of the Maastricht criteria to be met to adopt the Euro, it is not clear what criteria are required to enter the ERMII itself.

The EU would have significantly greater opportunities to promote reforms in the economic field if it defines a clear set of criteria for membership in the ERMII. Thus, the EU will be able to use Bulgaria's willingness to adopt the Euro as a driver for new and deeper reforms that will increase the pace of development and convergence.

# Welfare System and Social Inclusion

## Summary

The initial impetus for reforms in the welfare system in Bulgaria was not given by the EU, but partly by the internal political process and partly by international organisations, NGOs and bilateral donors.

The EU started to play an increasing role as Bulgaria joined the OMCs in employment and the social field and had to begin reporting on different common and national objectives and targets. Bulgaria also had to adopt the EU definitions of poverty and all common welfare indicators.

Bulgaria also had to become part of the implementation of the Lisbon Strategy.

Bulgaria has performed quite well regarding the targets for growth and jobs, unlike those for social inclusion and other aspects of human resource development. Social inclusion policies deviate significantly from the challenges set and the commitments made in the Joint Inclusion Memorandum between the Bulgarian government and the EU.

## Issue: Employment

Bulgaria did remarkably well in reducing unemployment and increasing employment rates in the run-up to EU accession. Whereas in 2005 Bulgaria had 334 000 unemployed people, in 2007 it had 240 000. In the second quarter of 2008 the number of employed reached 3.37 million and the employment rate rose to 63.9% (as against just 53.1% five years ago).

Although the employment rate is still below the requirements of the Lisbon Strategy (70%), Bulgaria is making fast progress in this respect.

As an EU member state, Bulgaria applies the Open Method of Coordination (OMC) both in employment and social inclusion. The OMC has a great potential and is currently the best tool that can be used to support reforms.

Bulgaria's employment policies follow the EU employment guidelines. For the 2005-2008 period, these guidelines focus on three main strands of the Lisbon Strategy – macroeconomic policy, microeconomic

policy and employment. They require that in the respective fields differentiated objectives be set for the member states depending on the specific situation in each country. In the field of employment the EU suggests eight guidelines, asking member states to take them into account in their

employment policies and to report back through their national reform programmes.

In the progress report on the implementation of the National Reform Programme (NRP) in Bulgaria there is no reference to the Integrated Guidelines. This is partly due to the very broad and vague requirements which allow for rather free interpretation on the part of member states, as is in fact the case with the Bulgarian government's reporting.

### **Issue: Social inclusion**

Bulgaria started negotiations with the EU and eventually joined the Union at a time when the European social model and the welfare states were in a process of transformation. This coincided with a rather prolonged transition in Bulgaria, which happened at a high social cost. Bulgaria also had a legacy of pre-transition institutions and approaches to social policy, which created a strong path-dependent trajectory of the country's social policy agenda. Last but not least, the EU has hardly been the single or even the first international player to influence Bulgarian social policies either directly or through the many overlapping policy areas, such as employment, health care, education, small business promotion, taxation, pensions, access to public services, regional policy, etc. The EU started to dominate the "external" agenda-setting only towards the end of the nineties, namely with the release of the first reports on Bulgaria's progress towards accession. The early post-socialist years, if not all the nineties, were shaped by the domestic political process and the influence of international organisations and bilateral development programmes – the IMF, the World Bank and USAID.

Hence, while Bulgaria and the EU have been simultaneously undergoing a change in their social policies, what can be called "recalibration" in the case of the old member states means, in the case of Bulgaria, complete reshaping or even starting from scratch. That is the case with most of the programmes addressing poverty, homelessness, school dropout and other dimensions of extreme marginalisation, which did not exist or were not recognised as such in socialist times.

### **Issue: Access to services**

Equitable access to services in Bulgaria still faces many challenges. There are three major aspects of the access to services – geographic distribution, infrastructural accessibility and impediments to access due to discrimination or poverty. Equitable access to health care is one of the problematic issues. Discrimination against Roma is documented in reports by NGOs. The Bulgarian government's National Strategic Report on Social Protection and Social Inclusion recognises that there are obstacles to the access to health care for some groups – the Roma and those living in isolated rural areas. Access to social services is still limited by the small number of

The EU has proved to have leverage on the social services reform through public opinion and the media in the Union

services provided in the community and the high rates of institutionalisation, especially among children.

The EU has proved to have leverage on the social services reform through public opinion and the media in the Union. The process of Bulgaria's integration into the EU has generated high interest in the

social situation in this country. The BBC made a film about the situation of children in Bulgarian institutions, which provoked a harsh reaction from all over the EU. The Bulgarian institutions were forced to comment and to show activity on the issue. This case demonstrated the powerful influence of public opinion in the EU, an influence not known to Bulgarian institutions.

### **Issue: Pensions**

Bulgaria introduced in the nineties the three-pillar insurance model developed and promoted worldwide by the World Bank. The three-pillar model does not conflict with EU rules. In the course of the reform of the pension system, there have been heated debates on what shape the latter should take. Some have argued for the PAYG (pay-as-you-go) system, in which the pensions of current pensioners are paid by those currently employed. Others belonging to neo-liberal think-tanks have argued for a completely capital-accumulating model with private pension accounts – a system in which there is no trace of solidarity. Such debates are still underway because a very important aspect of the pension reform has not been finalised yet – the system is not sustainable. At some point the financial unsteadiness of the system may become a political argument strong enough to warrant a revision of the institutional set-up, which looks firmly established at present.

The EU does not have a common policy on pensions and this is an important shortcoming of the EU common market, because the way pension contributions and pension funds function is crucial to the issue of free movement of people and capital. It is also crucial in reducing the risk of poverty and promoting social inclusion.

The EU has started to develop some common thinking in the field of pensions but mainly as a tool for addressing the adequacy issues underlying the social function of pensions. Much less attention is paid to the sustainability of pension systems, which are threatened by the ageing of the population – yet without sustainability, adequacy can hardly be guaranteed.

Bulgaria has no strategy for guaranteeing the sustainability of the pension system. The attitude of the Bulgarian government in this respect can be characterised as careless.

EU leverage could be increased by developing some common policies and common standards for guaranteeing sustainable and adequate

pensions. In the long run, even pooling of risks and therefore pooling of funds can be considered. But at this point it is too early to even discuss this option.

### **Issue: Social security system**

In Bulgaria, as in the other EU member states, the main tool for aligning policies in the social field is the Open Method of Coordination, which Bulgaria joined two years before joining the EU. The European Commission (DG Employment, Social Affairs and Equal Opportunities) and the Bulgarian government (the Ministry of Labour and Social Policy) have come to a common understanding about the background, the key challenges and the necessary policies. The Joint Memorandum on Social Inclusion of the Republic of Bulgaria (JIM) contains a valuable statistical annex, which is a somewhat chaotic mix of indicators produced by Bulgarian statistics, data from World Bank surveys on poverty, and what is probably the first systemic publication of the main commonly agreed indicators of monetary poverty, the so-called Laeken indicators.

In September 2006 Bulgaria prepared its first National Action Plan for Social Protection and Social Inclusion for the 2006-2008 period. This plan de facto identifies the targets set by the Bulgarian government in the social field in the crucial first two years of the country's EU membership. It marks Bulgaria's participation in the first cycle of the Integrated OMC in social protection and social inclusion. Most of the targets set, especially those related to employment, were not hard to achieve in the context of strong economic growth. However, the target for reducing school dropout rates not only failed to be met, but the latter actually increased during the 2006/2007 school year and may increase even further due to the rather rigid application of per-capita funding formulas with little social sensitivity.

### **Issue: Social services**

There are two main targets set by the National Strategy for Social Protection and Social Inclusion (2005-2008) (NSSPSI, a key strategic and reporting document under the social OMC) – decreasing the number of persons using social services in specialised institutions, and increasing the number of persons from vulnerable groups using social and health services within the community. The EU played an important role in the process of building new community-based social services and understanding the difference between social assistance and social work, although the World Bank also had a significant role in this respect. The influence of the EU was channelled not only through the EC reports and the OMC but also

Bulgaria has no strategy for guaranteeing the sustainability of the pension system. The attitude of the Bulgarian government in this respect can be characterised as careless

through the participation of experts from different EU countries in projects in Bulgaria. Such projects were funded mostly, but not only, by the Phare programme.

### **Issue: Roma/other minorities' integration and citizenship issues**

During the transition years, policies towards the Roma in Bulgaria represented a mix of indigenous approaches and legacies from the past, and external influence. The turbulent nineties brought for the Roma mostly impoverishment, unemployment and overall deterioration of their social status and living conditions. Policies in that period lacked coherence and were mostly based on poorly coordinated projects and programmes. The important milestones in Roma integration policies came at the very end of the nineties and in the new century.

The first milestone was the Framework Programme for Equal Integration of Roma in Bulgarian Society (hereinafter referred to as the Framework Programme) adopted by the Bulgarian government on 22 April 1999. The Framework Programme stipulates a broad spectrum of measures in eight different spheres of social life, the ultimate goal being "real equality for Roma in Bulgaria". The basis of these measures is the acknowledgement that "discrimination against Roma in social life creates problems for society and in the socio-economic and cultural-educational realms".

In the realm of education the Framework Programme provides for several types of measures directed at overcoming discrimination and its effects. The Framework Programme was the outcome of various pressures, one of which was the prospect of EU membership, though it was probably not the decisive one at the time.

The second milestone was the Decade of Roma Inclusion. This broad initiative was meant to address inequities in different sectors. The idea was supported in different ways by governments, the World Bank, the Open Society Institute, the United Nations Development Programme, the Council of Europe Development Bank, the Organisation for Security and Cooperation in Europe, the Council of Europe and the European Commission. In February 2005, the Decade was launched in eight Eastern and Southeast European countries, including Bulgaria, Croatia, the Czech Republic, Hungary, the FYR of Macedonia, Romania, Serbia and Montenegro, and Slovakia.

Thus, the EU joined other international organisations and bilateral donors in Bulgaria in pointing out the importance of Roma integration for EU membership. Eliminating discrimination was mentioned in the political criteria for membership, while specific aspects of Roma integration found their place in the EC pre-accession monitoring reports. Finally, these issues were addressed by the OMC. In the sections of the strategic reports where old member states had to address the challenge of migration (from Turkey, North Africa, etc.), new member states like Bulgaria and Romania had to make plans on how to integrate the Roma into their societies. In terms of

the resources provided, however, the EU Structural Funds offer a chance to invest in integration through some really significant resources, whose scale is large enough to make a difference. But to ensure effectiveness, the EU must closely monitor the governance of these funds, including the issues of participation.

### **Issue: Housing**

Policies in the field of housing in Bulgaria have been very wavering. Bulgaria has performed poorly in almost all aspects of housing policy, such as social housing, support for young couples, protection against unlawful eviction, and guaranteed housing for those who have to be evicted from illegally occupied dwellings. During the transition, the state and municipal housing stock was depleted either by being sold away or by wearing out due to inadequate maintenance. Bulgaria has several national programmes related to housing which, however, display a strong confidence in market forces and little commitment from the state. The only exception is the programme for improvement of the living conditions of the Roma, which does not work as planned – the initial commitment announced was for more than BGN 1 billion but the actual spending until now is in the range of a couple of tens of millions. Housing issues have become part of the social OMC, but the EU is still in a process of developing common standards for decent housing. Therefore more significant pressure from the EU cannot be expected in the next few years, although there are examples of different practices which can be shared through the mechanism of peer reviews.

### **Issue: Poverty**

Poverty has been on the public agenda since the first turbulences at the beginning of the transition which brought about a sharp decrease in the economic output and the real income of many Bulgarians. At that time and throughout the nineties, poverty analysis was mainly framed in the old concepts of a consumer basket and a social basket. In the new century the World Bank introduced to Bulgaria the WB approach to defining and analysing poverty, which came in the form of a series of reports based on Multitopic Household Surveys.

The EU (Eurostat) methodology and the related understanding of poverty gained prominence in 2006 with the first EU-SILC (Statistics on Income and Living Conditions) survey. The core data on welfare measures concern the so-called Laeken indicators – a set of common indicators on the welfare and social conditions, which are produced for each member state and aggregated for the EU level. The Joint Inclusion Memorandum (JIM) between the Bulgarian government and the European Commission, which is the first step in Bulgaria's participation in the social OMC, concluded that social protection still posed a significant problem despite the existing system of Guaranteed Minimum Income. It also pointed out the high poverty risk

associated with unemployment, which calls for preventive action beyond active labour market policies.

In the last three years and especially after Bulgaria's entry into the EU, the Bulgarian government has decisively deviated from most of the anti-poverty policies outlined in the JIM and has embarked on a neo-liberal model. The old commitments were swept under the carpet, without mentioning why the government had forgotten them. It seems that the EU has little leverage to influence this process through the OMC. Therefore some more rigorous reporting requirements will help to at least identify and analyse more clearly the non-fulfilled commitments, although they cannot be a substitute for a shared vision of the future of a social Europe.

## **Conclusion**

In the case of Bulgaria, full continuity exists in the country's participation in the social OMC before and after its effective EU membership, therefore EU membership itself does not impact upon the dynamics of social policies development in Bulgaria.

The fact that welfare systems are in a process of recalibration in most EU member states does not allow for the use of harder coordination instruments at the EU level because flexibility is essential. However, the tools which are part of the social OMC need some improvements. There is a need for expanding common objectives and indicators into new fields as well as for setting national targets. Policies without such strict targets are not always respected enough by the national governments.

The apparent deficit of coordination at the EU level between first class policies from the renewed Lisbon agenda and social inclusion policies is translating into similar parallel developments on the national level. Social inclusion policies need to be given higher priority, which can be fostered by stricter monitoring and reporting. This is especially necessary in Bulgaria, where the welfare system is still very vulnerable to libertarian experiments and populism.

During the last three years and especially after Bulgaria's entry into the EU, the Bulgarian government has decisively deviated from most of the anti-poverty policies outlined in the JIM and has embarked on a neo-liberal model. It seems that the EU has little leverage to influence this process through the OMC. Some more rigorous reporting requirements will help to at least identify and analyse more clearly the non-fulfilled commitments, although this cannot be a substitute for a shared vision of the future of a social Europe.

# Health System

## Summary

**The health system in Bulgaria is shaped by the legacy of socialist development with the establishment of a state-governed Soviet-like model. In 2000 the Bulgarian health system underwent a profound reform, moving from the state-governed Soviet-like model to a public-private model.**

**The reform affected both the providers of medical services and the financial structure of the system. The role of the State was reduced but not fully removed from some strategic sectors and from medical establishments of national importance.**

**The general health care reform in Bulgaria is not completed yet and some major pitfalls can be observed with regard to the quality of services, limited access to the system and the effectiveness of the services provided.**

## State of Affairs in the Sector

Health care in Bulgaria is organised at three levels: primary, specialised outpatient (secondary), and hospital level. There is also a system of emergency care, a system of public health, a system of medical education, etc.

## Issue: The primary level

The primary level is based on the system of General Practitioners (GP), organised in group or individual practices and working under a contract with the National Health Insurance Fund (NHIF). There are about 5 000 private GPs in the country. One GP provides services for about 1 200 citizens, which is in accordance with the European standards of health care quality. The problem is that there is no particular regulation to restrict

the number of citizens per GP. So there are practices with 2 000 to 2 500 and more patients/citizens registered to one GP especially in remote rural areas, which are less attractive to work and live in. Such practices have a negative impact on the quality of services. The general practitioners serve as "gatekeepers" to the other two levels of the health care system. The gate-keeping function is based on the limited number of possible referrals of patients to specialised care, which the NHIF periodically allocates to each primary practice.

## **Issue: Specialised outpatient care**

Specialised outpatient care is also private. It operates on a contract basis with the NHIF/other private fund, or on a totally private basis. These are the so-called "free riders". Most of the specialised practices have a contract with the NHIF. There is a positive trend whereby some of the services provided by hospitals are being transferred to outpatient care – for example, one-day surgery, some forms of eye surgery, and full medical tests. Thus the number of hospitalisations and the length of stay in hospitals is decreasing, which improves the management of available resources. The problem is that most of these modern technologies are concentrated in just several big cities and that access to them is often limited. There is also a risk of duplication of some of the services or medical tests whose costs are covered by the NHIF.

## **Issue: Hospital care**

The total number of hospitals in Bulgaria is 292, which is disproportionate to the available resources in the system. The intentions of various governments to reduce this number have so far been ineffective. Hospitals are divided also according to their functions, equipment, territorial distribution and area of service. Most of the small municipal hospitals, although claimed to be necessary for acute treatment, in fact do not treat serious cases, the latter being referred to the big regional hospital in the area. Due to this common practice of avoiding complicated cases, small hospitals paradoxically incur less or no debts compared with the big regional or university hospitals. In the last five or six years all the big hospitals have had debts, periodically cleared by the Ministry of Health. The mechanism of this inefficiency is related to the nature of financing by the NHIF through so-called clinical pathways or defined algorithms for care for a specific case or diagnosis. Although complicated cases in a small municipal hospital may have been subsequently referred to the regional one, the money for the case remains in the first hospital and the patient is admitted to the second hospital as an emergency case or by another clinical pathway.

The number of private hospitals in Bulgaria is increasing rapidly. In 2007 there were 71 private hospitals. In theory, this fact ought to contribute to the improvement of the quality of health care services through the establishment of a competitive environment for private and public facilities. However, this is not the case in practice. The medical services offered by a large number of providers are confronted with the limited financial resources of the NHIF. According to the existing regulation, the NHIF cannot refuse to conclude a contract with any provider who is officially registered. As a result, there is a persistent deficit in the system (see Health Care Map in Section D).

## Issue: Emergency care

Emergency care is governed and financed by the Ministry of Health. It is centralised and distributed over the country according to the territorial administrative structure. In fact, the system is divided into two parts – the first involves transportation to the hospital and the second is the emergency ward where patients are admitted. This situation creates two

types of problems related to financing and human resources. Because of the lack of strict delineation between emergency and planned treatment,<sup>1</sup> very often the state financing does not cover emergency cases that are hospitalised. It is only for those who receive some form of ambulatory treatment. The rest of the costs are covered by the NHIF, which is insufficient, especially for complicated cases. The second problem is related to the motivation of the medical teams working in ambulances. They have no incentives for professional development (as a compensation for their low salaries) because of the broken link between first aid and further treatment at the hospital.

One of the major problems is the contradiction between the universal package of services announced by the government and the insufficient financing of the system in general

## Issue: Quality of health services

In the last few years the quality of medical services has tended to deteriorate. There are many reasons for that, including the low wages in the sector and the lack of incentives for good performance, especially among nurses and other staff. As regards the recipients of medical services, there is also a lack of incentives to participate in the mutual financing of the system based on the principle of solidarity. About one million Bulgarian citizens are not insured, even though health insurance is obligatory by law. One of the major problems is the contradiction between the universal package of services announced by the government and the insufficient financing of the system in general – 4.3% of GDP and 6% of the total income premium for health insurance. This situation is conducive to corruption, limited access to health care, bad quality of service and distrust in institutions.

Corruption in the health system is a serious issue. According to some surveys (Open Society Institute Report on Informal Payments in Health Care in Bulgaria, 2008), the informal payments in the system do not exceed BGN 75 million (about €40 million). The adopted criterion according to which these payments are considered illegal is lack of documents and it reflects only doctor-patient transactions. This figure seems surprisingly

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<sup>1</sup> "Emergency treatment" applies to cases in which there is an immediate threat to the life of a patient; once the immediate threat to a patient's life is removed, the patient qualifies for "planned treatment".

low, considering the widespread perception of the general public and the media about rampant corruption among medical professionals. Much larger sums of money are paid out of pocket in the form of co-payment for drugs, consumables, medical devices etc. – estimated at a total of more than BGN 900 million (about €400 million). As the decision on that is taken at the central level, this indirectly suggests that the corruption issue concerns foremost the higher level of the health care system.

The accreditation process of health care facilities in Bulgaria is formal and seriously deviates from its original purpose, i.e. to help medical facilities to improve their performance and quality of care. The accreditation ranking has no consequences for the future financing of the facility or other aspects of its activity.

One instrument for governance and good quality of services is the introduction of standards for care in different specialties. Standards for care have been adopted for most of the clinical disciplines and partly for the payment of hospital care through clinical pathways. In compliance with the Health Care Establishments Act, the Bulgarian government plans the number and the activities of inpatient and outpatient services, emergency centres, and social care homes, as well as of physicians and dentists on a territorial basis. The instrument for the application of this regulation is the National Health Map (NHM). This instrument could prevent a number of negative aspects concomitant with the introduction of market elements in health care – large number of providers, concentration of services in the big cities, service-induced demand, “cream skimming” phenomena, etc. Unfortunately, the authorities have not used this important tool for regulation of the health care market properly so far. Although the new NHM had to be updated two years ago, this has not been done to date.

### **Issue: Reform of the health sector**

The political changes in Bulgaria during the last decade of the twentieth century gave an opportunity for profound changes in the overall health care sector. The reforms carried out aimed to improve the quality of services by introducing market elements into the existing state-budgeted and state-administrated system of health care. The establishment of an independent public financial institution in health care, such as the National Health Insurance Fund, the privatisation of outpatient care, and the so-called “corporatisation” of hospital care were expected to lead to an improvement in many of the health, economic and social indicators. Most of these good intentions, however, remain on paper. The reason for this is lack of sustainability regarding the accepted direction of the reform, as well as the constant experiments and partial changes that have taken place since the launch of major reforms in 2000. The level of satisfaction with health care among the public as well as among medical professionals themselves is very low.

The general health care reform in Bulgaria needs to be completed in terms of:

- finalisation of the privatisation process;
- de-monopolisation of the NHIF;
- more active introduction of complementary private/public funds;
- definition of the basic package of services and its matching to the available financial resources;
- improvement of the management of the system on all levels;
- creation of incentives for medical personnel.

A new national health strategy has been recently adopted by parliament, in which some of these suggestions have been taken into consideration. However, there are still no indications that the new strategy will lead to any improvement in practice.

### **Issue: Financing**

The financing of health care in Bulgaria is based on the compulsory insurance model with a large range of solidarity. The Bulgarian state has an important role in the financing of some strategic areas, such as emergency care, blood transfusion, and inpatient psychiatric. The state budget also contributes to the insurance model for some categories of citizens whose health insurance is covered by the state or municipal budget. There are private funds for additional (optional) services as well as services from the defined basic package by the state and the National Health Insurance Fund. Until 2009, the premium for services provided under public insurance in Bulgaria was 6% of the total individual income. This is the lowest premium compared with all other countries in the EU.

Initially, the relevant law adopted in 1998 provided for a 70:30 sharing of the 6% health insurance premium between the employer and the employee. In 2008 the ratio of the premium was changed to 60:40 and the tendency is for this ratio to eventually reach 50:50. From the point of view of the liberal aspect of the philosophy of the reform, it is supposed that personal engagement in the financing of the system will be encouraged. The hidden risk here is related to the low level of solidarity and motivation for self-participation in the system. In Bulgaria most employers prefer to insure employees on the basis of the minimum wage. On the other hand, if employers have to pay the larger share, it is expected that they will pay more attention to preventive measures like ensuring healthy conditions at the workplace, health promotion activities, etc. That is why it is difficult to judge whether this tendency is good or bad in the context of the future intentions of the government to increase the premium up to 8% and to introduce private funds into the system in order to reduce the monopoly of the NHIF. For the time being, more than one million citizens in Bulgaria are not insured or are covered by the state or municipal budget. If the pressure for self-insurance increases without improvement of the quality of medical services, there is a risk that the whole system may break down.

Officially, there is no co-payment in Bulgaria in the sense of cost-sharing by the patients for medical services. Bulgarian patients have to pay part of or the full price of drugs, consumables, etc. that are not covered by the insurance scheme. The only legal out-of-pocket payment directly to the doctor, regulated by law, is a consumer fee of 1% of the minimum wage for each visit to an outpatient care facility and 2% for inpatient care but for not more than 20 days after admission. A number of social groups (including persons with some level of disability because of mental disorder), are exempt from this obligation. Because of the discrepancy between the universal package<sup>2</sup> of services and the limited resources of the NHIF, in practice co-payment is unavoidable for a number of services, although this is not officially announced. This situation creates tensions in the system between providers and consumers, and undermines trust in the system and the level of solidarity. Recently, the group of patients exempted from payment of a consumer fee was extended due to social reasons. Thus the idea that the consumer fee as a preventive tool against unnecessary use of health care must be symbolic and should not contribute to the income of the provider has been undermined.

### **Issue: Hospital privatisation**

Since 2000 all hospitals are registered as commercial entities under the Commercial Law procedure. Twenty-eight regional hospitals are joint-stock companies with 51% state participation. Other hospitals (national centres), are 100% owned by the state (the Ministry of Health). This enables the government to direct the privatisation process in a better and safer way. Although the future privatisation of hospitals is being debated in parliament, the ruling parties have not reached agreement on the issue so far.

### **Issue: Private health insurance funds**

In Bulgaria there are 20 private health insurance funds, but their impact on health insurance in the country is about one percent.<sup>3</sup> Most of the funds work as simple insurance companies based on reimbursement of incidental expenditures without defining and announcing a package of services or some insurance scheme. For the time being, the role of these funds remains insignificant because of the specific provisions in the law: private funds may provide the same package of services as the national fund, but those who decide to insure themselves in private funds are not exempted from the obligation to pay premiums to the National Health Insurance Fund. This duplication does not create a basis for competition between funds; on the contrary, it prevents citizens from opting for private funds because of the double payment for the same package. According to the last governmental

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<sup>2</sup> The universal package of services covers almost all health care problems.

<sup>3</sup> For 2007 the aggregate budget of all private insurance funds was BGN 25 million, as against BGN 1.9 billion in public expenditures on health.

decisions, as of 2009 the total premium for health insurance will be increased to 8% of the total personal income. It was initially expected that the government would share the additional 2% of the premium between private health insurance funds and that citizens would be obliged to choose one of them. This implied strict definition of the package to be covered by the NHIF and of the package to be covered by private funds, without overlapping of the two packages. This system was expected to end the present dubious situation described above and to diminish the discrepancy between the number of services defined in a package and the financial resources collected for that.

However, this decision has been postponed and as of the time of this study (February 2009), the additional 2% are to go into the general reserves of the NHIF.

### **Issue: Human resources**

The number of doctors has been relatively stable in the last couple of years (2005-2007), at 36.5/10 000. Compared with other European countries, this is an average number of physicians. There is a stable tendency towards a decrease in the number of nurses, pharmacists and laboratory staff. In 2006, the number of nurses and midwives was 45.7/10 000 – one of the lowest figures in Europe. If in 1990 the proportion between high medical personnel (doctors) and other medical specialists (nurses, laboratory staff etc.) was almost 1:3, now it is less than 1:2. The lack of incentives for middle medical staff is one of the main reasons for this tendency. The reduced number of middle personnel (mainly nurses and midwives) is related to the deterioration in the quality of services, such as risk of complications because of poor medical care after acute treatment.

### **Conclusion**

There are only very few direct EU mechanisms that could help solve the problems in the health care system in Bulgaria. With regard to the provision of medical services (i.e. curative medicine) and in terms of financing, there are no directives and regulations that could be applied to the variety of national systems of health care in the member states. Besides the existing regulations for public health services – sanitary control, food and safety, safety at the workplace, infectious diseases control, trans-border cooperation, etc. – EU leverage could be effective in the realm of patients' rights, care for vulnerable groups, mental health, anti-stigma legislation. Through observance and protection of patients' rights some good effects could be achieved in the field of doctor/patient relations, quality of medical services and fraud avoidance.

Indirect European leverage could have considerable effect on malpractices in the field of care for disabled persons, children with special educational needs, mental health institutions – in short, all aspects of care

and treatment of vulnerable groups. The governmental obligations under the respective international treaties and conventions could be monitored to ensure effective implementation, and conclusions and recommendations could become part of the monitoring reports for the country. So far concrete EU recommendations have been adopted by the decision-makers in Bulgaria in the form of policy documents and general legal provisions, but it is the implementation of the concrete steps that is extremely problematic. The gap between formal policy papers and actual practice undermines the basic principles of the reform in the sector.

# Educational System

## Summary

When Bulgaria joined the EU, the country was already in the middle of rather intensive educational reforms. These reforms were inspired, technically supported and often funded by international donors other than the EU. Reforms included the introduction of delegated school budgets and per-student funding formulas, and the creation of a system for external assessment of student performance and outcomes based on tests and a matriculation examination at the end of secondary education.

In the field of higher education and vocational education and training, Bulgaria participates in the so-called "processes". These are voluntary coordination mechanisms, which start by signing a common declaration at ministerial level. Both the Bologna process in higher education and the Copenhagen process in vocational education have a positive impact and Bulgaria should continue to participate in them actively.

## State of Reform of the Education Sector (all levels of education from primary to higher)

Bulgaria is above the EU average only in terms of the 22-year-olds who have completed upper secondary education according to the joint EU reports on the implementation of the EU Education and Training 2010 programme. On the other four monitored indicators (number of maths, science and technology graduates, lifelong learning participation, early school leavers and results for low achievers in reading), which correspond to the targets set in the Lisbon Strategy, the country is lagging behind and progress is slower than the average rate of progress for the EU. Bulgaria and Romania performed particularly badly on the OECD indicator of reading proficiency among 15-year-olds. Both countries had a low performance rate of around 40% – the lowest score in the EU.

Upon joining the EU coordination mechanisms in

school education, Bulgaria was already in the middle of rather intensive reforms in the field of education, which were speeded up especially in the last years before EU accession. These reforms are still in progress. The accumulated change in the system would be reflected by the new law regulating school education that will change the National Education Act. The roots of these reforms lie mainly in influences which can be traced to

international donors, especially the large-scale Education Modernisation Project funded by a World Bank loan. Although the project failed in the late nineties and the loan was discontinued, the inspiration and fuel for key reforms in education came from documents developed jointly by the bank and the government to justify the project. This includes the reform in the financing of school education (delegated budgets being an exception), the pilot phase of which was financially and technically supported by the Phare programme, the key issues of decentralisation and governance, teacher career and remuneration, and external evaluation. All these issues were primarily inspired and supported by the World Bank and non-governmental organisations (analysts and think-tanks of the Washington consensus).

As in many other policy areas, the EU influence comes after some basic tenets of the education reform have been established. Currently the EU can influence to some extent the next stages of the Bulgarian reform, for the purpose of which the development of the OMC in education should be intensified and the accent should be put on the adequate funding of education. This can be done by setting some common standards of investment in human resources as already addressed within the education OMC.

The EU can have greater leverage in Bulgaria through more extensive use and stricter reporting on common targets and indicators. In Bulgaria targets defined at the EU level are barely mentioned in key strategic documents for the development of school education, such as the National Programme for the development of school and pre-school education. They are considered only when some special reporting mechanism is in place (e.g. special report prepared by the Ministry of Education on progress in the implementation of the Education and Training 2010 work programme). This indicates that such targets have not yet become part of the indigenous policy process. It will take time before they start to be consciously pursued by the government and valued by citizens. This is the case of the PISA scores, some of which are also used as a common indicator by the EU (low-achieving 15-year-olds in reading). PISA results trigger intensive policy debates in Germany and can even influence the position of the Minister of Education. In Bulgaria they go almost unnoticed. This difference shows the government's and society's attitude towards education and indicates to what extent education is a priority on the government and public agendas.

In the field of higher education Bulgaria is moving towards more private funding of the system and is preparing the introduction of a student loan system. The EU has little formal influence on this process although the latter has been coordinated with the EU Commission. The Bulgarian Ministry of Education needs technical support in reviewing practices in other countries and in planning the financial aspects and timing of the reform. Bulgaria has also made progress in the introduction of a quality assurance system in higher education by creating a National Accreditation Agency that is in charge of approving (licensing) educational establishments, faculties and university curricula based on a set of formal criteria. This however

does not amount to having fully developed quality assurance systems at universities. To speed up this process, the Ministry of Education wants to support the development of a university rating system.

The only direct tool for EU influence on the Bulgarian higher education system is the Bologna process, to which Bulgaria has been party from the very beginning. This "process" is a specific form of voluntary cooperation, which is also used in the field of vocational education. It "invites" each country to participate and offers inclusion in a common space. Staying out of the common space would usually mean isolation and lack of opportunities, e.g. lack of opportunities for students and teachers to travel, work and study in educational establishments in other countries and to gain intercultural experience. The Bologna process is expected to create a so-called European Higher Education Area through harmonisation of academic degrees and quality assurance standards in higher education. Bulgaria should continue its active participation in the Bologna process, for this will translate into increased mobility of those in education and employment. A similar process exists in the field of vocational education – the Copenhagen process, in which Bulgaria is also involved.

The only direct tool for EU influence on the Bulgarian higher education system is the Bologna process, to which Bulgaria has been party from the very beginning

There is also a clear trend towards gradual integration of all education policies within a common framework at the EU level. The life-cycle approach to learning and skill formation has the potential to streamline all education strategies around the key objective of human resource development. Bulgaria still has a lot to accomplish in order to put its education policies on this strategic track. Public investment in mobility (not emigration but circulation) is the best tool that can be used to fill the gaps. The horizontal EU programmes alone are not enough, and more support is necessary from national sources to promote mobility. This includes direct support for travelling as well as investment in the long-term pillars of mobility – language training and transferable qualifications and skills.

### **Issue: External evaluation, inspection and quality of education**

The reform of inspection is still forthcoming in Bulgaria, though it is not as hotly discussed as external evaluation. Matriculation examinations (*matura*), which are the main component of external evaluation, were introduced for the first time at the end of the 2006/2007 school year. The results from the first matriculation exams were rather high because the tests were deliberately designed to be easy for political reasons. For years, there had been strong opposition against the introduction of matriculation examinations, therefore it was important not to have too many failures

or too low scores in the first round. For some years experimental tests at the end of Grades 4, 5 and 7 have also been conducted. This process has not been influenced by the EU in any perceivable way. It has been influenced by the World Bank and partly by the OECD PISA international comparative study of school education, in which Bulgaria participates. The EU can influence the process through the introduction of quality assurance standards used in EU member states through the peer review process and with funding from horizontal EU programmes for the promotion of exchange and mobility in education (the quality assurance system promoted by the European Foundation for Quality Management seems to be the most widespread).

### **Issue: Teacher training and career**

Bulgaria has started to develop a new system of teacher training and career path, though essential components are still missing, including a system of differentiated payment for good teaching performance. There has not been any direct EU influence on teacher training and career. It is the trade unions that impact decision-making in this field by setting to some extent the policy agenda and putting forward requests for increase in teachers' salaries and career opportunities. As this is typical of the trade union movement on the EU level, it can be considered part of EU leverage. The EU can also influence the process of teacher training and career through the instruments of EU Structural Funds and especially the EU Social Fund (the Human Resource Operational Programme).

### **Issue: Governance and school management**

The reform of the governance system has already started in Bulgaria but in a rather chaotic way. For example, financial decentralisation has led to the delegation of school budgets but the instruments available to municipalities to manage the process have remained very limited. Mayors are not yet able to choose and appoint the school directors/principals; this is done by the Minister of Education through the regional education inspectorates. The EU can influence this process through the mechanism of peer reviews, part of the OMC. The practices of education governance in other EU countries could be extremely useful for Bulgarian education administrators and experts at the Ministry of Education and within municipalities and NGOs.

### **Issue: Financing of education**

Bulgaria is in the last stage of a long reform of the system of financing secondary education. The reform started in the mid-nineties with the first pilot experiments in delegated budgets and it has developed independently of EU influence. The only exception is the initial stage of delegated school budgets, which was funded by the Phare programme and in which experts

from different EU countries were involved. Effective direct EU leverage in this field is less possible, because it is part of the financial and budgetary matters which are by default left within the remit of individual member states. However, the EU can introduce common quality standards, the fulfilment of which will require enough investment and thus regulate education financing in an indirect way.

The main issue of education equity in Bulgaria is the integration of students from ethnic minorities into school education

### **Issue: Equitable access to education**

The main issue of education equity in Bulgaria is the integration of students from ethnic minorities into school education. The EU has not been the main player in this endeavour until now, but it can acquire a more important role within the framework of the social OMC and the OMC in the field of employment. Basic literacy and access to education in particular are issues within the social OMC. Skill creation, skill forecasts and matching between skills acquired in formal education and those necessary for a successful life are common issues for education and employment policies. This is an indirect instrument for influencing education policy decisions.

### **Issue: Student performance and outcomes**

The topic of student performance is closely related to the topic of external evaluation as a way to measure student performance. In Bulgaria there is an ongoing public debate about the need to reform internal evaluation (the standards by which teachers assess student performance on a day-to-day basis and at the end of each term and each school year). There is widespread consensus that the way teachers assess the performance of students differs substantially from school to school, therefore scores in students' certificates and diplomas are not a reliable indicator of performance. Now this assumption can be checked against the results from external evaluation and especially the *matura*. However, there is no direct instrument at the EU level which can help this endeavour.

In the EU there is no common framework for assessing student performance. However, after the Lisbon Strategy the EU has started to use as a common indicator the results from some international tests like the OECD PISA literacy scores for 15-year-olds. In Bulgaria this soft approach does not seem to be producing much impact. Thus the OECD student test scores provoked less debate than in other EU member states, apparently because they were not part of any mandatory monitoring process. In order to influence education policies in Bulgaria, the EU has to move faster to the next stages in the development of a common system of indicators. More detailed, specific targets for the member states need to be defined

and a more rigorous reporting mechanism put into place. Bulgaria has started to report formally on the achievement of key targets but EU-level strategies have not become part of an indigenous policy-making process yet. Increasing unification and transferability of qualifications and skills is a participatory EU-wide process, which can help Bulgaria successfully update its system for assessing student performance both internally and externally.

## **Conclusion**

The EU can contribute to the improvement of Bulgarian school education by developing further the Open Method of Coordination (OMC) which is emerging in this field. The basic lines of refining the method will involve introduction of more detailed common indicators and benchmarks (standards) and definition of country-specific targets. Monitoring and reporting can also be made more rigorous and demanding, as is the case in more developed OMCs.

EU Structural Funds and especially the Social Fund are important tools for EU impact on Bulgarian education in areas, such as teacher training and qualification and school governance. They work through the methods of direct investment in human resource development, transfer of know-how and practices. This is the main mechanism of building a common education policy in the fields where the EU is not directly involved either by regulative instruments or even by setting optional standards.

Bulgaria should continue its active participation in the Bologna process, for this will translate into increased mobility of those in education and employment. Bulgaria should invest more in the mobility of students and teachers. Public investment in mobility (not emigration but circulation) is the best tool that can be used to fill the gaps. The horizontal EU programmes are not enough if Bulgaria wants to have competitive human resources in the next decades.

# J Justice and Home Affairs

## Summary

After Bulgaria's EU accession, the reform drive in the country slowed down and deterioration in the prospects for effective rule of law can be observed. Due to the increased budget surplus and EU funds available for direct distribution, high-level corruption and organised crime are even more significant problems than before 2007.

The government lacks clear vision as to how to continue the reform and there is hardly any manifested political will in this direction.

Even without suffering sanctions, Bulgaria is in a state of isolation from the mainstream development of the EU as an area of freedom, security and justice. The level of trust in law enforcement services in Bulgaria is much lower than in the other country members.

The case of Bulgaria should be used to push ahead closer cooperation on EU level in justice and home affairs as well as to strengthen the exchange of information mechanisms in crime investigations and joint operations against criminal networks.

## Issue: Internal security situation – organised crime and high-level corruption

High-level corruption and organised crime are a growing threat to the rule of law and fundamental rights in Bulgaria. Since the country's EU accession, the situation has seriously changed due to the increased amounts of funds distributed through the government (a budget surplus of approximately BGN 4 billion for 2008)<sup>4</sup> and the slowdown of the reforms drive. Several scandalous cases of conflict of interest involving top public administrators are under investigation. Flagrant signs of political corruption were manifested during the last two elections, including direct buying of votes. Fraud and embezzlement of public funds remain a systemic issue. According to a report by OLAF released in April 2008, Bulgarian companies misused EU agricultural aid worth €32 million through falsified contract bids and selling of already used agricultural equipment. A top government official resigned

<sup>4</sup> As of the end of May the surplus was BGN 3.3 billion. Final numbers will be available after the end of the year.

The European Commission has set up a Cooperation and Verification Mechanism (CVM) to periodically assess the government's efforts to curb corruption and organised crime

and is under investigation for awarding contracts for transport infrastructure to a company owned by his brother. One of the deputy directors of the National Service for Combating Organised Crime was caught trading inside information to suspected criminals. In April 2008 the Minister of Interior resigned over accusations for close ties with suspected criminals.

Transparency International's 2008 Corruption Perceptions Index ranks

Bulgaria 72nd – the most corrupt country among EU members. The other country from the last wave of the fifth EU enlargement, Romania, is ranked 70th and marks a modest improvement in its score.

Bulgaria has no internal mechanism for monitoring and assessing the threat from organised crime (OC). Even though the level of OC has stabilised around levels from the pre-accession period and traditional OC activities (drugs, weapons, people trafficking) are not on the rise, embezzlement of public funds, including of EU funds, has increased sharply.

The European Commission (EC) was quite aware of the potential reform backlash and, parallel to Bulgaria's EU accession, it set up a Cooperation and Verification Mechanism (CVM) to periodically assess the government's efforts to curb corruption and organised crime.

The European Commission has already produced three reports under the CVM with pretty much one and the same finding: Bulgaria has not produced convincing results in fighting high-level corruption and organised crime. In July 2008 the EC suspended about €500 million in subsidies for Bulgaria and withdrew the accreditation status of national agencies for EU funds management. However, embezzlement of EU funds represents only a fraction of the problem of fraud and embezzlement of public funds in Bulgaria. There is no transparency in the distribution of funds and various ways to overturn competitive procedures are widely used; there are no effective mechanisms for identifying conflicts of interest and preventing corruption. There is no working mechanism for the protection of whistleblowers in either the public or the private sector, despite recent legislative amendments in this respect.

Several major criminal cases involving organised crime and corruption are either still pending in courts or under investigation. The reasons for this delay come mostly from the highly ineffective strategies of the prosecution authorities for which, despite all the rhetoric, OC and high-level corruption are not among their priorities. Indictments for major drug trafficking, trafficking in human beings, white-collar crime and money laundering represent a statistically insignificant number from all criminal cases brought to court. Courts are overloaded, but not with cases of major significance.

## **Issue: Ordinary crime**

Overall ordinary crime is declining, according to official statistics. An Interior Ministry report released mid-2007 for the 2005-2007 period declares that registered crime is being reduced annually by two percent. Even compared to registered crime in other EU members states (the report quotes Germany, Austria and Spain), the levels of registered crime in Bulgaria are lower. This is claimed especially with regard to premeditated murders (down by 3.7% as compared to 2003-2005), robberies (down by almost 30%), car thefts (down by 32%). The report quotes a very high crime solvency rate – an average of 55%. No road robbery was registered in the two-year period (2005-2007). The official crime statistics however are hardly reliable and they are part of the problem of transparency and accountability of the Ministry of Interior. They probably reflect a true trend towards decline in ordinary crime but this is due to factors that are not related to improved effectiveness of law enforcement and justice. The factors for the decrease in ordinary crime are either demographic (reduced population in specific risk age and sex groups), or related to emigration and the rise of property insurances.

## **Issue: Human rights**

The annual reports of the Bulgarian Helsinki Committee reveal persistent failure to investigate and punish police abuse of power; persistent levels of police abuse during detention and many violations of the right to a fair trial. With regard to high-level corruption and organised crime, on the one hand there is limited access to public information about public procurement contracts and there are very severe sanctions for journalists for libel – hence media investigations and reporting of corruption cases is artificially limited. On the other hand, organised crime and high-level corruption already represent *per se* a threat to fundamental rights. During the last local elections there was an increased number of reports of corruption of the right to vote and the use of threats and extortion in order to motivate voters to choose a particular candidate. Such practices are seriously damaging political freedom in the country.

## **Issue: General JHA sector reform**

During the last stage of the EU accession process, the establishment of an independent commission for confiscation of criminal proceeds was conceived as the key element of the strategy to fight organised crime in Bulgaria. Nowadays the commission is fully operational and staffed, and has a sufficient budget. Yet it has failed to produce any significant result to date.

In the first year of Bulgaria's EU accession, an internal political consensus emerged around the need for balancing the Ministry of Interior's role in national security and sensitive investigations by establishing an

independent professional body. The decision to establish a State Agency for National Security (SANS) was taken at the end of 2007. One of the many prerogatives of the agency is to investigate organised crime. The SANS was created by regrouping parts of the Ministry of Interior (the National Security Service and the National Service for Combating Organised Crime), the Ministry of Finance (the Financial Intelligence Agency) and the military counter-intelligence service. The SANS became operational in early 2008 and there is already some evidence that it can effectively contribute to successful indictments. However, it is difficult to judge on the quality of its investigations as they are still pending.

The two major legislative initiatives to increase the accountability of the judiciary have failed to produce results. Constitutional amendments have been adopted envisaging the submission to parliament of annual reports by the chief judges at the Supreme Court of Cassation, the Supreme Administrative Court and by the Prosecutor General. The first hearings took place in 2008, with very little interest on the part of parliament and no further policy relevance of the reporting procedure. Also, an Inspectorate was established with the Supreme Judicial Council. It was wrongly perceived as a body to monitor the integrity of the judiciary and follow up on complaints against members of the judiciary. It only has constitutionally granted powers to investigate delays in pending cases and has not produced any serious findings to date. The adoption of a new Code of Criminal Procedure has not improved the speed or quality of preliminary criminal proceedings.

The government never had a clear vision for reform of law enforcement (police and prosecution). The new Ministry of Interior Act still has no subsequent regulation needed for its practical implementation. It provides for civilianisation, clearer paths for career development at the Ministry of Interior and open competitive procedures for the appointment of police officers. Although those were perceived to be major anti-corruption instruments, they still have not produced the expected results. Civilianisation has been combined with even further centralisation of control at the Ministry of Interior and has further decreased the capacity of middle-rank staff to take independent decisions. The situation with regard to human resources management has got worse because of the systematic inefficient use of funds at the Ministry. Even though the Ministry of Interior has a significant annual budget, the highest per capita in the EU, the average salary of Bulgarian police officers is about €300 per month. Interior Ministry personnel are de-motivated and survive on loans. There are lots of vacancies. Furthermore, due to internal migration, Sofia and the big cities currently account for more than half of the country's population. At the same time, the distribution of police forces is probably the same as during the eighties. Hence, there is a severe workload for police officers in big cities and overstaffing of police in medium and small towns – and this serves as an additional factor for ineffectiveness and corruption. Transparency and effectiveness are also low in the case of the prosecution authorities. Information systems (case registration and management) for

the police are still lacking and those for the prosecution authorities and courts are not integrated.

### **Issue: External border management and Schengen agreement implementation**

On 25 January 2008 Bulgaria and Romania signed a joint declaration for accession to the Schengen agreement in 2011. The Slovenian Presidency of the EU announced that the assessment for meeting the criteria will begin in 2008. According to the OSI's report on the state of preparedness (assessing it as of September 2007), the Bulgarian Ministry of Interior is meeting the timetable for adopting regulations and administrative measures, but this alone will not guarantee membership. The establishment of the SANS actually impeded the process, since additional steps had to be taken to incorporate the new service into the infrastructure of bodies with responsibilities for implementing the Schengen *acquis*. A draft EU Commission report on the CVM mid-2008 announced that the Commission may decide not to recommend Bulgaria's accession to Schengen due to failure to produce results in the fight against organised crime and high-level corruption.

### **Issue: Cooperation on EU level (justice, police)**

Bulgaria has been a member of EUROPOL since August 2007, but has been cooperating since 2003. Twenty-five liaison officers are accredited to Sofia from EU member states, Norway, the USA, Russia, Ukraine and Israel. In the 2005-2007 period the Ministry of Interior was rather actively involved in joint operations – it reported 59 police operations in cooperation with foreign services in trafficking in human beings, 50 operations against drug trafficking and 97 for money laundering, counterfeit and others. These numbers attest to active cooperation between Bulgarian and other EU member states' services prior and immediately after the country's accession. The main impulse for the pending criminal indictments of top government officials came through such joint operations and this leads to the conclusion that strategically Bulgaria will be better equipped to fight OC as a member of the EU and through concerted actions with police and prosecution authorities from other member countries. OC represents a growing threat not only to Bulgaria, but for the institutions of the EU and for all member countries. Bulgaria has a strategic location on the routes of many channels for smuggling illegal goods and services into the EU. In neighbouring countries the administration, law enforcement and judiciary are even less competent and less supplied with resources to adequately address OC. Bulgaria has recently engaged in some regional cooperation with Russia, Romania and Serbia, and thus the country can actually represent an asset rather than a liability for the overall infrastructure of EU internal security.

## Conclusion

The EU has little or no remedy at all to address issues like corruption at high levels of the administration, the judiciary and the political parties in its member states. The infrastructure of the fight against organised crime, such as police cooperation in criminal matters, EUROPOL and EUROJUST, is either still being developed or has not yet reached its full operational potential. The Lisbon Treaty provides for the possibility to reform this infrastructure by introducing the co-decision procedure and qualified majority voting for matters of police and judicial cooperation in criminal matters. Therefore its entry into force will be a major factor for providing the EU with active mechanisms to tackle organised crime on a larger scale and at the same time provide sufficient guarantees for respect of fundamental rights.

The case of Bulgaria should be used to push ahead for closer cooperation on EU level in justice and home affairs and gives an additional argument for strengthening mechanisms for exchange of information in crime investigations and joint operations against criminal networks. The reform backlash in Bulgaria should also caution EU institutions against taking rule of law in EU member countries for granted and provide them with prerogatives and instruments for detecting and preventing similar reform backlashes in other member countries.

# Migration

## Summary

Migration policy is under development on national and EU level.

After EU accession, in the context of growing immigration flows and workforce shortages, Bulgaria developed relevant policy documents to address those issues.

When solving labour market shortages, "labour migrant" quality is essential. In its attempt to attract immigrants of Bulgarian origin, Bulgaria faces potential risks of emphasising mainly on the ethnic background rather than on the needs of the labour market.

Successful integration of the attracted labour force into Bulgarian society is equally important and therefore requires special attention from decision-makers.

## Issue: Demographic trends

Currently the demographic trends in Bulgaria are as follows:

- Bulgaria is clearly developing more and more from a country of origin (after 1989) into a country of destination.
- The number of foreigners with long-term permits has been increasing in recent years.
- The emigration trend has been decreasing.
- There are growing workforce shortages in certain industries.

In 2007 Bulgaria became an external border of the EU, attractive for both transient and permanent settlement migrants. OECD data show an increase of immigrants mainly from Macedonia, Turkey and the United Kingdom after Bulgaria's accession to the EU.

In relation to the free movement of workers Bulgaria applies the *acquis communautaire* (Regulation 1612/68) and has fully opened its labour market for EU citizens, citizens of the European Economic Area (EEA) and Switzerland, who do not need work permits in order to work in Bulgaria. This has led to an increase in the number of foreigners with long-term permits after the country joined the EU. In the last three years, for instance, the number of long-term permits of UK citizens has grown by an annual 30-40%.<sup>5</sup> In 2007, a total of 5 000 EU residents worked in Bulgaria.<sup>6</sup>

<sup>5</sup> According to the Ministry of Labour and Social Policy.

<sup>6</sup> Interview with Lilyana Stankova, head of the Migration and Free Movement of Persons Department at the Ministry of Labour and Social Policy, <http://www.bnr.bg/print.htm?id={27348C39-005D-47DA-8A33-1DAED9DE1575}&lng=en>

Due to the negative demographic trend and the emigration waves after the liberalisation of visa requirements for Bulgarian citizens in 2001, Bulgaria now experiences growing workforce shortages in certain industries

Bulgarian citizens, after EU accession, have full access to the labour markets of only ten EU countries which have not imposed transitional periods. Contrary to the “big fear” of a migration wave after the enlargement, in 2007 only 4 600 Bulgarians were working on labour arrangements in EU member states.<sup>7</sup> Moreover, sociological research<sup>8</sup> shows that 80% of the Bulgarian citizens do not want to live outside the country. The migration flow from Bulgaria after 2007 consists

mainly of young Bulgarians, students and young professionals.

Due to the negative demographic trend and the emigration waves after the liberalisation of visa requirements for Bulgarian citizens in 2001, Bulgaria now experiences growing workforce shortages in certain industries. According to the country’s National Statistical Institute, 17.6% of all companies say they are short of workers. The shortages are mainly in the construction industry and tourism.

### **Issue: Regulated immigration**

Before joining the EU, Bulgaria lacked a consistent policy for migration management. A national strategy was needed to regulate and control the increasing flow of immigrants and to elaborate integration programmes for the migrants. In June 2008 the Bulgarian government adopted a National Migration and Integration Strategy for the Period 2008-2015 and a one-year action plan for 2008. The strategy aims at attracting citizens of Bulgarian origin<sup>9</sup> living abroad and ensuring their permanent settlement and integration, as well as at attracting immigrants from third countries to work in the areas where the Bulgarian labour market experiences shortages, while ensuring efficient regulation of the migration processes, combat of human trafficking and illegal migration. As part of the implementation of the strategy, on 19 September 2008 a National Council on Labour Migration was established. The council will decide on the annual quota for nationals of third countries.

The existing working group presided by the Minister of Foreign Affairs is planned to be transformed into a National Council for coordination on migration policy issues in Bulgaria.

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<sup>7</sup> Ibid.

<sup>8</sup> Sociological research of the Bulgarian Ministry of Social Affairs from October 2007.

<sup>9</sup> According to the strategy, foreign citizens of Bulgarian origin include foreigners without Bulgarian citizenship, and people with Bulgarian citizenship or dual citizenship living outside Bulgaria.

“Green card” and European “blue card” mechanisms will be introduced. The green card will advantage foreign nationals of Bulgarian origin over residents of third countries of non-Bulgarian origin and will serve as a prerequisite for granting Bulgarian residency. The European “blue card” will aim to attract highly skilled workers. In its action plan for 2008 Bulgaria has already envisaged responsible authorities for the introduction of this mechanism. Applying the community approach for circular migration<sup>10</sup> and mobility partnerships between the European Union and third countries, Bulgaria has already made efforts to conclude bilateral agreements with Moldova, Ukraine, Armenia and the Republic of Macedonia<sup>11</sup> in order to attract migrants to fill in the labour market shortages.

Since migration is a complex phenomenon, Bulgaria applies on paper an interdisciplinary approach by creating two councils in charge of labour migration and migration policy consisting of representatives of relevant ministries. However, a major concern at the national level remains the administrative capacity to deal with these issues – collection and analysis of statistical data, exchange of information and best practices with the administration of other EU member states, participation in the development of a common immigration and asylum policy on EU level. At present no information unit and no public statistical data on outflow and inflow migration are available.

### **Issue: Illegal immigration and asylum policy**

The number of refugees on the global level is growing every year (according to UNHCR, 14% in 2007). After EU accession, the number of people seeking asylum in Bulgaria has increased compared to 2005-2006.<sup>12</sup> Refugees and asylum seekers in Bulgaria experience problems mainly due to lack of access to community housing, health programmes, recognition of their education background, etc. A national programme for the integration of refugees for the 2008-2010 period has been adopted, seeking to solve the problems of refugees through introduction of measures for employment, language courses, housing, etc. According to FRONTEX,<sup>13</sup> illegal immigration into the EU through the Balkans is growing. The immigrants come mainly from Iraq, Iran, Pakistan and Central Asia and try to enter the EU through Turkey. There is an increase in the number of illegal immigrants across the

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<sup>10</sup> Circular migration is a form of migration that helps address labour needs in EU Member States and maximise the benefits of migration for countries of origin, for example by fostering skills transfers and alleviating the risks of brain drain. It is managed in a way allowing a degree of legal mobility back and forth between two countries. In MEMO/07/197 Brussels, 16 May 2007: Circular migration and mobility partnerships between the European Union and third countries.

<sup>11</sup> Bulgaria attracts nationals from those countries because some of them are of Bulgarian descent and could more easily adapt to living in Bulgaria.

<sup>12</sup> According to data of the State Agency for Refugees.

<sup>13</sup> Publication in *European Voice*.

sea borders of the Aegean and the borders between Turkey and Greece and Turkey and Bulgaria. According to data of the Border Police Department in Svilengrad, attempts at illegal immigration have increased since Bulgaria's EU accession. In 2006 the number of illegal immigrants detained upon attempting to enter the country was 97, compared to 767 by the end of 2007.<sup>14</sup> The strategic goal of the national strategy is to combat human trafficking and illegal migration. According to the strategy, Bulgaria will take a pro-active comprehensive policy towards the prevention of illegal immigration, repatriation of illegally resident third-country nationals and integration of legally residing third-country nationals.

## Conclusion

Bulgaria has to develop a balanced and flexible migration policy. Once the European blue card is introduced, Bulgaria will compete with all other European member states in the process of attracting highly skilled migrants. Since the average salary in Bulgaria is the lowest in the EU, in order to attract highly qualified third-country nationals Bulgaria has to guarantee not only their basic rights but also to offer them a series of social benefits. When solving labour market shortages "labour migrant" quality is essential. In its attempt to attract immigrants of Bulgarian origin, Bulgaria faces potential risks to emphasise mainly on the ethnic background than on the needs of the labour market. These could lead to a flow of low-skilled migrants who eventually could become jobless and harm the welfare system and labour market. Bulgaria has to apply consistent policy for the attraction of well educated third-country nationals according to the needs of the labour market. On the other hand, in the context of rising nationalism and populism Bulgaria has to make efforts towards effective integration of the newly attracted third-country migrants bearing in mind the attitudes of the population. This will help avoid segregation as the one towards the Roma community in Bulgaria. A survey by OSI-Sofia showed that the Bulgarians are more tolerant towards foreigners of Bulgarian origin (from Moldova, Ukraine) than other third-country nationals, which means that the Bulgarian government took into consideration the public attitude when preparing its national strategy. Successful integration should be based on the introduction of multicultural educational programmes, information campaigns raising public awareness, proactive role of the media, etc.

The Bulgarian national strategy fully complies with the trends on Community level towards the development of a European migration policy. Bulgaria supports also the European pact on immigration and asylum.<sup>15</sup> However, some concerns should be spelled out. Since the European migration pact is on the political agenda, Bulgaria has to develop capacity

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<sup>14</sup> Source: Project of the Economic Policy Institute on "The Implication of EU Membership on Immigration Trends and Immigrant Integration Policies for the Bulgarian Labour Market."

<sup>15</sup> [http://press.mvr.bg/news/news080707\\_03.htm](http://press.mvr.bg/news/news080707_03.htm)

on national level in order to actively participate in the formation of this Community policy while also respecting its national interest and labour market needs.

On European level efforts must be made towards the development of a European migration and asylum policy respectful of human rights. In order to ensure the implementation of the common principles and objectives of the migration policy, clear and measurable indicators for the EU and each Member State must be set. A balanced approach is needed towards the collection of personal data upon entry into and exit from the EU.

# R

## Research and Innovation

### Summary

**Bulgaria lags considerably behind the average EU performance according to EU innovation, science and technology indicators.**

**Throughout the pre-accession period all the country's resources were focused on complying with the membership criteria and harmonising with EU common policies, thus more or less neglecting those spheres where the conditionality principle did not apply (education, science and technology being an example). Bulgaria's overall economic growth is likely to outpace R&D recovery.**

**A national policy in the area should envisage adequate and sustainable funding, mechanisms for coordination and integration of policies in the field of science and research, labour market, tax policy, etc. The horizontal links and coordination mechanisms between the main institutions on central level should also be strengthened.**

### State of Affairs in the Sector

The Bulgarian National Innovation System is still at the initial stage of market development and displays significant imbalances if compared with the best European practices. Bulgaria is placed in the group of catching-up countries<sup>16</sup> for which it would take almost 30 years to close the gap with the moderate performers, almost 40 years for the latter to close the gap with the innovation followers, and about 25 years for the latter to close the gap with the innovation leaders. Bulgaria is lagging behind in almost all aspects of innovation performance if compared to other member states. For example, according to the latest European Innovation Scoreboard (EIS) 2007, public R&D expenditure is 0.38% of GDP, while the EU-27 average is 0.65%. Business R&D expenditure in Bulgaria is just 0.11%, while the EU-27 average is 1.17%. Bulgaria still does not have a national R&D

intensity goal and relies merely on projections for increase of the R&D budget base. Therefore clear political engagement and national commitment are needed in order to catch up.

<sup>16</sup> Classification according to innovation performance used in the European Innovation Scoreboard 2007.

The Bulgarian R&D sector is heavily dependent on direct finances provided by the state budget, therefore most of the funds for innovation derive from the public sector. The private sector and SMEs in particular are not eager to spend resources on innovation activities. Tax incentives for science, innovation and R&D are not envisaged as a measure in the main national strategic document on innovation, the National Innovation Strategy. The strategy does not envisage innovation in the service sector and environmental protection, and pays rather little attention to non-technology innovations as well as their inclusion in national statistics. Moreover, the existing measures suffer slow implementation because of insufficient resources.

The EIS comparison shows that the Bulgarian economy is competing successfully with the EU-27 only in terms of ICT expenditures (9.9% for Bulgaria and 6.4% for the EU-27). However, this competitive advantage does not speak much in itself alone and could be utilised only if it is integrated with other performance aspects. Bulgaria's overall performance demonstrates that the country will not be able to meet the current Lisbon goals, despite the numerous initiatives envisaged in its official documents and positions. There is still a strong discrepancy between national policy objectives and priorities, and policy instruments in place. The national strategy does not envisage mechanisms for coordination and integration of policies in the field of science and research, labour market, tax policy etc. In addition, the horizontal links and coordination mechanisms between the main institutions on the central level are weak. There are two independent from one another state structures that provide public funding for innovation. They are under different ministries – the National Council of Science and Research is under the Ministry of Education and Science, while the National Innovation Fund is under the Ministry of Economy and Energy. Thus, an integration approach is practically absent. Also, there is a lack of vertical coordination between central and local authorities in innovation and a delay in delivering regional innovation strategy initiatives.

### **Issue: Recovery of the national innovation system**

In the 1990s the EU member states began to increase their individual innovation performance, while in the same period Bulgaria's R&D intensity declined heavily as a result of the economic and political restructuring in the country. The business enterprise sector collapsed in terms of R&D performance. The decline came to a halt in 1998, as European integration provided a completely new perspective and played a significant role for the recovery of the National Innovation System. By 2006, the main public institutions fundamental to maintaining and enhancing the Bulgarian national innovation potential were created or restored. However, policy actions remain largely limited to formulating objectives and priorities. In addition, the absorption of contracted subsidies is very low. In the two and a half years since its establishment, the National Innovation Fund has

approved project proposals to the amount of BGN 93 million, but only BGN 10 million have been absorbed to date.

In 2004 roughly 6% (€6 million) of the total R&D expenditures in Bulgaria were financed from abroad, the main instrument being different EU programmes and in particular 6FP. European funding has a very high added value for Bulgarian research organisations. In reality EU research funding might actually be higher than the nationally provided support, excluding salaries and infrastructure support. The existing incentives however push much more towards international cooperation than towards intra- and inter-sectoral research cooperation, the latter being a national responsibility. In Bulgaria just 10.1% of all innovative enterprises cooperate with universities and research institutes. Cooperation with universities has proved valuable to less than 1% of all Bulgarian innovative companies, and cooperation with state or public research institutes to 0.18%. Bulgarian universities and research institutes need to remove all administrative barriers to public-private partnerships and to establish units that enable links with the business sector.

### **Issue: Use of structural funds for innovation**

It is assumed that the EU Structural and Cohesion Funds will help foster innovation, and the necessary formal linkages between policy priorities and the operational programmes for the 2007-2013 period are in place. But despite their availability, EU funds alone cannot be a remedy for the country's competitiveness. Absorption capacity is very low. In addition to the problems of mismanagement of EU funds, there is also a real danger that the bureaucratic manner of administering national resources may be transferred to the management of EU funds. Acute delays in contracting (the Operational Programme "Competitiveness" being an example), the lack of administrative and human resource capacity in the relevant executive agencies, as well as the lack of mechanisms to evaluate and measure the impact of projects create mistrust among actual and prospective beneficiaries of national and EU subsidies in the area of innovation.

### **Issue: Brain drain**

Bulgaria will experience significant changes related to the ageing of its population in the short term. According to Eurostat, Bulgaria is expected to be among the EU countries with the highest shares of elderly people by 2050 (33.5%). In this unfavourable demographic context Bulgaria reports lifelong learning participation rates of less than two percent. At the same time, the number of Bulgarian students who prefer to study abroad has significantly increased (3.5 times in comparison to 1998), with approximately 20 000 students leaving the country in the 2006-2007 period alone. The discrepancy between the education acquired in Bulgaria and the actual demand on the domestic labour market on the one hand, and the low

level of corporate social responsibility of the business sector on the other, is one of the reasons why it is difficult to retain qualified personnel.

## Conclusion

The existing innovation systems are primarily national and regional, not European, and the Bulgarian government has to clearly take the necessary measures to enable their development – tax incentives for science, innovation and R&D, mechanisms for coordination and integration of policies in the field of science and research, labour market, tax policy, etc.

On the EU level it is the Open Method of Coordination<sup>17</sup> (OMC) under which policies in education/training and research are governed. Under the OMC EU guidelines are translated into specific targets and policies on the national and regional level. Applying the OMC is “non-binding”. Thus, the EU puts political rather than legal pressure on Bulgaria, with the Commission’s role being limited to surveillance.

Bulgaria is by far not an isolated case in its struggle to improve performance towards the Lisbon Strategy goals. The Lisbon goals will not be achieved until 2010, but they successfully assist the process of strategic long-term planning, which might produce valuable side-effects in the economy and society. However, this does not exclude the question of whether policy intelligence tools adopted for advanced countries are entirely appropriate for less developed countries like the new member states. If, as a result of a focused discussion, they turn out to be inappropriate, then new, complementary indicators/policy tools should be foreseen. Bulgaria should develop a policy capacity to participate in such a discussion and to take full advantage of the OMC as a means of indirect EU leverage.

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<sup>17</sup> Initially the OMC was only applied to employment and economic policy. When the European Council set the 3% of GDP objective for R&D investment, the Commission suggested that the OMC should be applied for this objective as well. The Spring European Council of March 2003 thus agreed to apply the OMC for policies related to investment in research (and to human resources and mobility of researchers as well).

# Agriculture and Rural Development

## Summary

The unfavourable climate conditions in recent years have caused a decline in the GDP of the agrarian sector (agriculture and forestry). Labour productivity in rural areas is nearly twice lower than in urban areas. This productivity gap affects all sectors, especially the industrial sector, followed by the service sector and the agriculture sector.

However, the agrarian sector remains important for Bulgaria after accession because of the large number of agricultural holdings and the large number of people working in this sector, as well as because it has maintained its good foreign trade positions.

In order to boost competitiveness, it is necessary to amend the national legislation to facilitate land consolidation, ensure purposeful state support for the most vulnerable sectors (milk and meat sectors) and also direct EU funds support to small and medium farms.

## State of Affairs in the Sector

The greater part of the Bulgarian regions are rural and in an unfavourable situation because the rate of population decline in them is significantly higher than in urban areas, the age structure of the rural population is less favourable than that of the urban one and the share of rural areas in GDP is declining.

Although the agricultural share in the national GDP has continued to decline, the agricultural sector remains important for Bulgaria after accession because of the large number of agricultural holdings and the large number of people working in this sector, as well as because it has maintained its good foreign trade positions and there are favourable climate conditions for agricultural development in the country.

The sector is still not competitive enough because of the significant fragmentation of land ownership, existence

of different registers of farmers and farms (under direct payments, rural development support and national support schemes), low productivity, inadequate use of machinery and equipment. Other reasons for the low competitiveness of Bulgaria's agricultural sector are the lack of managerial skills and knowledge, difficult access to external financing, inadequate irrigation and drainage, underdeveloped network of agricultural extension

services and research units, as well as underdeveloped breeding and selection services. In order to solve these problems, it is necessary to amend the national legislation so as to facilitate land consolidation, to ensure purposeful state support for the most vulnerable sectors (the milk and meat sectors) and also to direct EU funds support towards small and medium-sized farms.

One of the main problems of Bulgarian agriculture concerns milk production. The overwhelming majority of Bulgaria's dairy farmers (99% of all such farmers) are very small (having from one to nine milk cows). It will be very difficult for these semi-subsistence farms to become economically viable. It is necessary to increase the number of milk cows, but the availability of production quotas for the milk sector vastly restricts opportunities in this respect.

In 2007 the prices of food products in Bulgaria increased continuously. According to provisional estimates of the National Statistical Institute (NSI), the price increase index for agricultural products is 134.8%. The increase in the value of inputs (intermediate consumption) used in agricultural production was 110.1%. The net value added in the sector should increase by 149.9% compared to 2006.

### **Issue: Socio-demographic trends in rural areas**

Bulgaria is divided into six planning regions (NUTS 2), 28 administrative regions (NUTS 3) and 264 municipalities (LAU 1). According to the OECD definition of rural areas, in Bulgaria there are 20 predominantly rural NUTS 3 regions, seven intermediate rural regions and only one predominantly urban region – the capital, Sofia. Thus, predominantly and intermediate rural regions cover 98.8% of the territory and account for 84.3% of the population of Bulgaria. The national definition of rural areas specifies rural areas as municipalities (LAU1) in which no settlement has a population of over 30 000. This definition has been used under SAPARD and will also be applied in the Rural Development Programme 2007-2013 for part of investments. According to this definition, 231 out of a total of 264 municipalities in Bulgaria are classified as rural. The rural areas encompass 81% of Bulgaria's territory and 42% of its population. In 2005 the population density in rural areas was half the national average (35.8 vs. 69.9 inhabitants per sq km, respectively).<sup>18</sup> Migration from rural to urban areas contributed to the decrease of the rural population. The age structure of the rural population is less favourable than that of the urban one due to the comparatively low share of working-age population.

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<sup>18</sup> The analysis below is based on the national definition of rural areas, unless specified otherwise. The OECD definition is used where no data are available by the national definition.

## **Issue: Economic significance of agriculture and rural areas**

As a result of the unfavourable climate conditions in recent years, the GDP of the agricultural sector (agriculture and forestry) has declined. The GDP of the sector at current prices has fluctuated in the past few years from BGN 3.3 to 3.5 billion. In 2005 the GDP declined by 9.5% compared to 2004. In 2006 the decline was limited to 1.9%.

In 2004 the predominately rural and intermediate regions generated 70.3% of the Bulgarian GDP and contributed to nearly 80% of employment in the country.<sup>19</sup> However, the share of rural areas in GDP declined in the 2000-2004 period. Labour productivity in rural areas is nearly twice lower than in urban areas. The productivity gap between urban and rural areas affects all sectors, especially the industrial sector, followed by the service sector and the agriculture sector.

In the 2000-2004 period the GDP of rural regions grew at a slower rate than the national average growth. The economy of the predominantly rural areas experienced lower growth rates, although since 2004 its growth has accelerated and the difference from the national average growth rate has decreased. The drivers of economic growth vary among the rural regions. In a small number of rural regions growth is based on the accumulation of specialised knowledge and skills of local companies. In the majority of rural regions, investment and employment growth is based on their low labour cost advantages.

## **Issue: Effectiveness of EU funds and subsidies**

Two EU pre-accession funding programmes (SAPARD and Phare) are relevant to Bulgarian agriculture and rural development:

### **• SAPARD Programme**

The analysis conducted during the Midterm Evaluation<sup>20</sup> and the Update of the Midterm Evaluation<sup>21</sup> of SAPARD indicated that some of the unfavourable factors and trends in agriculture have gradually been overcome as a result of SAPARD assistance. The programme has had a positive impact on the implementation of European standards and the *acquis communautaire*. It has contributed to the implementation of CAP objectives and to administrative capacity building. However, there are also serious problems as indicated in the OLAF (the EU antifraud office) report and in the EC report on Bulgaria's EU-funds management

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<sup>19</sup> The NSI does not publish data on GDP and employment at LAU1 level. Therefore, the OECD definition is used for the analysis of GDP and employment in rural areas.

<sup>20</sup> The MTE covered the 2001-2003 period and was conducted in June-December 2003.

<sup>21</sup> The Update of the MTE covered the 2004-2006 period and was conducted in June-December 2006.

(July 2008). These include payments for ineligible investments (second-hand equipment), suspicions of corruption, perfunctory checks and an insufficient control system. These problems have led to temporary suspension of EU funds under some SAPARD measures. One of the key results of the programme implementation is the improvement of resources of many crop production holdings. However, it should be noted that the beneficiaries under SAPARD were mainly large agricultural holdings or cooperatives specialised in crop production. Insufficient support was provided to the livestock breeding sectors, which faced the most serious problems concerning compliance with EU standards. A large proportion of the active companies in the food processing sectors eligible under the respective measure received support. In most of the cases these were relatively large companies. The supported investments in modernisation of the existing processing capacity (or for building new ones) have outstripped the investment support received by agricultural providers of raw materials for the processing industry. Under the measure for diversification of economic activities, the amount of the support provided was relatively limited. The number of applications under the measure for investments in forestry and afforestation of agricultural areas was rather small. The SAPARD programme also supported the fisheries sector in meeting European requirements in the field of sanitary, hygiene and safety conditions, but the programme was not sufficiently advertised and promoted among potential beneficiaries.

The weaknesses found in absorption of SAPARD funds involve mainly the following: faults and formal checks of application documents, insufficient post-checks after payment of EU financing, failure to comply with deadlines of fulfilment of payments set in approved and signed contracts. One of the main problems is the great extent of turnover of the Paying Agency staff dealing with the SAPARD programme.

#### ● **Phare Programme**

The Phare programme included the agriculture and fisheries sector among its priorities, but the support was directed mainly to institutional building, strengthening the administrative capacity and harmonisation of legislation. The Phare project aims were achieved and the funds under the programme have improved the capacity of Bulgarian institutions in a significant manner.

At this stage it is not possible to evaluate the effectiveness of the post-accession EU funds because the first direct payments (for the year 2007) were authorised in March-June 2008. The Bulgarian Rural Development Programme 2007-2013 was approved on 19 February 2008 and only payments for less favoured areas were transferred (in June 2008). The first significant payments under the Rural Development Programme will be made in 2009.

Another important shortcoming regarding agriculture subsidies (direct payments) is related to the adequate and proper definition of land cultivated

by agricultural producers. There is a tendency towards “over-declaring” the size of agricultural plots farmers really take care of and cultivate. The other part of the problem is connected with normative contradictions in the Integrated Administration and Control System (IACS).

IACS is the basic tool used for managing the system of payments to agricultural land owners and other mechanisms for subsidies under the Common Agricultural Policy implemented within the European Union. Implementation and application of IACS guarantees that transactions financed from the European Union budget for agriculture and rural development are performed in accordance with the binding provisions under national law and EU legislation. Improvement of IACS as a control system will ensure that resources from EU funds are transferred accordingly to Bulgarian agricultural producers. Overcoming the difficulties and irregularities in the functioning of the system will contribute to the elimination of part of the inconsistencies encountered so far.

A significant point to be considered is the use of EU funds for rural development. There was a certain delay in the opening of calls for the measures under the second pillar of the Common Agricultural Policy – Rural Development. Most of the potential beneficiaries under the Rural Development Programme were ready for application at the end of 2007. The start of calls in April 2008 resulted in accumulation of a considerable number of applications. The administrative capacity of the Paying Agency at the beginning (April-June 2008) was not sufficient to guarantee due approval and processing of the applications. As a result, in autumn 2008 another two measures of the Rural Development Programme were postponed for the end of 2008 and the beginning of 2009.

The capacity of the Paying Agency needs an increase in the number of staff employed and in training of employees, especially in the regional offices of the country. Better training will facilitate decentralisation, which will result in more effective and timely absorption of the available EU funds.

Farmers from Bulgaria and other new member states are placed in an unfavourable situation because they receive half or less of the direct support from EU funds provided to farmers from the old member states. This decreases their competitiveness.

### **Issue: Consolidation of Land**

Structural adjustment in Bulgarian agriculture after 1989 and the lack of government support resulted in different forms of land abandonment – ended or intermittent farming operations. Surveys show that the areas most affected by land abandonment are mountain regions, which suffered from the collapse in animal breeding; regions with other natural deprivations or poor quality of soil.

One of the most significant problems in the development of the Bulgarian agricultural sector is the legislation regarding land consolidation. The Bulgarian government and the Ministry of Agriculture are making efforts to

facilitate this process, but the measures undertaken are still lagging behind in establishing an adequate legislative framework for consolidation of agricultural plots. The process of land consolidation should be accelerated by creating adequate legal and normative conditions. This would be an efficient way to boost the Bulgarian agricultural sector.

In order to enforce and implement efficient measures and mechanisms for land consolidation, the competent authorities should be actively involved in dialogue with the stakeholders in the consolidation process – agricultural producers, branch organisations and other interested parties – so that the real problems of those directly facing and experiencing the problems of consolidation are communicated and discussed. This is the only way to pass legislative acts which are effective and truly facilitate the land consolidation process.

In Bulgaria there is significant fragmentation of land ownership as result of the process of land restitution. The fragmentation of land ownership is a significant barrier to long-term investments in agriculture, land improvements and efficient use of agricultural machinery, therefore there is a clear need for land consolidation actions.

### **Issue: Fisheries**

The fisheries sector has a specific role in Bulgarian agriculture and in the national economy. Although the Bulgarian fisheries sector, including processing of fish, has a relatively small contribution to employment on the national level (0.38% of the national workforce), it provides vital employment on the regional level. Fishing is an important activity for part of the population living in the Black Sea coastal regions and the regions along the Danube River, as well as in some inland areas with a high concentration of aquaculture activities. These areas are characterised by low population density, a significant level of employment in the fisheries sector and the decline of fishing. A proper market infrastructure is yet to be developed. There is a clear need for construction of wholesale fish markets and distribution networks for fishing and aquaculture products, as well as for setting up an auctions system and support for e-commerce.

### **Conclusion**

Bulgaria's EU membership has improved the administrative capacity in the agricultural sector, encouraged the inflow of foreign investment in the field, facilitated access of Bulgarian agricultural goods to the EU market, and improved land consolidation although to a limited extent. Further legislative amendments drafted in consultation with relevant stakeholders are needed to facilitate the process of land consolidation.

The availability of EU funds for agriculture has helped Bulgarian farmers to develop capacity in preparing projects and in producing in accordance with EU quality and safety requirements.

In order to increase the competitiveness of the agricultural sector, there is a need for improving the administrative capacity in terms both of human resources and procedures (the effectiveness of IACS).

Further reform of CAP should target support to small and medium-sized farms in Bulgaria. Further efforts are needed on the national level to comply with environment and safety requirements.

# Regional Development

## Summary

**Bulgarian regions are among the poorest in the European Union. This situation existed before EU membership and even before the start of the transition. The North West planning region of Bulgaria is also forecasted to be the fastest depopulating region in the whole EU. Therefore Bulgarian regions are eligible for the highest level of EU support. However, this fact alone is not enough to guarantee that these regions will actually gain massive access to the EU Structural Funds and that they will catch up with the other regions in the EU.**

**Among the most important steps towards making the regional policy work are autonomy of the regions in all aspects of policy-making and in the control of locally spent public funds, and their ability to participate in partnerships.**

## Issue: Cohesion and convergence

The internal regional disparities from before the start of the transition in Bulgaria exacerbated during the post-socialist period. In the last year before the country joined the EU, its six planning regions at NUTS2 level were very different in terms of most of the basic indicators of regional statistics. Differences at lower territorial levels were even greater. For example, in the North Western planning region, the region with the fastest decrease of population in the whole EU, the vital statistics rate (the difference between birth and death rates) was -12% (-23.7% in villages). In the same year the national average was -5.1%. In addition to that, in 2006 alone there was a net emigration from the region of more than 3 000 people. It is only the South Western region with the capital city

that had a large positive net balance of intra-country migration confirming the word of mouth that "everybody is coming to Sofia".

There is a very uneven distribution of the labour force reflecting the differences in the economic power of each region. The North Western region had a little over 100 000 employed, the South Central a little over 500 000, and the South Western almost 800 000. This corresponds to the average salaries, which differ on the level of planning regions but even more markedly at district level.

Being among the poorest in the EU, all Bulgarian regions fall under the convergence objective. Bulgaria and Romania account for the 12 least

prosperous regions in the EU. According to the convergence objective, the least developed regions with a GDP of less than 75% of the EU average are eligible for the highest level of aid. It is well known that the weaker regions are in a disadvantaged position – when exposed to more competition they tend to lose to the stronger ones. Richer regions attract more investment and migrants, while the other regions face an outflow of capital and people. Thus the divergence effects are no less part of the EU integration than formally declared convergence policies for which public resources are allocated.

The strongest EU leverage in regional development stems from the absorption of the Structural Funds and especially the European Regional Development Fund, the European Social Fund and the Cohesion Fund. This is one of the main driving forces of EU integration. It is purposefully targeted at regions with the primary aim of promoting regional convergence and balanced territorial development. Finding a balance between effectiveness and equity is very important in this context. The ability to access the European Regional Development Fund and the other Structural Funds is related to a long and complex planning exercise, which results in the production of a set of planning documents at national and sub-national level. The preparations carried out in Bulgaria for the absorption of the structural funds were no less than a renaissance of regional planning. Unlike socialist-style planning, it is based on a bottom-up approach. The general objectives and targets are defined at the central level based on EU regulations and guidelines, but municipalities have a large degree of freedom in deciding on concrete measures and spatial implications of planning.

### **Issue: Decentralisation and sub-national governance**

Bulgaria has been implementing for several years now a Strategy for Decentralisation, developed in 2006 together with the first programme for the implementation of the strategy for the 2006-2009 period. A Council for Decentralisation was also established at the Council of Ministers in July 2006, which is in charge of coordinating the implementation of the decentralisation strategy. The strategy aims at accelerating the transfer of powers and resources from the bodies of state authority to the municipalities, so as to reinforce local self-government. The package of measures includes increasing the own revenue base of municipalities, and increasing the capacity and responsibility of local bodies of government for formulating and implementing municipal policies. The decentralisation policy in Bulgaria has been primarily initiated, guided and technically supported by the USAID. The EU does not have any direct influence on decentralisation. However, the core idea of subsidiarity has some repercussions on the way it is conducted.

One of the key issues in Bulgarian regional development is the middle level of government. The issue is addressed in the Strategy for Decentralisation, which finds that “sector policies at the district level are

not coordinated” and the functions of regional governors are “unclearly formulated and often contradicting”. In the long run, Bulgaria will have to consider seriously changing the administrative and territorial structure at NUTS3 level and introducing an elected authority at this level. In Bulgaria no planning powers can be devolved effectively to districts because district authorities are appointed by the central government and not elected. Their legitimacy comes from the government. In the process of pre-accession planning for the Structural Funds district governors were officially in charge of developing their district strategies. In cooperation with neighbouring district governors, mayors and other stakeholders from the same planning region, they were also assigned an important role in preparing the regional development plans.

One of the key issues in Bulgarian regional development is the middle level of government

### **Issue: Ability to absorb SF on local and regional level, and administrative capacity**

By the end of 2008 the rate of absorbing EU funds was relatively slow, therefore the real impact of EU-initiated regional development policies cannot be conclusively evaluated. After more than 10 years of participation in EU pre-accession programmes and a couple of years of preparations for the EU Structural Funds, it has become obvious that there are major weaknesses in the Bulgarian governance system. It is widely believed that decentralisation increases the efficiency in the absorption of the EU Structural Funds which are primarily targeted at regions. However, in a country like Bulgaria which has some very poor and disadvantaged regions it is very important that the central government play a role. The recent withdrawing of the accreditation of the implementing agencies of the pre-accession programmes Phare and SAPARD has demonstrated that governance problems and mismanagement are plaguing precisely the central-level agents which were expected to channel the resources and control their utilisation in accordance with the rules set by the EU. For the first round of participation in the EU Structural Funds, Bulgaria had developed a special strategy (2007-2013). The strategy defines crucial requirements for Bulgaria to participate in EU Structural Funds. While the requirements regarding the programmatic documents and the legal and institutional framework guaranteeing the preparation, evaluation and monitoring of the planning documents and projects were partly met, the requirements concerning administrative capacity and trained staff as well as efficient mechanisms for financial management and financial control procedures were definitely not met.

More efforts are needed to increase capacity at sub-national levels, especially at the municipal level, which is de facto the only genuine representative of local interests. It is widely recognised that EU assistance has largely focused on the national level and some re-targeting of assistance needs to be done at the EU level to allow for a more direct, equitable

and autonomous participation of sub-national units (regions, counties and municipalities). The investment in sub-national capacity includes institutional building and strengthening of existing institutions. This is even more important in ex-socialist countries which, in the context of a centrally managed economy, had “forgotten” or lost much of their traditions of local governance.

### **Issue: Ability to establish public-private partnerships**

The development of public-private partnerships in Bulgaria is part of the strategy for decentralisation. Some allegedly corrupt and non-transparent deals like the planned award of a concession contract for the Trakia motorway have discredited to some extent the idea of PPPs. The capacity to use PPPs is very important, for they are an instrument which will allow using the strong investment leverage of the private sector and can therefore speed up the improvement of the local infrastructure and of the provision of services. The development of PPPs however is still at a preliminary stage. When Bulgaria joined the EU, just 2% of all municipalities were using PPP, 1.25% were using outsourcing, while concession and other forms of directly negotiated contracts were used by 4.5% of the municipalities in Bulgaria. Even if we classify concession contracts and outsourcing as structures of PPP, still less than 10% of the municipalities were using them. Almost 50% of the small municipalities and almost 60% of the big municipalities already had or were considering a strategy for the development of PPPs.

Within the EU there is no common policy for the development of PPPs, though the UK is one of the world leaders in the implementation of various forms of PPPs. In the new millennium there have been attempts to develop some common framework, e.g. by extending the regulation of public procurement and concession contracts. It is feared however that a too rigid regulation at the EU level may hamper the development of new forms of risk sharing between the public and the private sector, which are quite diverse. Thus although the EU does not have any direct regulation concerning PPPs, it can ask a member state to stop a concession if it is found to conflict with the procurement and concession regulations in the EU (which means if it is in breach of the EU competition rules). In the case of the notorious deal for the Trakia motorway, Eurostat found that the contract constitutes an unauthorised state subsidy to the concessionaires and therefore is ineligible for EU funding. The most important accent in this decision was not that EU support for the construction of the motorway would be lost but that the deal was not in the public interest – after all, the idea of the concession contract was not to subsidise the Portuguese concessionaire, but to share risks with the private sector, which was better equipped to manage them.

Therefore although the EU will not be directly involved in deciding how to develop PPPs in Bulgaria, the EU does have tools to intervene when PPPs are used as a disguise for corrupt deals.

## Conclusion

The strongest EU leverage in regional development stems from the absorption of the Structural Funds, and especially the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

There is a need for the EU to work consistently on raising the capacity of regions for development as well as on simplification of the delivery mechanisms.

The Bulgarian case shows that red tape and the “use it or lose it” principle are a burden for those who are trying to make the Structural Funds work for development, but do not curb corrupt practices and meaningless projects.

Among the most important steps towards making the regional policy work are the autonomy of regions in all aspects of policy-making and in the control of locally spent public funds, and their ability to participate in partnerships. The EU has no common policy on decentralisation, except for the basic principle of subsidiarity. In the different EU countries the distribution of authority between the national and sub-national levels is very diverse. Bulgaria does not have a genuine mid-level of government, though creating the latter is considered in the strategy for decentralisation of government. Expansion of the authority of municipal self-government and sub-municipal units has been progressing at various rates for more than a decade. The process however is uneven across sectors, therefore the management capacity of municipalities still needs to be invested in. The EU has a role to play in this process by targeting more resources at sub-national levels of capacity building.

The business community can also be a legitimate and helpful partner in sharing investment risks. The most important tools for promoting private involvements are the public-private partnerships (PPPs). A study commissioned by the Council for Decentralisation has shown that PPPs are still not very well-developed in Bulgaria, though there is a trend towards an increase in their role. PPPs are also on the EU agenda, though not in a normative way but in a way of overseeing and systematising good practices and producing analysis and guidelines. This is an innovative area where common rules may block local initiative at national and sub-national levels. So at this point each member state and its sub-national administrations have the freedom to be creative within the very important limits of the EU procurement and concession rules and their national legislations.

# Level of Absorption of EU Funds and Their Impact

## Summary

**Bulgaria faces difficult problems with regard to the management and absorption of EU funds.**

**The first problem area concerns the mode of absorption of the EU pre-accession aid that has to be completed by 2010 and coincides with the operation of the Structural and Cohesion Funds under the current 2007-2013 financial perspective (€6.852 billion from the Structural Funds alone).**

**Thirteen months after Bulgaria's accession to the EU, the European Commission discontinued the funding under the three pre-accession programmes due to corruption scandals in Bulgaria's Road Infrastructure Agency and perceived irregularities in the management procedures.**

**The second problem area is the absorption of EU Structural and Cohesion Funds. The concern here is that vicious practices in management of the pre-accession instruments could affect also the process of absorption of EU funds, if there is no consistent and continuous leverage by the EU to discipline national authorities.**

**The third horizontal and overarching issue of concern reflects the actual ability of national authorities to pursue good governance of public finances and strategic planning.**

## Issue: Irregularities in management procedures and EU leverage

When Bulgaria joined the EU on 1 January 2007, a Cooperation and Verification Mechanism was set up by the EU to oversee the situation regarding judicial reform and the fight against corruption and organised crime. In April 2008 Bulgaria's ambassador to Germany, Meglena Plugchieva, was appointed Deputy Prime Minister without portfolio to oversee use of EU funds in an attempt to address criticisms about their inefficient absorption.

In addition to the justice and home affairs reports, in July 2008 the EC released a separate document assessing Bulgaria's use of EU funds, announcing "a decision to formalise the suspension of certain payments". The EC has temporarily withdrawn the accreditation of two government agencies tasked with handling EU money, effectively putting on hold €220 million in contracts yet to be signed under the Phare pre-accession programme. Despite the demonstrated intention by the Bulgarian government to remedy

flaws, the measures undertaken have not proved convincing to the European Commission. By the end of November 2008 the EU announced a final hold of the €220 million under Phare. Together with other frozen funds, including cohesion funds and funds from the agricultural aid programme SAPARD, the sums suspended so far for Bulgaria amount to more than €800 million.

Bulgaria needs not only to enhance substantially its administrative capacity but also to drastically curb opportunities for high-level corruption

Similar sanctions have never been enforced against another EU member state. Monitoring and audits showed serious weaknesses in the management and control systems and pointed to a number of irregularities, suspected fraud cases and conflicts of interest between the programme administration and contractors. "The Bulgarian public administration suffers from a high turnover of staff, unattractive salaries which create opportunities for corruption, and outdated, centralised procedures," the document concludes. Minister Plugchieva also admits that the situation with administrative capacity in the country has drastically deteriorated in the last two years. In the same period more than 400 experts from the national administration have been appointed to positions in Brussels, while others have preferred employment in the business sector. The Bulgarian authorities face severe time pressure and constant resignations of key executive personnel. Bulgaria needs not only to enhance substantially its administrative capacity but also to drastically curb opportunities for high-level corruption.

Based on the recent detailed commitment of the Bulgarian authorities to conduct reform (Action Plan on the Implementation of the Measures Related to the Management of EU Funds in response to the European Commission report on Bulgaria's progress from 8 August 2008), one may conclude that after EU accession EU leverage still exists, with a high potential to impact the reform process as far as accountability of spending of funds is concerned. Good examples are the recently introduced measures to cope with constant, acute delays in the evaluation of projects, or with discrepancies in the content of indicative annual working programmes. However, conceptually embedded burdens, such as barriers to participation on the basis of selection criteria or the necessity of bridging finances, which gives banks a key role in project implementation, constitute issues beyond EU leverage.

Unlike the situation with pre-accession funds, the EU has a monitoring system on the Structural Funds which is based on the quarterly reports submitted by all member states. In addition, the European Commission introduced in Bulgaria a system for forecasting the financial implementation of operational programmes and exercising ex-ante control in respect of the N+2 and N+3 rule. This system (LOTHAR) will play a key role in the process of management of operational programmes in terms of adequate

planning and spending of financial resources. In the same vein, the Ministry of Finance conducted a tender procedure for the development of a complex information system for management and monitoring of EU funds, which does not overlap with LOTHAR. However, monitoring systems on absorption of EU funds cannot substitute the need of sound regional planning in Bulgaria in the short run. One can hope that Bulgaria will be better prepared to address national and regional needs by using structural and cohesion funds within the new EU financial framework after 2013.

### **Issue: Level of absorption of structural funds**

The Structural and Cohesion Funds are in the initial phase of implementation. At this stage only advance payments are transferred to Bulgaria. The reimbursement of project expenses will depend upon a satisfactory compliance assessment of operational programmes, which is due to take place by the end of 2008. For the period between January 2007 and May 2008 the total amount of contracted projects was €93 million, whereas the amount of contracted projects in the period between May and September 2008, i.e. following the intervention of the European Commission and the measures undertaken in response, is €948 million. Since May 2008 payments to beneficiaries have increased from €5 million to €10.5 million. The amount of contracted projects has increased almost ten times in a very short period of time, presumably after the measures undertaken by the national authorities as a consequence of EU punitive actions. This is a very good example of the impact of EU leverage.

The number of contracts signed under the different operational programmes is as follows:

- Under Operational Programme (OP) Regional Development – 99
- Under OP Transport – 6
- Under OP Competitiveness – 299
- Under OP Environment – 9
- Under OP Technical Assistance – 14
- Under OP Human Resources – 689
- Under OP Administrative Capacity – 159
- Under OP Development of Rural Areas – 204

In Bulgaria a great deal of attention is focused on “absorption”. Still, reading numbers and “absorption level data” could prove somewhat misleading. It is no accident that the EU does not publish any “EU funds absorption scoreboard” for its member states on the basis of which to compare performance and improvement in its cohesion, social or regional policies. In contrast, in Bulgaria one can gain the impression that structural funds are to be used with the mere aim of absorbing them, rather than of doing what is really necessary in order to catch up with developed EU countries and regions. For instance, it is interpreted as an achievement that for the first half of 2008 the funds transferred to Bulgaria amount to

BGN 946 million, whereas the country's membership fee amounts to BGN 359 million. Such an accountancy-driven way of interpreting membership creates headlines but endangers the ability of Bulgaria to participate in the European process, as it demonstrates a lack of understanding of the essence of European regional and cohesion policies. It is important to shift the focus from mere absorption to actual project results and effectiveness of supported measures because it is the impact that matters.

### **Issue: Capacity for planning and accountability**

The ability to reap the full benefits of EU aid correlates with the capacity to plan and programme national policy, as well as to responsibly manage public resources (national and European). Until the day of accession, in Bulgaria almost no national programmes, i.e. programmes financed from the national budget, had been implemented. The communication strategy managed by the Ministry of Foreign Affairs was distributing national funds – from the budget. Throughout the whole transition period, the sole financially secured policies in Bulgaria were financed through the pre-accession funds, i.e. according to strict EU procedures and guidelines. The results so far are quite discouraging. The EC ascertains irregularities in payments in roughly 70% of the cases. Bulgaria has demonstrated the successful introduction of the programming approach on paper. In reality, the national strategic documents have been developed hastily, adjusted to the programme documents, the operational programmes, without consulting beneficiaries and without setting clear and feasible national priorities that could lead to tangible results for society at large.

The Bulgarian model of drafting planning and strategic documents is rather an attempt to meet all needs and to activate all opportunities. As a result, problems arise, such as: difficulties in the accomplishment of ambitious goals, insufficient coordination between them, and formulation of objectives which do not conform to actual needs and/or capacities of potential direct beneficiaries. For example, the operational programme on fisheries is criticised and even boycotted by beneficiaries, and Bulgarian SMEs face difficulties in applying under the operational programme on competitiveness.

In terms of transparency and accountability there is still much to be done. Despite all recent efforts to improve coordination, efficiency and transparency, surfing official websites for up-to-date, synchronised and bi-lingual (Bulgarian-English) public information is still a challenge. The discrepancies in the language versions of the National Strategic Reference Framework delivered to Brussels and published in Bulgaria (linguistic, but also in terms of content) is one example. In an attempt to contribute to transparency and better control on the part of civil society, a Public Council under the Deputy Prime Minister has been established. Still, the manner in which participants in this council are identified is not clear to the public and civil society actors.

Numerous communication campaigns have been conducted with the aim of increasing participation in the process of absorption of EU funds. Still, among the general public "EU money" is continuously perceived as an "external resource" provided by the EU as a grant. At the same time, issues of national budget spending on reforms are domesticated by some Bulgarian politicians in an arrogant discourse, arousing public suspicions of their misuse "out of EU business". This leaves the dangerous impression that EU funds and national financial resources belong to two different categories, therefore for the spending of the latter no strict (European-like) accountability is necessary. This attitude, put in the context of the palliative decision to substitute suspended Phare project payments with national resources, raises silent doubts in the transparency of the spending process. It also deepens the mistrust among direct beneficiaries (no matter how warrantable these doubts are in reality).

## **Conclusion**

As noted by the European Commission, Bulgaria is not able to reap the full benefits of EU assistance because of critical weaknesses in administrative and judicial capacity, be it at the local, regional or central level. The efficient use of EU funds requires that effective and reliable management and financial control structures are in place to foster sound implementation throughout the entire project cycle – from feasibility assessment and project design to tendering and contracting to ex-ante and ex-post control and evaluation.

The problem of Bulgarian accountability in Phare and other programmes is compounded by the fact that the EU has very little recourse with regard to monitoring funds. There is no way to verify if what is written in Bulgarian project reports is accurate. This should also not be necessary if only the national political establishment respected and applied the principles of good governance in the spending of public resources on principle, with no distinction made between national and "European" funds. Almost a year after the day of accession, it became obvious that EU leverage is the only driving force to curb opportunities for high-level corruption in the country, at least when the money of European taxpayers is at stake. EU leverage proves inevitable in the current Bulgarian context and should continue to help remedy endemic corruption. However, this situation cannot be sustainable in the long run. Internal mechanisms for ensuring accountability should be put in place along with continuous efforts to regain credibility. On the part of the EU a simplification of the delivery mechanisms of the Structural Funds needs to be considered, since part of the opportunities for corrupt practices come from this complexity.

# C

## Conclusions and Recommendations

Policy Area	Need for EU Leverage	Existing Types of EU Leverage	Recommendations for Problem-Solving on National Level	Recommendations for Problem-Solving on EU Level
Political Development and Governance	Yes	<p><b>Cooperation and Verification Mechanism (CVM)</b></p> <ul style="list-style-type: none"> <li>Active, country-specific, soft, significant, non-effective EU leverage</li> </ul> <p><b>Oversight and management of EU funds</b></p> <ul style="list-style-type: none"> <li>Active, hard, significant, effective</li> </ul> <p><b>Infringement procedures</b></p> <ul style="list-style-type: none"> <li>Active, hard, significant, effective</li> </ul> <p><b>Activation of Article 7 (suspending Bulgaria's voting rights in the Council)</b></p> <ul style="list-style-type: none"> <li>Active, hard, significant, potentially effective EU leverage</li> </ul> <p><b>"Europeanisation" of political parties</b></p> <ul style="list-style-type: none"> <li>Passive, limited, effective</li> </ul>	<ul style="list-style-type: none"> <li>Improve the enforcement of legislation</li> <li>Improve transparency of the national and EU decision-making process</li> </ul>	<ul style="list-style-type: none"> <li>The Commission should launch a comparative "Democracy Audit" of the democratic institutions in EU member states</li> <li>Revise and prolong the term of the CVM</li> </ul>

Economic Development	Yes	<p><b>Lisbon process</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Common market rules</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul> <p><b>Euro Area Accession</b></p> <ul style="list-style-type: none"> <li>■ Passive, significant, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Improve the business environment and competitiveness of the Bulgarian economy</li> </ul>	<ul style="list-style-type: none"> <li>■ Determine clear criteria for ERM II membership or automatic entry for NMS</li> </ul>
Welfare System and Social Inclusion	Yes	<p><b>OMC</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Lisbon Strategy</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Public opinion and the media in the EU</b></p> <ul style="list-style-type: none"> <li>■ Passive, soft, significant, effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Meet national targets under the OMC and ensure adequate monitoring and evaluation of progress</li> <li>■ Ensure better coordination between policies for economic growth and employment (in the framework of the Lisbon agenda) and social inclusion policies</li> </ul>	<ul style="list-style-type: none"> <li>■ Expand the scope of the OMC and make it more detailed by setting specific national targets, common objectives and indicators in new fields, monitoring and reporting requirements</li> <li>■ Enhance coordination on EU level of policies on employment, education and innovation</li> <li>■ Define standards for sustainable funding, including requirements for allocating a certain minimum share of the GDP</li> <li>■ Develop common standards for guaranteeing sustainable and adequate pensions</li> </ul>

Health System	Yes	<p><b>EU Regulations for public health services</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul> <p><b>EU standards in the realm of patients' rights and care for vulnerable groups</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Clearly define and reinforce the state's obligations to special sectors in health care (emergency care, research, medical education, professional training etc.)</li> <li>■ Revise the profile and optimise the number of hospitals in the country (privatisation, adoption of a health map, identification of the population's real needs based on reliable medical statistical data)</li> <li>■ Secure the funding necessary for the implementation of the adopted policies</li> <li>■ Link the accreditation process to financing and quality of services</li> <li>■ Base access to the Health Insurance fund on objective criteria for quality service provision (accreditation mark, medical statistical data, regional health map)</li> <li>■ Reformulate the existing package of services to match the existing finances, and implement complementary insurance</li> </ul>	<ul style="list-style-type: none"> <li>■ Further develop a common framework for access to care, sustainable financing and compatible and reliable information/statistics</li> </ul>
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<p>Educational System</p>	<p>Yes</p>	<p><b>OMC in education</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Bologna and Copenhagen processes</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, significant, effective</li> </ul> <p><b>Horizontal EU programmes</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, effective</li> </ul> <p><b>EU Structural Funds and especially the Social Fund</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, still limited, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Intensify Bulgaria's participation in the Bologna and Copenhagen processes</li> <li>■ Expand and strengthen the quality assurance systems in higher and secondary education and vocational education and training</li> <li>■ Increase public investment in mobility both by providing direct support for travelling, and investing in language training and transferability of qualifications and skills</li> </ul>	<ul style="list-style-type: none"> <li>■ Refine the OMC towards more detailed common indicators and benchmarks (standards), definition of country-specific targets and more rigorous monitoring and reporting</li> <li>■ Define standards for sustainable funding, including requirements for allocating a certain minimum share of the GDP</li> </ul>
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Justice and Home Affairs	Yes	<p><b>Police and judicial cooperation in criminal matters</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, significant, effective.</li> </ul> <p><b>Cooperation and Verification Mechanism (CVM)</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, country-specific, significant, non-effective</li> </ul> <p><b>Schengen membership</b></p> <ul style="list-style-type: none"> <li>■ Passive, significant, effective EU leverage</li> </ul>	<ul style="list-style-type: none"> <li>■ Develop and implement a comprehensive plan for improving the effectiveness and transparency of public procurement procedures</li> <li>■ Develop a workable plan to ensure integrity and effectiveness of law enforcement</li> <li>■ Develop capacity for internal monitoring and assessment of the risks associated with organised crime and high-level corruption</li> <li>■ Address political corruption through a comprehensive reform of political party financing</li> <li>■ Meet the requirements for entry in the Schengen area in due time</li> </ul>	<ul style="list-style-type: none"> <li>■ The EU Commission should monitor rule of law, corruption and overall effectiveness of justice/ judiciary and law enforcement in all member states (collect, compare and make public the relevant data)</li> <li>■ Further develop the exchange-of-information-in-real-time mechanism and joint operations between law enforcement institutions in member states</li> <li>■ Develop EU standards (new hard EU leverage) for personal data protection and rights of persons under criminal investigation</li> <li>■ Prolong the term of the CVM, but based on improved monitoring tools and indicators and a strengthened cooperation component</li> <li>■ Introduce the co-decision procedure and qualified majority voting for matters of police and judicial cooperation in criminal matters, regardless of the future of the Lisbon Treaty</li> </ul>
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Migration	Yes	<p><b>EU policy on immigration and asylum – potential common policy</b></p> <ul style="list-style-type: none"> <li>■ Active, hard EU leverage in progress</li> </ul>	<ul style="list-style-type: none"> <li>■ Form capacity for active participation in the development of this Community policy</li> <li>■ Improve administrative capacity and national planning to absorb efficiently the funds under the Solidarity and Management of Migration Flows programme</li> <li>■ Ensure institutional capacity of the national bodies dealing with migration flows and generation of relevant data and analysis for outflow and inflow migration as well as its public accessibility</li> <li>■ Apply measures for the attraction of well-educated third-country nationals based on labour market needs (rather than following the ethnic background criteria)</li> <li>■ Create the necessary economic, social, political and cultural premises for the integration of refugees and third-country migrants into Bulgarian society</li> </ul>	
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Research and Innovation	Yes	<p><b>OMC</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul> <p><b>Lisbon Strategy</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, limited, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Set national targets for innovation and research and foster overall R&amp;D funding base</li> <li>■ Reform scientific institutions</li> <li>■ Improve the horizontal and vertical links between all stakeholders</li> <li>■ Introduce public-private partnerships and innovation incentives for SMEs</li> <li>■ Take measures to ensure active and informed participation in the OMC and the free movement of knowledge in Europe</li> </ul>	
Agriculture and Rural Development	Yes	<p><b>Quality and health safety products requirements</b></p> <ul style="list-style-type: none"> <li>■ Active, hard EU leverage, significant, effective</li> </ul> <p><b>Access of Bulgarian agricultural goods to the EU market</b></p> <ul style="list-style-type: none"> <li>■ Passive leverage, significant, effective</li> </ul> <p><b>EU subsidies and funds</b></p> <ul style="list-style-type: none"> <li>■ Active, hard EU leverage, significant, non-effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Adopt relevant legislation (in consultation with stakeholders) with regard to land consolidation enforcement</li> <li>■ Raise the effectiveness of the IACS</li> <li>■ Improve administrative capacity on the central and especially on the regional level</li> </ul>	<ul style="list-style-type: none"> <li>■ Adopt payment of subsidies independently of the volume of production</li> <li>■ Abolish production quotas, especially for the milk sector</li> <li>■ Apply restriction of support for big farms</li> <li>■ Provide equal support for farmers in the new and in the old EU member states</li> </ul>

Regional Development	Yes	<p><b>Structural Funds (especially the European Regional Development Fund, the European Social Fund and the Cohesion Fund)</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, potentially effective EU leverage</li> </ul> <p><b>EU competition rules (procurement and concession regulations and state aid)</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul>	<ul style="list-style-type: none"> <li>■ Continue and strengthen the capacity for planning and implementation on the sub-national, especially the municipal level</li> <li>■ Establish an elected middle level of governance</li> </ul>	<ul style="list-style-type: none"> <li>■ Simplify delivery mechanisms for EU funds and apply clear quality criteria to programmes and projects</li> <li>■ Direct more resources to sub-national capacity building – via eligibility criteria on EU level</li> </ul>
Level of Absorption of EU Funds and Their Impact	Yes	<p><b>Funds blockage</b></p> <ul style="list-style-type: none"> <li>■ Active, hard, significant, effective</li> </ul> <p><b>EU monitoring system on the Structural Funds (based on the quarterly reports submitted by all member states)</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, significant, potentially effective</li> </ul> <p><b>System for forecasting financial implementation (LOTHAR)</b></p> <ul style="list-style-type: none"> <li>■ Active, soft, country-specific, significant, potentially effective EU leverage</li> </ul>	<ul style="list-style-type: none"> <li>■ Improve the administrative capacity on the central and regional level</li> <li>■ Ensure full transparency of the process and access to information</li> <li>■ Improve national and regional planning while guaranteeing the participation of all stakeholders and potential beneficiaries</li> <li>■ Improve communication with European institutions</li> <li>■ Simplify the paper workload of the application and evaluation procedures and ensure English translation of all application procedure documents</li> </ul>	<ul style="list-style-type: none"> <li>■ Simplify the delivery mechanisms of the Structural Funds</li> </ul>















# **The Unfinished Business of the Fifth Enlargement Countries**

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