



Bulgaria

Assessment of the 2008-2010 National Reform Programmes for Growth and Jobs from a social inclusion perspective: The extent of synergy between growth and jobs policies and social inclusion policies

A Study of National Policies

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Summary

In general, there is little reference to feeding in and feeding out in the NRP (2008-2010)¹, especially as far as feeding in is concerned - there is almost nothing to discuss because it is practically not part of the updated NRP. In the Progress report on NRP (2007-2009) from last year there were some, though not strong, signs of adopting the concept of feeding out and feeding in and trying to make it operational in different policies and measures. These signs have now disappeared. There is also little evidence that there has been any coordination between the updated NRP and the NRSSPSI which appeared recently. This may be due to the financial and economic crisis which creates anxiety in the government and shifts the place of social inclusion policy on the priority list even lower than it was before.

We expected that the updated NRP would at least mention and comment on (or disapprove of) the international surveys on the social situation and the progress on the Lisbon agenda which show that Bulgaria is the poorest performing country in the EU. We also expected more reference to be made to Bulgarian independent surveys and internal assessment of the impact of different measures carried out by the government. Instead, the assessment of progress contains only a summarized checklist of the number of measures that were implemented and the stage of implementation of other measures.

The report shows awareness on part of government of the threats for the economy arising from the financial and economic crisis, but the listed measures address only the macro- and micro-economic consequences. Even in the case of employment policies, in which Bulgaria has performed strongly for many years in a row, the Report does not seem to recognize that the financial and economic crisis may create some important new challenges.

Last but not least, we believe that sharp price increases and the world financial crisis have indicated that there is a need for a new approach to planning, e.g. planning that makes provisions for the worst case scenario, assessing various risks, as well as external and internal shocks. The NRP (2008-2010) does not take into account seriously enough these risks even in the area of growth and jobs, while it would not be unfair to say that all aspects of social inclusion are almost fully neglected.

¹ We refer to it as the updated NRP as is done in the NRP (2008-2010) itself.

1. Overall assessment of the implementation of the 2005-2008 NRPs during the past year from a social inclusion perspective

According to the Lisbon Review 2008 by the World Economic Forum², Bulgaria ranks last in the achievement of the Lisbon targets among the EU member states. In particular, out of a total of 8 index dimensions Bulgaria ranks last on 5 of them, including social inclusion and sustainable development. Bulgaria is on the 25th place out of 27 (only ahead of Poland and Cyprus) also on the Lisbon Scorecard VIII by the Centre for European Reform³. We believe that the NRP should have made reference to such international assessments and provided some explanation about the reasons that caused Bulgaria to rank so low – whether it is merely a matter of the assessment methodology used or there are some important conclusions for the government to draw. In the social sphere other respectable international surveys show a general discontent on part of Bulgarians with their quality of life and their income. The European Social Survey⁴, the results of which are due to be presented these days in Bulgaria at an event organized by the Bulgarian trade unions, shows that Bulgaria has the worst performance on a number of social indicators including subjective perception of wellbeing as measured by the share of people who find it difficult to make ends meet with the income they receive. In general, there is little reference in the NRP to national, sectoral or other assessments on the implementation of the Bulgarian NRP as well.

1.1 Evidence of feeding in and feeding out since the last (2007) Implementation Report and assessment of the social dimension

Assessment of the actual impact of policies and programmes

The updated NRP is very concise in assessing the progress made since October 2007 when the previous Progress report was published. The Report is about the status of different measures. We believe it would have been better if there was more discussion on the impact of different measures and not just on whether they were implemented or not.

In spite of the positive tendencies in the government performance which were presented in the Progress Report of the NRP (2007-2009)⁵, the public at large continues to demonstrate negative attitude toward the inefficient reforms in the public sector.

The NRP (2008-2010) recognizes that the Structural and Cohesion Funds have made a significant contribution to the fulfilment of the National Reform Programme. In 2007 it was indeed still too early to make any conclusions on the issue of the utilization of the SF. The updated NRP does not however give an overall assessment of the efficiency of use of these funds, neither does

² Blanke, T., Geiger, T. (2006). The Lisbon Review 2008: Measuring Europe's Progress in Reform. World Economic Forum. As the authors mention this review unlike other reports on the Lisbon strategy reflects the opinion of the business leaders in the EU (p. 1). Paradoxically it explicitly mentions as critical factor a number of social inclusion issues (p. 5).

³ Barysch, K., Tilford, S. & Philip Whyte. (2008). The Lisbon Scorecard VIII: Is Europe Ready for an Economic Storm?. The Centre for European Reform.

⁴ <http://www.europeansocialsurvey.org>

⁵ National Reform Programme – Progress Report 2007 – 2009

http://www.aeaf.minfin.bg/bg/documents/pep/NRP/progress_report_bg_2007.pdf

it comment in any way on the obstacles and problems that have arisen in the process and are widely known in Bulgaria. In 2008 the Bulgarian public was highly dissatisfied with the utilization of the EU structural funds.

In October 2008, the Chairman of the Bulgarian Chamber of Commerce and Industry, Bozhidar Danev announced at a special conference that “Private sector in Bulgaria does not believe that it could receive financial resources from the EU funds for their projects because there is probability of funds embezzlement before the money reach the business sector”. Mr. Danev explicitly emphasized the fact that this unfavourable situation was largely due to the insufficient administrative capacity on part of state institutions, and on the other hand, to the lack of project design capacity on part of Bulgarian business. He also stated that the first year of Bulgaria’s EU membership has not been fully utilized to prepare the administration and the business for the efficient acquisition of EU funds, and time was somewhat wasted away. The EU terminated the funding for Transport and Regional Development Operational Programmes at the beginning of the year due to misappropriation of resources by the so-called “Road Fund” and the PHARE agencies at the Ministry of Regional Development and Public Works and the Ministry of Finance. The fact that only small amounts of resources have been utilized under other operational programmes is largely due to the continuing problem of limited administrative capacity.

How was EU funding utilized in Bulgaria in 2007 and 2008?

Operational Programme	Budget (mil euro)	Utilized money (in %)
Administrative Capacity	27.5	17.29
Development of Human Resources	186.9	1.64
Competitiveness	177	0
Regional Development	243.9	0
Transport	295.6	0.19
Environment	266.4	0

Source: Bulgarian Chamber of Commerce and Industry

According to the Bulgarian Chamber of Commerce, the money from the EU Social Fund is practically the only resource which has been utilized by Bulgaria but the absorption rate has been rather small. The participants in the Human Resources Development OP received around 3 mil euros to fund their projects, which is slightly below 2% of the 185 mil Euro allocated for 2007 and 2008. The biggest amount of absorbed resources was under the Administrative Capacity OP, where 156 contracts were signed with beneficiaries and 4.7 mil Euro were paid, e.g. 17% of the allocated 27.5 mil euros. During the 21 months of Bulgaria’s EU membership not a single Euro has been utilized under the Competitiveness, Environment and Regional Development OPs.

The major problem, often cited by various independent organizations, is the insufficient capacity of the administration which is in charge of managing the programmes. A number of trade organizations and trade unions persistently propose outsourcing the activities for project monitoring, check up of financial documentation and field visits for project evaluation.

The standpoint of CITUB (Confederation of Independent Trade Unions in Bulgaria) is similar; on 14th July 2008 the Confederation announced a special Memorandum and presented it to the government. The Memorandum emphasized that employers should take urgent measures by the end of 2008 and in the beginning of 2009. CITUB alarmed that the Bulgarian worker who receives

a wage of 255 euro per month (constituting 20% of the average European salary), has to cope with Bulgarian price levels which are nearly 46% of the average EU price levels. In the course of the last 12 months inflation rate has increased by 15% and the price of food has gone up by over 25%. The continuing rise of prices of natural gas, electricity, heating, water, automobile and railroad transport has led to increase of living expenditures by 17% annually, while the average annual inflation is over 12%. CITUB has insisted on urgent action on part of both the government and the employers for curbing down the inflation process and conducting compensation measures for tangible income increase and protection of the socio-economic rights of the citizens. In spite of certain positive self-assessment made by the government with regard to its own social policies and reforms, the public attitude continues to be rather critical with regard to the overall performance of the government.

2. Assessment of the 2008-2010 NRPs from the perspective of social inclusion

2.1 Overall Assessment of the social dimension and awareness of feeding in and feeding out

The updated NRP provides very few examples on feeding in and feeding out. In general, the Report displays also little concern of the social dimension and very low awareness of feeding in and feeding out. It is particularly difficult to find any examples of feeding in on the pages of the NRP (2008-2010). The Report mentions the impending financial and economic crisis. It quotes the revised estimate - 4,7 % of GDP growth for 2009. The forecast figures for the macroeconomic frame of the 2009 budget have been recently corrected by the Ministry of Finance. The crisis may produce some positive effects on the current account deficit but at the expense of reduced investment - the main bulk of imports is formed by investment commodities. The Report sets as policy targets some developments expected to occur due to the crisis in the original scenario and without any government intervention – some reduction of inflation and of the current account deficit

The Report promises some efforts to be made to increase citizens' income and to follow strictly the mechanisms for pension increase. The Report also says that "the government might raise income above labour productivity growth level only in relation to the need for compensations to low-income groups of citizens in view of the significant price growth of energy sources". We should note that in recent years the government has not observed this principle and has systematically promoted measures which leave more wealth in the hands of high-income groups, e.g. by effectively reducing taxes for them. We think that income support schemes for the low-income groups will be a much more effective tool for strengthening domestic demand. So it is positive that this principle has become part of the NRP but such income support does not need to be necessarily coupled with a price growth of energy sources. Actually the recession trend will probably even reduce these prices, but also even more rapidly decrease income and shrink consumption among people living in poverty. So the conditionality of this principle must be reviewed if it has to serve any social inclusion goals during the crisis.

The Report reveals awareness about the coming economic crisis. But generally it gives the impression that the government has little leverage to influence the crisis. In particular, it says that tight fiscal discipline will not allow "government final consumption expenditure to compensate for

the deceleration of households' consumption growth". It seems that there is not a strong and coherent link between the updated NRP and the NRSSPSI.

Employment has received some attention in the updated NRP. After a quite speedy decrease in the unemployment rate and integration of part of those who had stayed out of the labour market for a long time, some seriously underprivileged groups have remained inactive – either as long-term unemployed or as discouraged. For quite a long time, has been one of the major problems in Bulgaria. Currently, the situation is significantly different – the unemployment rate has reached its lowest level since the beginning of the transition period. A number of surveys show that there is rising demand on part of workers for higher wages, improvement of working conditions and provision of more possibilities for career development. According to surveys, conducted by the Agency for Market and Social Research⁶ (Alpha Research), labour market in the country is facing a series of challenges because of labour migration to EU member states. Bulgarian employers have taken the role of seekers (of human resources) and their major problem is the lack of available labour force. The shortage of labour force is mainly with regard to two groups - highly qualified specialists and very low qualified personnel. The deficit of labour force has led to increase of labour cost in a certain number of sectors, while only one fifth of the working population has received a wage increase – these are people mainly in the capital city of Sofia and some other major cities in the country. They are mostly management personnel and people with good education and high qualification.

According to Alpha Research current changes on the labour market have resulted not only in reduction of the unemployment rate and increase of the labour cost but also in changing the profiles of jobs offered on the market. Some years ago the main discontent of the majority of job seekers was that the only available jobs were for low qualified people, while today this figure is only 8%. Twice bigger is the percentage of people (16%) who share the opinion that employers seek workers with very high qualification and 28% of the respondents consider themselves able to find jobs corresponding to their qualification. Similar assumptions started to stimulate significantly labour mobility. At present, every third Bulgarian worker is looking for opportunities to change their job and this is a strong indication that employees follow and analyze labour market tendencies and want to take advantage of the new situation – an increased demand for labour force on the market. According to the specialists from Alpha Research it is not clear whether such demands would be satisfied and whether, low unemployment rate and increased labour mobility would continue to exercise inflation pressure on the market. This largely depends on the economic situation in the next several months. The fear of a growing world financial crisis and forecasts for economic stagnation are the major factors which could restrict or slow down income increase, labour demand and labour mobility.

The updated NRP promises a specialized study and analysis of the possibilities to intervene among those groups. This study is expected to help improve the targeting of initiatives under the National Employment Action Plan and the Human Resource Development Operational Programme. A review of the programmes for young people is also envisaged. This timeline is part of a very calm perspective for the development of new tools for the integration of the long-term jobless people. We believe that in light of the pending crisis these plans need to be updated. There is a danger that should the crisis persist, some emergency interventions may be necessary to prevent those furthest from the labour market from falling into even deeper poverty. Unfortunately in this field, as in others, there are few, if any, fast track test kits, which could be used in a period of crisis.

⁶ "Does the World Financial Crisis Affect the Bulgarian Labour Market? (October 2008)
<http://www.aresearch.org/capital/1619.html>

Economic growth, financial sustainability

The government has started to discuss how inflation should be held back. This discussion is reflected in the NRP (p. 12). The anti-inflation measures include only the holding back of salary growth. Two important comments have to be made on this sketch of an anti-inflation programme. First, it comes late. The inflation has been a problem for quite some time now - in 2006 and 2007 there were strong signs of the overheating of the economy, which indicated that deceleration of growth would occur even without a global crisis. Nothing was undertaken to reduce inflation at that time. The NRP (2007-2009) contained forecasts about the inflation which did not substantiate. It assumed a yearly inflation of 1,6 % of food products and a gradual decrease of inflation to 2.9-3.0% in 2009. Even with the coming recession there are currently no forecasts which put inflation at 3.0% for 2009. The 1,6 % inflation prognosis for food prices was made on the grounds that there would no "external and internal shocks". Today it seems safer to assume that there will be such shocks in the future and to plan in advance how people with the lowest income could be protected against them. When making optimistic assumptions, the NRP and the NRP Reports should envisage some measures in the case that they do not materialize, especially measures to support the incomes of the most vulnerable groups. Now inflation will drop anyway as an effect of the reduced economic activity due to the crisis and the government is starting an anti-inflation programme. **Second**, income is not the main source of inflation in Bulgaria. Salaries have risen at rates above the productivity growth only in the course of the last two years. Before that only part of the productivity growth rate translated into increased salaries and in this respect Bulgaria has still to catch up with the EU.

Plans in the updated NRP for making educational programmes more flexible especially in high school and vocational education have the potential to reduce school drop-out, increase high school graduation rates and thus improve employability. The plan is to reduce the duration of vocational education from 6 to 3 years.

2.2 Governance

We could say that there are only a limited number of organizations and specialists who are familiar with the objectives of the National Reform Programme. Probably these are government officials but generally the business circles and the civil society sector are vaguely familiar with this Programme; moreover, these stakeholders have not taken part in its design. Additionally, it is difficult to find other documents which are related to the Programme and its strategic and operational measures. In our opinion this is due to the fact that there are too many strategic documents in the country which hardly follow a common logic and vision not only in the area of social policy, but also in the areas of education, economy, and health care.