



Bulgaria

## Trends, Recent Developments, “Feeding in” and “Feeding out”

A Study of National Policies

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*Disclaimer: This report does not necessarily reflect  
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## Content

1. Introduction .....	3
2. Feeding In and Feeding Out in Bulgarian Practice.....	3
2.1. Summary Assessment of the Implementation Report on the Bulgarian National Reform Programme (2007-2009) .....	3
Lisbon recommendations and areas to watch addressed in the Implementation Report .....	4
Flexicurity and other major developments reported upon .....	4
2.2. Assessment of the implementation report from the perspective of social inclusion .....	5
The "feeding out" aspects.....	5
The "feeding in" aspects .....	8
Aspects related to governance .....	13
3. New developments in the social inclusion policies in Bulgaria since July 2006.....	17
3.1. The baseline social policy situation .....	17
Demographic, Social and Economic Context.....	17
New Trends and Challenges to Social Inclusion Policies .....	18
Country Specific Challenges.....	18
3.2. Response to New Trends and Challenges .....	21
Main new legislation after June 2006 until September 2007.....	21
Legislative response to country specific challenges .....	23
New Policy Developments .....	24
3.3. Main conclusions and recommendations.....	25
4. Annexes .....	27
4.1. Annex 1 - Mainstreaming.....	27
4.2. Annex 2 – Sources .....	27
4.3. Annex 3 - Summarized data on the labour market up till 30 September 2007 .....	28
4.4. Annex 4 - Complains and signals from Ombudsman Annual Report in Bulgaria .....	30
4.5. Annex 5 – Expectations for the future.....	31

## 1. Introduction

The first part of the present report comments briefly on the two key aspects of the main topic – feeding in and feeding out in the Bulgarian Progress Report on the National Reform Programme – 2007- 2009 (NRP). On the whole, the Progress Report is well structured and shows the efforts of the government to follow the directives of the Lisbon Strategy. Although the Report covers all activities undertaken by the government to implement the Lisbon Strategy, the analysis of the challenges encountered in the implementation of corresponding measures can still be improved.

The second part of the report presents an overview of the key trends and reforms in the field of social inclusion in Bulgaria since our first semester report for 2006, which was finalized approximately at the end of the second quarter of 2006. An important landmark in the development of social inclusion policies in Bulgaria in 2006 was the preparation of the National Reports on Strategies for Social Protection and Social Inclusion (NRSSPSI). The Bulgarian NRSSPSI was finalized and submitted to the European Commission in the beginning of September 2006 so it reflected the situation in the country up to that time. After the submission of the report, there have been many legislative and policy changes - profound and sometimes unexpected. They concern areas such as taxation, income policy, poverty reduction and others.

## 2. Feeding In and Feeding Out in Bulgarian Practice

### 2.1. Summary Assessment of the Implementation Report on the Bulgarian National Reform Programme (2007-2009)

In Bulgaria, there was a short period of time between the adoption of the first NRP – beginning of 2007, and the submission of the first Report – October 2007. Therefore, the two documents should be looked at in parallel. The Bulgarian NRP itself underlines that “the implementation of the Programme started before its formal adoption”. So the short-term assessment of the Programme results includes measures implemented only during part of the year 2007. Secondly, it should be noted that the timing of the Bulgarian Programme will not fit the Lisbon process even after the first round of National Reform Programmes (2005-2008) because it includes the year 2009.

In general, the report gives an overview of the key challenges outlined in the NRP and focuses on some areas that are relevant to the simultaneous promotion of growth and jobs, on one hand, and social cohesion, on the other.

There are very few arguments and examples in the report illustrating the other direction of mutually reinforcing policies, i.e. the ways in which social inclusion policies can feed in the growth agenda.

In general our view is that current policies highly prioritize economic growth, fiscal and monetary stability, while social cohesion is placed low on the list of priorities. Issues of efficiency are raised with regard to all budgetary spheres, while issues of equity are rarely pointed out. In our view, the NRP Progress Report gives a fair and good presentation and analysis of existing policies and puts the emphasis exactly where it is in reality – on macroeconomic stability and economic growth.

## Lisbon recommendations and areas to watch addressed in the Implementation Report

The Bulgarian NRP and the Implementation Report follow the Integrated Guidelines for Growth and Jobs (2005-2008). The first part of the report focuses on the fulfillment of the Lisbon objectives and gives some data illustrating the progress in this respect. The second part addresses the NRP Key Challenges focusing on the horizontal priority of institutional capacity. The third part of the report is dedicated to the policy measures of the four priority actions of the 2006 Spring European Council; among these measures, increasing employment opportunities for priority groups (target groups) is the most relevant to the feeding-in/feeding-out discussion.

## Flexicurity and other major developments reported upon

Issues, such as flexicurity and active inclusion, are not addressed in the Report. This is fair because the concept of flexicurity is not reflected in current employment and social protection policies in Bulgaria which are framed more in the traditional way as a compromise between business flexibility in terms of hiring and firing and the security of protected jobs.

Initially, the issue of flexicurity was mentioned in the NRP under the 5th Key Challenge. The NRP discussed the issue of “activating labour supply through introducing a flexicurity approach and active labour market policies - focusing on efficient employment services, job assistance and upgrading of skills”. But apart from these, flexicurity should also focus on the prevention of, as much as possible, loss of income and the risk of poverty arising from temporary job loss, which is not the case in Bulgaria. Just the opposite - in the middle of 2006 the government introduced a measure that will take effect as of 1st of January 2008 – putting a limit on the number of months that a person may receive social benefits; this does not include some categories of people with reduced capacity or opportunity to worklike people with disabilities or people taking care of children up to 3 years old, of sick family members or relatives and some others. There are no safety nets in the system beyond social benefits. In our view, the underlying concept is contrary to the concept of flexicurity. Liberalization of the labour market is done in parallel with the elimination of social safety nets concerning a category of particularly vulnerable people.

However, the issue of flexibility is mentioned. It should be noted that the Bulgarian labour market is becoming more flexible. This can be seen in the process of multiplication of so-called atypical jobs (Loukanova, 2006). However, those who lose their jobs, even temporarily, cannot rely on secure social safety nets. In general, our conclusion is that the Bulgarian recipe is quite outdated – flexibility without security.

Measures to contain the deficit of the pension system mentioned in the Report deserve special attention. The mentioned measures are related to: 1) increasing of retirement age and stimulating old-age workers to stay longer in the labour market; 2) creation of a special Fund for Guaranteeing the Sustainability of the Public Pension System. At the same time the government continues to reduce the social security contributions by further 3 percentage points from October 2007 (initially the plan was to introduce this reduction in the second half of 2007), which is clearly unsustainable in the long run. Claims that the reduction of social security contributions will lead to higher collection are not realistic over the medium and the long run<sup>1</sup>.

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<sup>1</sup> The report of the NSSI for 2006 (Social security in Bulgaria in 2006, National Social Security Institute 2007, p.9) says: “The high volume of the grey economy is due not only to the most publicly quoted reason, namely the high tax and social security contribution rates, but also to factors such as the low level of social consciousness, the lack of collective spirit and sense of belonging to a society. When the thinking prevails that “everybody should save themselves as they can”, it is not strange that legal provisions are directly and impudently broken and the

## 2.2. Assessment of the implementation report from the perspective of social inclusion

The report pays very little attention to social inclusion. The term social inclusion itself is not used anywhere in the report. The term social integration is used only once in the report when describing a programme for disabled people. The report in general assumes that economic growth improves the living conditions of everybody and implies that it also promotes social integration and social cohesion. We did not find in the report any direct suggestions that social inclusion may promote employment and economic growth though the report does describe the most important programmes targeted at vulnerable groups.

### The "feeding out" aspects

#### *Promoting both social cohesion and economic growth*

Economic growth is the main focus of the Bulgarian IRNRP. Indeed economic growth in Bulgaria over the last years has been impressive driven by both private consumption and investment. Credit expansion has been one of the factors contributing to growth. Employment policies have played their role in that by increasing the labour market flexibility. Some employment measures targeted at vulnerable groups have also had some success especially by reducing the number of those on the unemployment row or the totally inactive and discouraged. However the quality of employment is a concern, which is not addressed enough in the IRNRP and the NRP in general. Specialized labour market events present a very interesting measure for market activation, as well as for overcoming the effects of irregular, inconsistent and biased information concerning the labour market, and seem to be a promising approach for targeting some particularly vulnerable groups, such as the Roma people, and the example given in the Report is from the tourist industry. Such a measure can produce good results in terms of improving employability, especially when is accompanied by well designed and demand-driven job training programs. The tourist industry suffers from a constant deficiency of qualified personnel; this gap is sometimes filled by importing workers from other countries instead of activating and qualifying local human resources, especially inactive members from disadvantaged groups.

We believe that economic growth, stimulated in certain ways, could also represent a risk to stability and social cohesion. The danger of a "race to the bottom" effect is always present when economic growth is boosted by classical liberal reforms. Bulgarian growth is not a product of innovation, research and development. It is in many respects a product of the classical business investment promotion recipes combined with tax haven-like incentives for FDI.

#### *Ensuring an adequate income from work*

The issue of the working poor is not mentioned at all in the IRNRP - both the NRP and the IRNRP do not use the words poor and poverty. It looks as if addressing the problems of poverty was a completely different policy strand, which indeed may be the case.

However the IRNRP mentions that the share of salaries in the GVA in Bulgaria is substantially lower than the EU average. This means that there is a certain reserve for increasing labour income even at the current level of productivity or for a more rapid growth in labour income

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law is craftily avoided.... The only escape from this regretful situation for the social security system and the correct contributors and tax payers is to increase trust and to build new values."

compared to productivity growth. According to the report this could happen without much threat to price stability.

Another important measure mentioned under the heading of “labour activation” is the payment of bonuses to those recipients of social benefits who are registered with the local employment offices but manage to find a job without the mediation services of these offices. This is a good measure bearing in mind that sometimes finding a job may lead only to a marginal increase in the income. This is due to the existence of very low paid jobs at the level of the minimum working salary, and not to the generosity of social benefits as some market fundamentalists in Bulgaria have argued. It is not very clear why (from the point of view of activation and not from the point of view of budgetary efficiency alone) this measure should be limited only to those who found a job on their own.

#### *Job creation for vulnerable groups*

The increase of participation rates has been an achievement and the Report underlines this fact. It also reports success with one of the most vulnerable groups – discouraged unemployed people for whom there have been only few special programmes. But eventually the high economic growth rates accompanied by an increased demand for employees have brought some of these people back to the labour market. However, the number of discouraged unemployed people remains very high (compared to the total number of unemployed), This issue has definite regional dimensions and calls for strong measures for improving territorial cohesion and the sensitivity of social policies to territorial differences<sup>2</sup>.

Further, the Progress Report dedicates a section to the third priority action: increasing employment opportunities for priority groups. The term “priority groups” as used in the report is a synonyme of target groups, including also some “vulnerable groups”. In this section the Progress Report just enumerates, with brief notes, a number of national programmes which are well known from the social protection and social inclusion cycle of reports. The Progress Report especially emphasizes the success achieved with four target groups - unemployed young persons below the age of 29, long-term unemployed, disabled unemployed, unemployed aged over 50. However, the NRP recognizes that the number of long-term unemployed people continues to be more than half of all unemployed despite a reduction process which started in 2003.

One of the biggest risks related to job creation which is not mentioned in the IRNRP, is that some extremely vulnerable groups like the Roma can be left behind even in the situation of a growing demand for labor. Integrating People furthest from the labor market is a costly endeavor and from an economic point of view it is often much cheaper to import labor from other countries, like a shark countries or countries from Central and Eastern Europe who have not yet become EU member states. The issue of unemployable people is not mentioned at all in the report.

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<sup>2</sup> Some means tests for example are designed in a way, which is totally insensitive to territorial differences in the value and possible use of real estate. For example one of the means tests in art 10 of the Regulation on the Implementation of the Law on Social Assistance requires that in order to qualify for a social benefit the person or the family should not own property of more than 1 room for 1 person, 2 rooms for 2 or 3 person family, three rooms for a 4 person family. The logic behind this means test is that if a 3 person family owns a 3 room apartment or house they can rent one room and earn income. In many rural areas very poor persons and families own two storey houses with many rooms, while in the same settlement similar houses are offered at 1000 EUR (but practically non-sellable). Of course rooms in such houses are completely non-rentable. But those who live there would not qualify for monthly social benefits. A similar family, which owns a similar two-storey house in the centre of the capital city, would belong to the rich strata of society.

However the report does quote some examples of programs targeted at the increasing of the employability of vulnerable groups. One of those groups are young people targeted by the "Start of Career" program, which provides opportunities for young people to be employed at the administration (ministries, agencies, district and regional administrations and units) immediately after graduation. But the clients of this programme are anyway the most employable young people – those with higher education. The report then goes on to add (in a footnote) that there are also activities targeted at more vulnerable young people, but these are far from being as systematic as to be framed in a programme.

#### *Addressing territorial differences and regional gaps*

A feeding out aspect addressed by the Report is the reduction of regional disparities and the promotion of labour mobility by investment in telecommunication and transport networks. One important aspect of territorial cohesion that is not mentioned in the Progress Report is how EU Structural Funds will be used to overcome territorial differences, especially the European Regional Development Fund and the European Social Fund. One of questions is how municipalities will be supported to co-finance their grants from the structural funds and to secure the cash necessary to operate before being reimbursed. The Flag fund was established and it is planning to provide low-interest credit to municipalities so that they could access the structural funds. The Flag fund has not started to give out credit yet.

#### *Assessing the impact on the social protection system*

The report does not analyze directly the impact of the labor market policies on the social protection system. But the underlying idea as expressed also in the name of the largest employment program and Bulgaria "From Social Assistance to Employment" is that more employment means less people on social benefits. This rule is simple and true, but it doesn't tell as much as it seems to unless we answer some other questions also and first of all the question "what kind of employment". In general Bulgarian employment policies do not address this question sufficiently. The NRP speaks about the "quality of growth" in a section dedicated to the knowledge economy. The message there is that Bulgarian growth is not driven by innovation and therefore its "quality" needs improvement. The IRNRP does not come back to this very revealing formula and neither of the two documents discusses the quality of jobs. There are some examples of policies with visible positive effects and invisible negative effects or cases when the positive effect comes or is recorded quickly while the negative is captured much later when the link between the corresponding policy and the negative effect is less obvious. A new policy trend not discussed in the IRNRP is to scare beneficiaries out of the social protection system by imposing a limit to the number of months of entitlement to social benefits for non non-disabled people in working age. This measure has received support by trade unions but the Confederation of Independent Trade Unions in Bulgaria recognizes that it is not clear what the effects of this measure will be. It will likely have the statistical effect of decreasing the number of people on social benefits and the number of the long-term unemployed. Probably it has even started to work already in this direction by influencing expectations, although it officially becomes effective from January 2008. Cash benefits are usually supplemented by additional income generating or consumption increasing activities like small scale agricultural activities for personal consumption, household work, or activities in the grey economy as a survival strategy. So in reality this measure will have a host of good statistical effects but it will also move a substantial number of

people from very vulnerable groups like the low qualified and poorly educated Roma to low-skilled and low-paid jobs or to total lack of cash income, thus driving them deeper into poverty.

The IRNRP mentions one feeding-in aspect of the interaction between the social assistance system and the employment policies. In order to stimulate active labour market behaviour among the unemployed people subject to social assistance benefits, as of June 2006 bonuses have started to be paid to those unemployed, registered with the local employment offices, who have found a job without the intermediation of the National Employment Agency. These measures however face a very low demand for some reason not explained in the IRNRP. Our understanding is that this measure should benefit anybody who started work, whether it was done through the offices of the National Employment Agency or independently. The income loss due to the move from social benefits, leaving some chances and a lot of free time for generating some additional income, to low paid jobs is a challenge that needs to be addressed. And, unlike the general understanding promoted now in Bulgaria by liberal economists and taken by the government, we do not think that this is a matter of too generous benefits, but rather of too low quality jobs.

#### *Addressing the contribution of fiscal policies*

Fiscal policies in Bulgaria are targeted at the promotion of economic growth. Fiscal policies are less and less oriented towards re-distribution and social cohesion. The culmination of this process will be the introduction of a flat tax rate, which in itself is not a cohesive policy. The overall rate will be among the lowest in the world – 10%. The introduction of the flat tax rate is not mentioned in the IRNRP though it is a very relevant issue. The reason behind it is probably in the fact that the policy was announced after the completion of the report and without any warning or public discussion. Consultations with the social partners started only after the government announced its decision. In our view, this radical change in taxation of personal income as of next tax year creates a feeling of insecurity caused by the unpredictability of the environment. Flat taxation will increase inequality in Bulgaria by harming the low income categories and benefiting the richest.

The rationale for introducing this policy is to further increase employment, take more of the income from work out of the grey economy and provide a further impetus for economic growth. In this respect there are two contradicting expectations as to the effects of the flat tax of such a low rate. One expectation promoted by the government is that both employers and employees will have the incentive to declare the wages actually paid. The opposing argument, first expressed by the trade unions, is that the flat tax will provide disincentives for low income categories to declare their income, especially as it to be introduced without any non-taxable income boundary. Calculations made by the trade unions show that the breakeven point comes at gross income of around 240 euro. Everybody receives less than that will lose from the tax reform.

#### **The "feeding in" aspects**

In the last several years the government has made a lot of efforts to stimulate economic growth and creation of jobs. In relation to this a number of programmes were designed which significantly reduced the unemployment rate in the country and these programmes still continue to operate at the local level. They promote the development of subsidized employment and their efforts are targeted at various vulnerable groups, such as people with disabilities, long-term unemployed and people at pre-retirement age.

However, local and nation-level experts have different opinions about the success of these programmes with regard to poverty reduction and social inclusion bearing in mind the findings of “The evaluation of mainstreaming social inclusion in Europe: Bulgarian National Report”<sup>3</sup>. According to the data presented in the evaluation, specialists working in local municipalities tend to criticize the implementation of these programmes. 62.5% of the interviewed local government specialists consider that Bulgarian legislation is not utilized sufficiently to reduce poverty, while 55.7% of the experts from central institutions (the Ministries) consider that legislation plays an essential part in the implementation of policies for social inclusion (see the annex).

On the whole, the survey data shows that municipalities do not fully understand the policy of the central institutions, while at the same time municipalities are expected to work on poverty reduction and overcoming of social isolation. Additionally, experts from central institutions state rather optimistic opinions; this means that there are certain unrealistic notions about the roles of the various government levels with regard to policy implementation. This analysis shows that it is necessary to introduce thoroughly the Open Method of Coordination (OMC) at the local level. Therefore, more projects should be implemented locally for capacity building of municipal experts and for the strengthening of the role of government for a wider utilization of the OMC.

#### *Links with the EU Social Protection and Social Inclusion Process*

In accordance with the new “streamlined” framework, the government of Bulgaria submitted the first National Report on the Strategies for Social Protection and Social Inclusion<sup>4</sup> on 15<sup>th</sup> September 2006. In their NSRSPSI, EU countries have to report on their specific 2006-2008 challenges with regard to social inclusion, pensions, healthcare and long-term care.

Following the agreement between SPC and the European Council on streamlining of the Open Method of Coordination on Social Protection and Social Inclusion, Bulgaria had to translate the common objectives into national plans for each of the three areas of Social Inclusion, Pensions, Health and Long-Term Care. These plans, covering the period 2006-2008, were submitted to the Commission in the form of a National Report on the Strategies for Social Protection and Social Inclusion of the Republic of Bulgaria. The goal of the submitted plans was to maximize the value and effectiveness of the Open Method as a vehicle for exchange and mutual learning and as a means of reinforcing the interplay between the Open Method and the Lisbon Strategy on Growth and Employment.

Before its accession to the EU, Bulgaria was developing social policies corresponding to the requirements of the EU Social Protection and Social Inclusion Process. The social policy of the country has developed through the implementation of nation-wide programmes run by the Ministry of Labour and Social Policy (MLSP). New approaches have been introduced in almost all areas of social policy.

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<sup>3</sup> The evaluation of mainstreaming social inclusion in Europe: Bulgarian National Report 2006, p. 16  
<http://www.europemsi.org/media/findings/bulgaria.pdf>

<sup>4</sup> From here on we will refer to it as the National Report.

*Links to 2007 Joint Report challenges*

The Bulgarian government has identified four major political goals for the period 2006 – 2008 and these are as follows: 1) equal participation at the labour market of groups-at-risk exposed to poverty and social exclusion; 2) equal access to services in order to prevent social exclusion and its consequences; 3) social inclusion of vulnerable ethnic minorities; 4) reduction of poverty among groups below or above working age - children and elderly people.

Joint Report challenges related to employment are being addressed by what are probably the fastest moving policies in Bulgaria: the current indicators for September 2007 presented by MLSP show that the registered unemployed people in the country are 251 091 and 49 678 of them are young unemployed people aged up to 29. The group of the young unemployed people aged up to 29 has decreased by 0.4% and dropped below 20% - 19.8%. The number of unemployed people aged above 50 has decreased by 1 628, but their share in the total number of unemployed has increased – 37.2% compared to 31.9% in September 2006. 64.0% of these people have no qualification while the number of people with primary or lower education is 62.8%. The share of long-term unemployed also remains rather high – 63.2%.

The number of unemployed people who have been previously employed for more than a year has decreased by 4 507. Despite this fact they remain the largest group among all unemployed – 58.0%. People with no qualification (75.3%) and people with primary or lower education (73.3%) continue to constitute the largest share in the group of long-term unemployed. Data shows that measures taken with regard to the Roma community with high concentration of long-term unemployed people still continue to be inefficient. However, the major problems in Bulgaria are related to the situation of the “discouraged unemployed” - people who are not included in any programme, and the situation of the “working poor”.

Around 25 000 people are expected to drop out from the social support system as of 1 January, 2008. This was announced by Deputy Minister Dimitar Dimitrov at a press-conference of the Ministry of Labour and Social Policy, which was held in August this year. In January 2008 we expect strong reactions from unemployed people with regard to this change, especially in regions of high unemployment rate. Without any doubt, these measures will have a negative impact on the quality of life of concerned families.

The criteria for the assessment of social assistance eligibility have changed several times during the transition period; the last time they were modified was in 2003 and the change was towards growing restrictiveness. The criteria applied at the moment are so restrictive that they exclude from social assistance people in severe need who have no means to survive. For example, there is a criterion related to real estate transactions, and people who have sold or transferred real estate property or parts of it over the last 5 years, are not eligible for social assistance.

The indicator *“increasing the number of persons from vulnerable groups included in vocational training by 20%”* should also be carefully looked at, since it is an output indicator and not an outcome indicator. The number of persons included in vocational training could be increased but the problem is that afterwards they cannot find jobs that are relevant to the training they have received. Therefore, the indicators with regard to poor and vulnerable people should be changed so that they would measure the quality, and not just the numbers, of inclusion of these target groups.

During the last several years efforts were made to increase the scope of pre-school education, for example by making its last level mandatory. Indeed, enrollment rates for pre-school education have increased over the last 3 years. However, there are still problems with regard to Roma children, specifically: 1) enrollment rates of this group are much lower compared to other groups; 2) kindergartens do not have the capacity to help Roma children with the acquisition of the Bulgarian language and certain social skills. "Decrease of 10% in the number of children at mandatory school age dropping out of school compared to the 2005 rate" is not a good indicator because the overall number of children at mandatory school age (6.7 - 15) is falling anyway. This indicator can be better defined in terms of increase in enrolment rates.

The number of people on social assistance is well known and regularly tracked. In this sense, an indicator such as „decreasing the number of persons on social assistance by 5%“ is quite precise. Still, there is a problem with this indicator in the sense that the decrease can be achieved through different policy instruments with very different social impacts – e.g. by improving the well-being of people on social assistance or by tightening eligibility criteria, etc. So this indicator should not be used without an accompanying explanation about the ways through which the reduction has been achieved.

The government has spoken publicly about its plans to further tighten eligibility criteria for social assistance. Recently, in a public announcement the Prime Minister said that the “profession of the socially disadvantaged<sup>5</sup>” would soon have to disappear. According to changes in the social assistance legislation, enacted on 1 July 2006, people at working age without disability are entitled to receive social benefits no longer than 18 consecutive months. After that period, the assistance is terminated automatically for one year. The recipients of social benefits who fall under this definition will not be entitled to social benefits as of 1 January 2008. According to different estimates, these will initially be around 25 000 – 30 000 people. But the actual figure will accumulate over time to probably 60 000 – 70,000 people. The idea behind this change is that the measure will force the person to find a job. The underlying philosophy is that of opportunism, i.e. that a person is inclined to misuse social assistance in an effort to avoid working. In our opinion, the measure will affect negatively some of the neediest families. Social workers examine eligibility for social assistance mostly through the examination of papers and documents and not so much through an assessment of the true conditions in which a family lives.

Some indicators use percentages whose source or justification cannot be identified easily and this obscures the true targets or scope of the policy challenges, for example:

- decrease of the number of persons in specialised institutions by 10%;
- increase of the number of persons from vulnerable groups using social and health services within the community by 20%.

We recommend that in such cases the baseline number should be quoted, if it is known (and it should be, otherwise the indicator makes no sense and is simply a number), for example “At least 20% (X number of persons) from vulnerable groups use social and health services within the community”. Formulated like this the indicator is more precise and shows the scope of the whole operation (e.g. it is clear whether it is a 20% increase from 10 people or from 10 000 people).

The government interpretation of data concerning planned indicators is often biased. The government is more inclined to report success than to admit that there is no progress and that adequate measures should be taken. An example in this respect is the data on the number of

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<sup>5</sup> Професията социално слаб.

deinstitutionalized children. The government continues to claim that there is an 11.55% decrease in the number of children accommodated in specialized institutions in 2006, which brings about wrong conclusions and commentaries. Actually, the decrease in the number of children is only 0.11% in 2006 taking into consideration the decrease in the number of the overall child population in the country. The number of institutionalized children aged 0 – 3 has in fact gone up.

### Examples of good practices

- Bulgarian Active Labour Market Initiative (BALMI)

One of the good examples of how social investment promotes growth has been the second component of the project SIEP (Social Investment and Employment Promotion) funded by a World Bank Loan. The first component called Community Infrastructure for Development Initiative has shown moderate results – the overall rating given in a World Bank assessment for this component is satisfactory for both development objectives and project implementation progress. The second component of the project called BALMI (Bulgarian Active Labour Market Initiative) has been rated as excellent by the World Bank mission and we support this assessment. Support for the BALMI will continue under the Human Resources Operation Programme, which is funded from the European Social Fund. The programme, which is targeted on training of the unemployed, displayed very high gross placement rates – more than 40% for off-the-job training and more than 90% for on-the-job training. Apart from the training the initiative also supported Local Economic Development Planning Studies, which were contracted to small companies and NGOs and seem to have generated a true participatory planning process. Part of the success of the BALMI lies with:

- the good targeting resulting from a thorough poverty mapping exercise on the planning stage, avoiding direct reference to minority groups although they have become the main clients of the programme but through spatial and social mapping revealing clusters of poverty;
- large stakeholder involvement, including involvement of social partners;
- understanding the multiple types of and causes for unemployment and poverty

- The National Programme for Initial Literacy and Qualification of Roma People

During the recent years of social and political transition, the Bulgarian society accumulated considerable experience in working with the Roma community and especially with Roma NGOs. The involvement of Roma NGOs has contributed significantly to the success achieved in the field of education integration. Examples of good practices include the introduction of the so-called ‘teacher assistants’ in the education process, the desegregation of Roma schools, the introduction of extracurricular classes and other optional forms of education. Alongside with these activities, the Roma NGOs and the Roma leaders supported the state-run welfare programs and became leading partners to the Bureaus of Labour, the Regional Inspectorates of Education (RIE), the Directorates for Social Assistance and the municipal administrations. The work on Roma community issues requires reliable and efficient relations among the different partners; it is necessary to coordinate the efforts of the various institutions in order to

achieve efficient social inclusion of Roma people in public life. For this purpose it is necessary to conduct discussions, make professional in-depth analyses and elaborate strategies which then need to be financially secured and delegated for implementation to community-based structures.

An example of feeding in as a good practice can be given with The National Programme for Initial Literacy and Qualification of Roma People which was launched by MLSP for implementation in all municipalities in Bulgaria in 2006 and 2007. Nevertheless, good practices for combating poverty in the Roma community should not remain isolated only within the scope of government. Additional efforts should also be made for the professional development and capacity building of NGOs in order to support their work in the Roma neighbourhoods and make them capable to provide more education and mediatory services. The most appropriate approaches will be discovered through dialogue and cooperation among the various stakeholders. A new mechanism for delegating more resources, rights and responsibilities in the Roma community should be introduced to promote social capital building in the community in order to raise the living standard of the most vulnerable families.

Only now serious analyses and discussions among professional circles about the efficiency of the different programmes and their effect on the participants. But still there is a need for more open discussion on the qualities of different implemented programmes; certain debates may have already happened but they have been limited only within the administration of MLSP; these discussions have focused only on the positive outcomes of the programmes and have not analysed the challenges and the lessons learned in the course of implementation.

### Aspects related to governance

One of the governance issues related to complex policies in Bulgaria is the coordination and assignment of specific non-overlapping and non-contradicting responsibilities to different bodies. Over the last years this process has improved very much especially due to the initiation of some comprehensive policy processes, such as the preparation of the National Reports on Social Protection and Social Inclusion and the national implementation of the revised Lisbon Agenda.

The Ministry of Labour and Social Policy is the main coordinating body at the central level. The national legislation provides for consultation of stakeholders. This is achieved through a network of consultative bodies, such as the National Council for Tripartite Cooperation, the National Council for Integration of People with Disabilities, the National Council for Coordination of Policies and Programmes aimed at the Reduction of Poverty and Social Exclusion, the National Council for Cooperation on Ethnic and Demographic Issues, the National Association of Municipalities, and other consultative bodies. In the field of protection against discrimination, the Commission for Protection against Discrimination was established in 2005 following the enactment of the Law on Protection against Discrimination.

## Monitoring and assessment of impact of policies

The programmes presented by the government were entirely designed, implemented and evaluated by MLSP. Most of the good practices presented by the government do not have any independent evaluation and, on the other hand, there is no accessible information about how they were assessed internally as good practices. We could say that the general trend of project implementation by the state still continues and confines the acquired experience only within the structures of MLSP. Almost all of the innovative projects have been implemented and evaluated by the structures of MLSP, such as the Employment Agency and the Social Assistance Agency, the only exception being the public tenders open under the different Operational Programmes within the framework of EU Structural Funds. In our opinion, one area for improvement should be the sub-contracting of projects and external evaluation to independent organizations which have the necessary expertise and experience to make an evaluation of the outcomes of implemented activities. Practices on a nation-wide scale should be introduced only after professional discussions on the issues concerned.

One aspect of monitoring according to the IRNRP is the “analysis and monitoring of the areas of legislation and enforcement that seem to be problematic for economic agents through ex-ante and ex-post assessments of the impact of the legal acts”. Economic agents can be taken to include those who are employed or, in a broader sense, the whole labour force. Indeed from the third priority action dedicated to raising employment opportunities for priority groups it can be seen that the labour market and the employment programmes are an area of increased concern about the effectiveness and efficiency of measures where new monitoring instruments have been introduced. To some extent programmes targeted to the Roma especially in the field of education start being monitored more closely. The monitoring instruments used under a succession of large Phare projects have been improving. We hope that this trend to improvement will continue with the large programmes funded from the EU SF and especially the European Social Fund. In general the IRNRP mentions monitoring mechanisms which are indeed best developed – those which are closely related to economic performance, business environment and the labour market. The IRNRP pays little attention to monitoring mechanisms for programmes further from the core economic activity, i.e. programmes concerning vulnerable groups who are not economically active. This is to some (small) extent a bias of the report, which follows a strong economic line, but it is much more a reflection of the true situation where monitoring in fields and actions further from the economic activity is much less developed. Assessment is mainly based on output measures not on outcomes. As an illustration we can look at the Report of the Ministry of Labour and Social Policy for 2006 “Priority Actions in Labour and Social Policy in 2006” where an account is given of the so called responsible parenthood measures, which consist in stopping child benefits for families whose children do not attend regularly school. The report says that for more than 9000 children benefits were discontinued, but it doesn't mention how this contributed to increasing school attendance (our hypothesis is that it didn't).

The state administration and the non-governmental sector are still learning how to carry out independent assessments and how to use collected data. Special attention should be given to one component related to learning how to respond to the facts, criticism, conclusions and the different viewpoints presented in these reports. There are reports and research studies for which special resources have been allocated but consequently their monitoring and output data are simply neglected. In the field of child policies many such examples could be quoted.

## Involvement of stakeholders

Transparency in decision-making and involvement of all stakeholders are presented as key indicators of good governance. As said the Bulgarian Profile of the Joint Report on Social Protection and Social Inclusion it is necessary to further improve the policy, the inter-institutional coordination and the measures for active involvement of stakeholders. With regard to social inclusion of ethnic minorities, it is vital to continue and to increase the involvement of civil society organisations representing their interests. Sustained efforts are also needed to fight against informal payments in health and education.

Measures introducing the principle of better regulation and stakeholder involvement have been outlined in the *Measures Introducing the Principles of Better Regulation* adopted by the Council of Ministers in August 2006. This document is quoted in the IRNRP under a section discussing the challenge of improving the business environment. It should be recognized that the government has done a lot in this respect almost to the extent that business is perceived as the only beneficiary of the government's efforts to improve regulation procedures through more transparency and stakeholder involvement. Legislative transparency, public discussion of draft legislation and other good governance tools are mainly regarded as tool for improving the business environment. This is how the overall philosophy that better conditions for business means better conditions for everybody. In the last years organizations representing the business have become increasingly active and have demonstrated increasing capacity to participate in professional discussion of policies. Unfortunately other stakeholder groups are very poorly represented in coordination and consultation bodies that really generate policy decisions like the Economic Growth Council (also described in details in IRNRP). This is especially true of vulnerable groups outside the labour market – the interests of most of those in the labour market are protected by two powerful trade unions.

The social partners are more and more frequently consulted on issues related to employment and income policies. There has been a thorough discussion with the social partners in the process of defining the official poverty line. One of the first manifestations of this consulting practice was the preparation and signing of the Pact for Economic and Social Development of the Republic of Bulgaria between the Government, the nationally representative trade unions and the nationally representative employers' organizations. The document contains some important commitments such as the integration of children with special education needs and the children from ethnic minorities. However, the trade unions were not consulted enough on the impact of the new tax legislation and especially its possible effects on poverty. This legislation has been severely criticized by the two national trade unions taking part in the social dialogue process. The Confederation of the Independent Trade Unions in Bulgaria (CITUB), in an assessment of the implementation of the Pact for Economic and Social Development from 11 September, 2007 gives an overall negative evaluation of the implementation of the Pact and says that "trade unions, despite their willingness to participate in a dialogue on income tax and insurance policy, are not consulted but only informed about decisions that have already been taken". Still, we can say that trade unions are now more than before involved in the process of development of welfare policies though there is still room for improvement.

On 13 June 2007 The Bulgarian Business Network Association (BBN) sent a letter<sup>6</sup> to the Prime Minister Mr. Sergei Stanishev and the Chairman of the Delegation of the European Commission in Sofia Mr. Michael Humphreys expressing a concern of the Association's members (over 100

<sup>6</sup> <http://www.europe.bg/htmls/page.php?id=8970&category=223>

small and medium size enterprises) related to eight points of the Ordinance No 121 of the Council of Ministers issued on 31 May 2007. The document stipulates the regulations for allocation of grant support under the Structural Funds and the Cohesion Fund of the European Union and the Phare Programme. BBN announced that the experts from the Agency for Small and Medium Size Enterprises were not aware of the fact that the Ordinance was approved, despite the existence of a coordinated procedure among the institutions for preparation of such documents. Specialists from certain ministries were not aware of the document also. Members of BBN also expressed their concern that such an important document concerning business development had not been discussed among a wider circle of representatives of public organizations. BBN showed willingness to cooperate with the state institutions to establish and conduct an adequate policy with regard to small and medium size business, whose representatives are members of the Association.

The dialogue with civil society requires a special attention according to a report, prepared by CITUB<sup>7</sup>, on the two-year's performance of the government. Still, the Economic Council for Cooperation does not involve any NGOs which would represent the opinion of the third sector; there is a clause in the Pact for Cooperation regarding this issue and still no action was taken by the government. On the other hand, the NGOs do not insist on entering the working groups of the Council. The initiation of dialogue with NGOs is often done in the last moment or in case of enactment of special measures. However, the discussion on the Strategy for Child Protection was an exception since it gave opportunity to different organizations to get involved in the debates related to its preparation.

### Coordination and joining up of economic, employment and social policies

Economic policies are mainly within the domain of three ministries – the Ministry of Economy and Energy, the Ministry of Regional Development and Public Works and the Ministry of Transport and Communication. Other ministries also relate to certain aspects of economic development. The Ministry of Finance is very much involved in the planning of all sector policies as it is in charge of producing the main public instrument for promotion of any policy – the state budget. The Ministry of the Economy is the host government body for the Agency for Economic Analyses and Forecasts, which produced the Convergence Programme of Bulgaria, the NRP and the First Progress Report under the NRP. We believe that the level of coordination especially between the Ministry of the Economy and the Ministry of Finance on one hand and the Ministry of Labour and Social Policy on the other needs improvement. A desk comparison between the National Reform Programme and the related Progress Report and the National Report on Strategies for Social Protection and Social Inclusion reveals that probably there is not enough correspondence and mutual reinforcement between the two documents, which probably means that they were created without any coordination. Although some key social programmes are quoted in the Progress Report on the NRP, still it seems that NRP reflects a very different policy strand compared to the Inclusion Policies.

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<sup>7</sup> An assessment of the activity of the government, made by CITUB: "Two-Year Governance of European Integration, Economic Growth and Social Responsibility": <http://www.knsb-bg.org/Ocenka.pdf>

### 3. New developments in the social inclusion policies in Bulgaria since July 2006

#### 3.1. The baseline social policy situation

##### *Demographic, Social and Economic Context*

The baseline social policies situation did not change in 2006 and 2007. The government continued to follow a conservative fiscal and budgetary policy. By the end of April 2007 the fiscal reserve was 5885.7 million BGN and 8591.2 million BGN by the end of September 2007; the accumulated surplus being 3,046 BGN. The money planned for education and health in the 2007 budget were 4.2% and 4.3% respectively. The budgets of both the National Health Insurance Fund and the National Social Security Fund were subsidized by the state budget. The government introduced further reductions in social security contributions by 3% which made pensions even less sustainable in the long run (in the 2050 time horizon). Contributions were already reduced by 6% in 2006. The measure introduced in 2006 to improve the management of hospitals, with the hope of reducing health care costs, has not produced the expected results. In general, healthcare continues to be heavily under-funded. Only structural reforms, as well as management and efficiency considerations, will not resolve the problems with accumulated hospital debt and the quality and coverage of health care services. These challenges require an increase in the healthcare contributions by at least 3% which could be directed to a small private health insurance system in the same way as it was done for the so-called second pillar of the social security system, i.e. making contributions to a chosen private fund mandatory.

On the 1<sup>st</sup> of January 2007 Bulgaria became member of the EU. This date had generated great expectations in the Bulgarian population which were expressed in the very high rates of public support for EU membership. The first year of the EU membership has been remarkable in terms of economic performance, but disappointing for most Bulgarians in terms of their living standard. Economic growth and external factors, such as increasing prices for some foods and fuels, accounted for a very high inflation in 2007. Data from a survey conducted by the sociological agency Alpha Research shows that at present 77% of the adult population expects that prices would increase significantly during the next year and that the low income groups are most sensitive and vulnerable to price changes. The same survey indicates a sharp deterioration in the perceptions of the overall economic situation in the country and the situation of Bulgarian households. Such data needs careful interpretation against the background of strong economic growth and consumer credit expansion. Our interpretation, which we have already expressed in the previous section of this report, is that the government did not look for ways to transform the outputs of the boosting economy into more welfare for the citizens, but has instead used the classical approach of neo-liberal economics to stimulate growth at the expense of equity.

Bulgaria was not hit by the credit crisis that started in the United States and then spread throughout Europe. The overall level of household credit is still low, but credit expansion over the last years has been significant in Bulgaria. Easily obtainable consumer credit with very high interest rates became quite popular among groups with income below the average. Credit of this kind tends to lure people into buying goods that are not necessarily part of the package that a household at this income level really needs. Later needs to secure these necessary items become limited due to the need to pay back credit.

On 25<sup>th</sup> October 2007 the government gave a new definition of the poverty line for the country, which will be 166 BGN as of 1<sup>st</sup> January 2008. The same Government Ordinance approves certain changes in the methodology for defining the poverty line and according to MLSP the government has fulfilled its commitment with regard to its governance programme and Tripartite Pact for Economic and Social Development of Bulgaria until the end of 2009. Before its adoption by the government, the Ordinance was approved with consensus by social partners within the framework of the National Council for Tripartite Cooperation.

### *New Trends and Challenges to Social Inclusion Policies*

The major priorities for budget 2008 are to balance the growing export deficit and the deficit in current expenditures and to continue the reforms in key social sectors, such as education and health care. The goal of the budget is to promote corporative investments, to improve competitiveness of production and service provision, to legalize work payments and to increase work income. The press centre of the Council of Ministers announced that wages in the budget sphere will be increased by 10% and pensions – by 9.5% in accordance to the draft law for the 2008 state budget, which was discussed at the end of October. In an agreement with the European Commission, the excise taxes on tobacco and fuels will be increased and the minimum wage for the country will be raised to 220 BGN, which is 40BGN more than the current minimum wage. The average amount of pensions will be raised to 196.4 BGN, while the minimum pension for length of service and old age will be raised up to 112.62 BGN. Indexing of the payments will follow the Swiss Rule – 50/50, e.g. 50% of the inflation index of the current year and 50% of the social insurance income level of the preceding year.

Many Bulgarian economists and public figures have argued that taxpayers will have to pay more money in 2008 for the unreformed public sectors, such as health care and education. The argument expressed by the Ministry of Finance that next year only the sector of education will be subsidized with more funds from the GDP cannot convince teachers or the scientific community in Bulgaria that this sector is a priority for the government. In reality the government has allocated 4.2% of the GDP for education in 2008 and it remains the same as the percentage of the preceding year, and the difference in figures comes from the recalculation of the GDP in the middle of the year where the expenditures for all sectors decreased as relative share. Besides, the figure for this sector again remains below the teachers' demand for 4.5% of the GDP and scholars' demand for 5% of the GDP, which were announced during a series of protest rallies all over the country.

Another important issue is the need for the introduction of a comprehensive immigration policy which is still missing. It is early to say that immigration is becoming an issue for Bulgaria which is traditionally an emigrant country, but there are signs that in the future there may be a higher inflow of foreign workers especially in some sectors of the economy. One of the new risks is the increased necessity to import workers in some of the sectors of the economy such as tourism.

### *Country Specific Challenges*

In the previous section of this report we have commented on some of the targets related to the specific challenges for Bulgaria as outlined in the National Report on Strategies for Social Protection and Social Inclusion. In this section we provide a summary on the progress in the

implementation of each indicator and an assessment of its quality. All employment related targets have practically been reached, but the quality of jobs remains a concern as well as the low level of salaries (for example measured by their share in the GVA) and the persisting phenomenon of the “working poor”. Data on research and innovation in Bulgaria, as well as the fact of the negative trade balance, show that probably not many of the new jobs are in technologically advanced, forward looking and competitive sectors and enterprises. Indicators in the field of health and social protection are not very well defined and would better be revisited. The overarching income indicators are easy to reach since they are defined in nominal terms – for example, the indicator for 5% nominal increase in pensions has been exceeded; data for 2007 will likely show that a 15% (nominal) increase in the total household income has been substantially exceeded already. However, we believe that real income will be a more relevant indicator in the context of unusually high inflation rates.

Country specific challenges were defined in the National Report on the Strategies for Social Protection and Social Inclusion, so all of these remain topical, especially those related to the equal access to services and poverty reduction among children.

Below we describe in brief some issues related to the progress in addressing the Specific Challenges for social inclusion in Bulgaria:

- The reforms in education comprise such issues as investment in knowledge and linking academic circles with the labour market, continuous education, lifelong learning, prevention of school drop-out and inclusive education of children with disabilities and ethnic minorities. The average standard for funding the education of one student in the secondary education will be raised by 24.8% in 2008 in comparison to the preceding year. The financial resources for the Programme for starting a new model of differentiated payment to teachers will be raised by 236.3% and also a system of delegated budgets for the schools will be introduced. Such structural changes should be supported by serious trainings and consultations since the majority of people working in the education sphere do not have the necessary skills to manage independent budgets. We do not see as a good practice the government’s punitive approach implied in the changes to the Law on Family Benefits for Children. These changes try to encourage school attendance by threatening parents with the loss of social assistance if their children do not attend school. The philosophy of this approach is based on wrong and stigmatizing assumptions about the reasons for not attending school – because of unwillingness on part of children and lack of interest on part of parents. This approach uses the threat of punishment instead of providing support to the family.
- The reforms regarding health care and pre-hospital care are still not finalized. Bearing in mind that the allocation of 785 million BGN for health care services in 2008 is insufficient, the tension in this sector is still apparent. In 2007 the expenditure of the hospitals amounted to 865 million BGN, which called for actualization of the budget with additional 86 million BGN. Overcoming problems regarding qualification and wages of medical workers continues to be an important topic within these professional circles. This is especially relevant for issues regarding the wages of the nurses which are almost equivalent to the minimum working salary for the country. Another important issue is the problem with people who have lost their patient’s rights because they have not been paying their medical insurance. The typical profile of an uninsured person is that of a young person with low education who comes from a low-income family; many of these people are from the Roma community. The conclusion is that much more needs to be

done in order to improve the functioning of the health care system so that poor people can equally exercise their medical rights.

- Certain changes in the area of social policy will be enacted on 1st January 2008 when social assistance will be terminated for people who have been receiving social benefits for more than 18 months. There will be more capacity building for managing programmes and policies rather than for implementation of direct programmes by state departments of the Social Protection Agency and the Employment Agency. Also there is a lack of willingness to outsource national and local projects, assessments and surveys. Around 25 000 people are expected to drop out from the social support system as of 1st January, 2008. This was announced by Deputy Minister Dimitar Dimitrov at a press-conference of the Ministry of Labor and Social Support held in August. 33% of them have primary or higher education, and 57% of the total number have studied till 4th grade only or are completely illiterate. This development is due to the changes in the Law on Social Support introduced 18 months ago. In January 2008 we expect strong reactions on part of unemployed people with regard to this development especially in regions of particularly high unemployment rate. Without any doubt, these measures will have a negative impact on the quality of life of children whose parents are unemployed. In our opinion, eligibility for social assistance is mostly examined by social workers through papers and documents and not so much through assessment of the true conditions in which a family lives. It is an important issue and our strong recommendation is that there should be a very serious impact assessment of the provisions of the Law on Social Assistance and other legislation and by-laws in this field, including means tests and field practice, trying to find also if there are people who fall through the safety nets and why this happens.
- There are still certain trends in child policy which result in institutionalization of children. The number of institutionalized children aged 0–3 has in fact gone up, despite the fact that the government continues to claim that the number of institutionalized children is falling (see 2.1.2. The "feeding in" aspects). Current data on the overall child population shows that the decrease of the number of institutionalized children is almost insignificant. A very good example is the situation in Sofia, where all Homes for Children aged 0 – 3 are completely full and this fact shows the inability of the child protection system to handle the fundamental issue of abandonment. The key issue related to the work with children-at-risk, development of social services and the process of deinstitutionalization remains the low capacity of the Child Protection Departments (CPD). However, the problems in the system of CPDs could be divided in two areas: 1) Structural problems – the CPDs continue to be subordinated to two structures at the same time – the State Agency for Child Protection (SACP) and the Social Assistance Agency (SAA). This status brings about confusion to both the personnel working on child cases and the administration. Such types of problems are inherent in the very Law on Child Protection and they have been a subject of discussion again and again ever since the law was enacted in 2000. Frequently, certain child cases receive methodological support from the two state structures simultaneously, with contradictory content. CPDs remain a centralized structure working at the local level. Recently, some NGOs put this problem to discussion and a new term was coined – de-concentrated institution, which in practice is a centralized institution working locally but managed by the central government. Besides, the confusion of financial support with child protection brings about certain problems; 2) Problems related to the capacity of CPDs. The key problem is the small number of specialists and the high pressure they experience because of the great number of child cases they have to handle. Another problem is the insufficient number of trainings and

the lack of a regular system of supervision. An important issue is the low remuneration of the personnel working within CPDs and the frequent incidents of burnout.

- With regard to employment, key issues continue to be related to the most vulnerable groups - illiterate people and the Roma community, and also women and people above the age of 55. Another major issue is the problem of the “working poor”, ignored for a long time until recently, even though trade unions have often brought it up for discussion. This issue is mentioned in the document titled Pact for Economic and Social Development of the Republic of Bulgaria, which was adopted this year. The programmes and measures targeted at the unemployed should be less restrictive in character and more oriented towards overcoming the overall poverty and the promotion of employment. Special attention should be paid to programmes targeted at the Roma community and promotion of employment among women; the implementation of these programmes should be delegated to local organizations working within the communities, while the Employment Agency should have a monitoring and supporting role in the implementation of the programmes.

### 3.2. Response to New Trends and Challenges

*Main new legislation after June 2006 until September 2007*

<i>Area of legislation change</i>	<i>Legislation change</i>	<i>Comments on the impact on target groups</i>
<p>1.Social assistance</p> <p>The Law on Social Assistance was changed three times in the period December 2006 – October 2007</p>	<p>1.1. Introduction of “social investments in children” in the Law on Family Benefits as of 1<sup>st</sup> January 2007.</p>	<p>“Social investments in children” is the process of re-directing part of the social benefits for families-at-risk to schools and kindergartens to cover education fees. In reality, direct financial investment in children does not happen. The changes in this area were introduced without in-depth analysis and discussion. This is a restrictive policy towards children and families.</p>
	<p>1.2. The Law on Social Assistance</p>	<p>The change in the Law on Social Assistance which defines an 18 month period of monthly assistance, followed by complete drop out from the social assistance system, is also a very restrictive measure and leads to deepening social isolation and poverty of certain families.</p>
	<p>1.3. The Regulatory Act of the Agency for Social Assistance.</p>	<p>The change in the Regulatory Act of the Agency for Social Assistance and the establishment of the new structures within the Agency were introduced without preliminary consultations and public discussions.</p>
<p>2. Health</p>	<p>2.1 Health Insurance Act</p>	<p>Some of the changes relate directly to the need for coordination with the social security systems in the EU. Other changes try to tighten the control over hospital expenses in an attempt to reduce the existing huge hospital debts. There are changes related to the procedure for the signing of the National Framework Contract between the NHIF and the unions of medical doctors and dentists.</p>

<i>Area of legislation change</i>	<i>Legislation change</i>	<i>Comments on the impact on target groups</i>
<p>3. Child Policy</p> <p>Two changes in the Law for Child Protection</p>	<p>3.1. A change in the Law for Child Protection defining the principles of professional foster care</p>	<p>The change relating to professional foster care was introduced in January 2007 but it is now almost one year that professional foster families (paid) are still non-existent. A number of families have been approved to become paid foster parents, yet only 27 children have been accommodated with them. The establishment of the system of foster care has proven to be a difficult and slow process in Bulgaria because of the low capacity of the Child Protection Departments and the Social Assistance Directorates to manage this process. With regard to child policy there are a number of positive strategic documents which are now being discussed or have already been approved. Among them is the draft Strategy for Child Protection 2007-2017, as well as the Integrated Plan for Protection of Children's Rights adopted by the Council of Ministers.</p>
<p>4. Employment</p>	<p>4.1. The Law on Stimulation of Employment regulates the system of apprenticeship and internships of unemployed people</p>	<p>This change gives a good opportunity to employers to attract unemployed people who spend some time receiving on-the-job training and could be employed by the company through a government subsidy as of 1<sup>st</sup> January 2008. This program could support young people to find employment.</p>
	<p>4.2. The Social Insurance Code was amended three times in July 2006</p>	<p>The changes concern mostly administrative requirements to the employers in relation to document provision concerning social insurance.</p>
	<p>4.3. The Labour Code was changed three times in 2006</p>	<p>Changes in the Labor Code concern labor relations involving children above the age of 14, as well as the activities of trade union activists at the work place. The other significant change relates to people hired through temporary employment contracts. The changes are rather small and mostly aim to provide more precise definitions and interpretations of labour legislation. We could say that there are no significant changes in this area.</p>
<p>5. Education</p>	<p>5.1 Education Law</p>	<p>The changes in 2006 led to:</p> <ul style="list-style-type: none"> <li>• Decentralization of institutions for children without parental care, i.e. management of these institutions by municipalities and not by the state. This process of decentralization was conducted by the Ministry of Education without any preliminary preparation and created a number of complications with regard to labour legislation and their personnel, thus generating serious difficulties for municipal government.</li> <li>• Adapting our legislation to the requirements of Directive No.77/486 of the EU on the education of children of migrant workers.</li> <li>• Reduction in the number of school subjects included in final state exams (matriculation exams).</li> <li>• Introduction of tests as the leading form of school performance assessment; for example exams for admission in high schools (after 7<sup>th</sup> grade) will be conducted only in the form of tests.</li> </ul>

<i>Area of legislation change</i>	<i>Legislation change</i>	<i>Comments on the impact on target groups</i>
6.	5.2. University Education Law	Universities will be able to decide on the number of students admitted each year above the number defined by the Council of Ministers. State schools can create school boards, with the participation of external experts, to ensure transparent and effective school management. The position of a Student Ombudsman will be established for the protection of students' rights in front of school management; the Ombudsman is a member of the school board.
	5.3. National Program for Development of Pre-School and School Education 2006-2015	The program contains the main directions of the education reform and the legislative changes allowed government to start implementing it promptly. The weakness of this programme is that it does not have indicators which will measure its progress. The national teachers' strike in September-October speeded up its implementation through the introduction of delegated budgets.
	5.4 Resolution of the Council of Ministers from 20 <sup>th</sup> April 2007 for the Adoption and Update of National Programmes for the Development of Secondary Education – 2007.	The programme for the optimization of the school network offers incentives to municipalities to close down schools and to reduce the number of classes in each grade in order to avoid classes with very small number of students. The subsidy ranges from 80 000 to 250 000 BGN depending on the size of the closed school.
	5.6. Council of Ministers Resolution No. 956 from 29 <sup>th</sup> December 2006	The Resolution divides the activities financed by the municipal budgets into local activities and activities delegated by the state, defines standards for financing activities delegated by the state in 2007. The Resolution stipulates the mechanisms for "per capita" funding in education, which were introduced for the first time. Mainstream schools and kindergarten are divided into 4 categories with different "per capita" funding. The criteria roughly assess the level of development of the given municipality. "Per student" rates for mainstream school range from 796 BGN (407 euro) to 958 BGN (490 euro).
6. Budget Policy	State Budget Acts for 2007 and 2008 (draft legislation submitted to the Parliament by the Minister of Finance).	Conservative budgetary policy. Economic growth and macroeconomic stability are a priority. Creating a budgetary surplus of 3% remains a key target for 2008 because the forecasted deficit for year 2008 is more than 20% of the GDP. Comments on specific budget aspects of line policies are provided in the text of the report. The budget policy is so restrictive that both 2007 and 2008 budgets are criticized even by right wing parties for curtailing the public sector.
7. Taxation Policy	Amendments to the Personal Income Tax Act	Introduction of a Flat Tax Rate at 10% from 2008.

### *Legislative response to country specific challenges*

One of the targets mentioned in the National Report on the Strategie for Social Protection and Social Inclusion 2006-2008 is a decrease in the number of persons on social assistance by 5%. The number of people on social assistance is well known and regularly tracked. In this sense this is a precise indicator. Still there is a problem with this indicator in the sense that this number could be reached by different policy instruments with different impacts – e.g. by improving the

well-being of people on social assistance or by tightening assessment criteria. As already commented, from the beginning of 2008 such a decrease will be achieved by regulatory means – limiting the number of months during which non-disabled recipients are entitled to receive social benefits. So, whenever this indicator is used, it should be explained how reduction was achieved.

Another big challenge for the Bulgarian government is the income policy, especially in the context of the high inflation rates in 2006 and 2007. Unfortunately, the overarching income targets in the JRSPSI are defined in nominal terms - at least 15% increase in the total household income; nominal growth of income from pensions of more than 5% per year. We believe that increases in monetary indicators and aggregates should be defined in real terms. Salaries in Bulgaria represent a comparatively small share of the GVA as recognized also by the NRP Progress Report. In some publicly funded sectors, which are very important for human resource development, such as education and health, salaries have been very low. This has brought about escalating claims for salary increase. However, by the end of Q3 of 2007 the income from advance personal income tax under full-time contracts has increased by 37% compared to the same period of the previous year<sup>8</sup>.

Several draft legal acts on the amendment of the Health Insurance Act were submitted in Parliament. Some amendments were improved by the Parliament. In 2007 the insurance burden continues to be shared between the employer and the employed at ratio 65:35. The plan is that in 2008 this ratio will be 60:40 and will finally reach 50:50 in 2010. A new procedure for the signing of the National Framework Contract also came into effect on 1<sup>st</sup> January 2007 requiring the contract to be signed by at least 8 of the 10 representatives of the National Health Insurance Fund and at least 8 representatives of professional organizations of doctors and dentists. There has been a prolonged stalemate in the negotiation of the National Framework Contract, which was not necessarily due to procedural problems, but has led to difficulties for patients especially in view of the fact that the so-called positive list (the list of medical products and dietary foods used for medical purposes) is part of the National Framework Contract and the negotiation of this list proved especially controversial. The approval of this list is subject to strong lobbying on behalf of pharmaceutical companies.

### *New Policy Developments*

When analyzing the financial framework of the EU for 2007-2013 the report for the implementation of the consolidated budget mentions education research and social inclusion as “new priorities” in the policy of the EU. The same report underlines that tax policies in Bulgaria in 2007 will be targeted at the promotion of investment and economic growth. Measures to curb internal demand and a “moderate income policy” are mentioned as main tenets of the 2007 budget<sup>9</sup>. Corporate tax has been further reduced from 15% to 10 % in 2007, which leaves even more money with the business. The intention is that the business will invest these approximately 300 million BGN to boost competitiveness, to create new jobs and thus to continue with high growth rates and reduce the trade deficit.

From 2008 the government is planning to introduce a flat tax rate, an idea that already took shape in the state budget for year 2008, which was submitted to the parliament for discussion and approval. The new tax rate is one of the lowest in the world – 10%. The introduction of a flat tax

<sup>8</sup> Information Newsletter: Execution of the Consolidated Budget, September 2007, Ministry of Finance.

<sup>9</sup> Report on the State Budget Act 2007.

rate entails cutting of all existing deductions, including child deductions which were barely introduced in the framework of the so-called family taxation, just to be immediately abolished.

One of the important policy developments, which will have long-term implications on the pension system, has been the further reduction of the social contribution rates by 3%. Thus the pension system will continue to be very unsustainable in the long run. The government does not seem to be very concerned with the long term consequences of its policy. The actuary balance for the period 2006-2050 is shown and analyzed in the full version of the NRP. Under this scenario it was expected that the deficit will decrease every year to reach 9.89% in 2030 and then grow again to -12.53% by 2050<sup>10</sup>.

Working salaries have increased substantially in 2006 (12.2% nominal growth and 3.6% real growth in the first half of 2006)<sup>11</sup>. This growth has likely continued through the second half of 2006 and 2007 but inflation forecasts have widely missed the target. The forecasts for 2007 used by the Ministry of Finance in the course of the preparation of the state budget set the average salary increase at 8.4% and the average inflation rate at 4.4%. Now it is clear that the inflation in 2007 will actually exceed 8%.

In Bulgaria social policies continue to be decided at the central level although the government has shown commitment to continue with decentralization and to transfer power and resources to the municipalities in order to increase the quality and access to services. The Programme for the Implementation of the Strategy for Decentralization 2006-2009 envisages annual evaluation of the activities that the central government has delegated to the municipalities. These are services in the field of education, health, social care and culture.

### 3.3. Main conclusions and recommendations

- In the last 2 years the Bulgarian government explicitly prioritizes economic growth and macroeconomic stability. Issues of adequacy of public funding are not a priority, while efficiency considerations are used to cut costs in many areas of public funding. In some cases optimization and efficiency improvement arguments, as in the case of health care, displace the discussion about the heavy under-funding of the system.
- In 2006 and 2007 the government kept reducing contributions to the social security system, already in deficit for at least 5 decades ahead even without these reductions, as data from the actuary report shows. The deficit is covered each year from the general tax revenues. This, combined with the need to have huge surpluses counterbalancing the current account deficit, makes it very difficult, in our opinion, to adequately fund public policies related to human resource development and social cohesion.
- The government in many cases has shown courage in initiating unpopular reforms in an environment of low public awareness and consequently - low public support. Deinstitutionalization is one of these examples; some categories of staff lost their jobs in the beginning of the process and this created a strong reaction among them against the reform which has not subsided yet. On the other hand, the public continues to misapprehend the philosophy of the deinstitutionalization reform.

<sup>10</sup> Bulgarian NRP, p. 28 in the Bulgarian version of the text.

<sup>11</sup> Report on the State Budget Act 2007.

- Increase in employment continued to be strong in 2006 and 2007 in the context of an expanding economy, but the quality of the created jobs is in most cases questionable. R&D and technological innovation are still far from becoming the driving force of economic growth in Bulgaria. Both public and private investments in R&D are critically small.
- The issues of the “discouraged unemployed” and the “working poor” have received little attention compared to the issue of (official) unemployment. In the last 2 years there is already some progress with the integration of the discouraged into the labour market also in view of the quality and sustainability of the jobs created as mentioned above. As far as the income policy is concerned the current trend is of liberalization of the labour market by reducing the legal protection of jobs and generally increasing flexibility in hiring, firing and remuneration policies. This would be flexicurity in practice if the government did not at the same time remove or “space out” the social safety nets.
- The expansion of the modern system of social services, including standards, professional codes, and guidelines continued in 2007 but still more needs to be done in the future for the development of human resources. Increasing the outreach and coverage of community based services is one of the key targets for Bulgaria. The target for increasing the number of persons from vulnerable groups using social and health services within the community by 20% will likely be reached by 2008. However, bearing in mind that in the reference year 2005 these services started from a very low level of supply and demand, a more ambitious target needs to be defined. We also recommend that service indicators would better use service capacity and numbers of clients instead of percentage changes, which tend to obscure the policy objectives (e.g. sometimes it is not clear which the reference values are).
- The production of new strategies and programme documents slowed pace and there are some good signs that the monitoring of the implementation of already existing strategies and programmes is improving. The overproduction of poorly coordinated policy documents in different fields has been for long one of the main deficiencies in policy planning. Such numerous documents, the implementation of which was not monitored, created the impression of intensive policy work, but in reality they obscured priorities rather than added value to policy development. It should be noted that several well-structured processes such as the creation of Operational Programmes and other planning documents related to the EU Structural Funds contributed to this improvement. But there is still some way to go in terms of monitoring performance of policy measures (programmes, projects, etc.) before we could say that the government follows an evidence-based policy.

## 4. Annexes

### 4.1. Annex 1 - Mainstreaming

The evaluation of mainstreaming social inclusion in Europe: Bulgarian National Report 2006

Organization type	Not at all	Low to little/some extent	High to a great/very great extent	Don't know
Central authorities	5,7	35,7	55,7	2,9
Local authorities	12,5	62,5	22,5	2,5
Employers' organizations	0	20	80	0
Trade unions	0	100	0	0
NGOs working against poverty and social exclusion	0	0	100	0
Total (Bulgaria)	7,3	44,7	45,5	2,4
Total (average score all partners)	6,4	67,2	23,4	3,1

### 4.2. Annex 2 – Sources

Sources used in the report

Documents	Websites
Bulgaria The Road to Successful EU Integration. The Policy Agenda World Bank Report - 2005	<a href="http://siteresources.worldbank.org/INTBULGARIA/Resources/BG_CEM_Chapt2.pdf">http://siteresources.worldbank.org/INTBULGARIA/Resources/BG_CEM_Chapt2.pdf</a>
Contribution to the EEO Autumn Review 2006 'Flexicurity' Bulgaria	<a href="http://www.eu-employment-observatory.net/resources/reports/Bulgaria-FlexicurityAR06.pdf">http://www.eu-employment-observatory.net/resources/reports/Bulgaria-FlexicurityAR06.pdf</a>
The evolving structure of Collective Bargaining in Europe 1990-2004 Research Project Co-financed by the European Commission and the University of Florence, T Detchev, R Gladicheva, V. Ilkov	<a href="http://eprints.unifi.it/archive/00001154/01/Bulgaria.pdf">http://eprints.unifi.it/archive/00001154/01/Bulgaria.pdf</a>
The Impact of Structural Reforms on Employment Growth and Labour Productivity: Evidence from Bulgaria and Romania By: Ralitzia Dimova William Davidson Institute August 2003	<a href="http://deepblue.lib.umich.edu/dspace/bitstream/2027.42/39986/2/wp600.pdf">http://deepblue.lib.umich.edu/dspace/bitstream/2027.42/39986/2/wp600.pdf</a>
Flexible Employment of the Labour Force aged 50 to 64 – Opportunities for Development, Mariana Yordanova	<a href="http://alternativi.unwe.acad.bg/br18/12.pdf">http://alternativi.unwe.acad.bg/br18/12.pdf</a>
Employment Discrimination against Roma	<a href="http://www.ceeol.com/aspx/getdocument.aspx?logid=5&amp;id=66F58497-0A6D-460E-9FA2-C587D9A6058E">http://www.ceeol.com/aspx/getdocument.aspx?logid=5&amp;id=66F58497-0A6D-460E-9FA2-C587D9A6058E</a>
An assessment of the activity of the government, made by CITUB: "Two-Year Governance of European Integration, Economic Growth and Social Responsibility"	<a href="http://www.knsb-bg.org/Ocenka.pdf">http://www.knsb-bg.org/Ocenka.pdf</a>
The evaluation of mainstreaming social inclusion in Europe: Bulgarian National Report 2006	<a href="http://www.europemsi.org/media/findings/bulgaria.pdf">http://www.europemsi.org/media/findings/bulgaria.pdf</a>
Ombudsman Annual Report in Bulgaria	<a href="http://www.ombudsman.bg/annual_report_en.pdf">http://www.ombudsman.bg/annual_report_en.pdf</a>
Government Report for 2006-2007	<a href="http://www.government.bg/fce/001/0037/files/Otchet_programa_2005-2007final(2).doc">http://www.government.bg/fce/001/0037/files/Otchet_programa_2005-2007final(2).doc</a>
Report on Bulgaria's progress on accompanying measures following Accession	<a href="http://www.government.bg/fce/001/0162/files/20070627ENBGreportGrefe_3f1.doc">http://www.government.bg/fce/001/0162/files/20070627ENBGreportGrefe_3f1.doc</a>

## 4.3. Annex 3 – Summarized data on the labour market up till 30 September 2007

Persons looking for jobs, registered at the labour bureaus

INDICATORS	CODE	NUMBER			GROWTH	
		TOTAL	WOMEN	WITH HIGHER EDUCATION	PREVIOUS MONTH	PREVIOUS YEAR
a	6	1	2	3	4	5
1. Registered unemployed	1	251 091	152 843	16 981	-8 219	-61 662
Unemployment rate (%)	2	6.78			-0.22	-1.66
Unemployed aged up to 29	5	49 678	30 684	3 212	-2 590	-20 931
1. Registered unemployed for more than 1 year	6	145 682	88 296	4 719	-4 507	-35 197
2. Registered unemployed during the month	7	26 375	17 255	4 665	-1 033	-3 170
3. Persons employed during the month	8	17 749	11 788	4 057	703	-2 553
4. People who dropped out of registration during the month	9	16 845	10 030	1 470	-2 653	-3 398
5. Number of unemployed people per 1 job position	10	9			- 1	- 3
6. Registered employed people	11	2 826	1 940		- 35	184
7. Registered people attending training courses	12	1 599	864		94	- 313
8. Registered pensioners	13	858	433		12	9

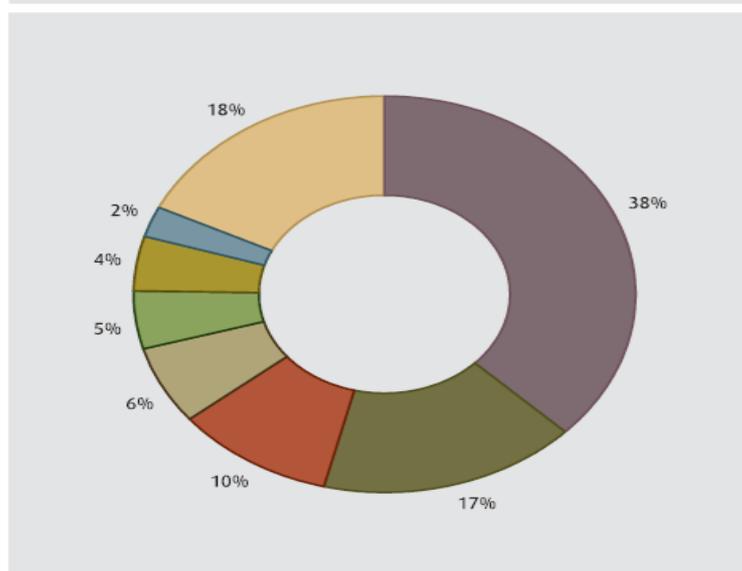
## Job positions

INDICATORS	code	Number of job positions			
		Total	For workers	For specialists	Others
a	6	1	2	3	4
Available job positions on the primary labour market and measures from the previous month	1	12 630	1 597	3 154	7 879
Available job positions under various programmes in the previous month	2	1 070	60	35	975
Offered available job positions during the month on the primary labour market	3	16 395	1 475	5 600	9 320
Newly open positions	4	3 475	305	632	2 538
- for persons with higher education	5	4 634	0	4 634	0
- for the private sector	6	10 155	1 185	1 091	7 879
- under measures of the Law on Employment Promotion	7	2 260	179	239	1 842
Offered job positions under employment programmes	8	1 824	165	143	1 516
Taken job positions on the primary labour market during the month	9	17 289	1 603	5 944	9 742
Taken job positions under employment programmes during the month	10	2 119	186	170	1 763
Available job positions and measures on the primary labour market at the end of the month	11	10 373	1 394	2 215	6 764
Of these: - unemployed persons for over 3 months	12	1 243	260	239	744
Available job positions under employment programmes at the end of the month	13	923	51	21	851

#### 4.4. Annex 4 - Complains and signals from Ombudsman Annual Report in Bulgaria

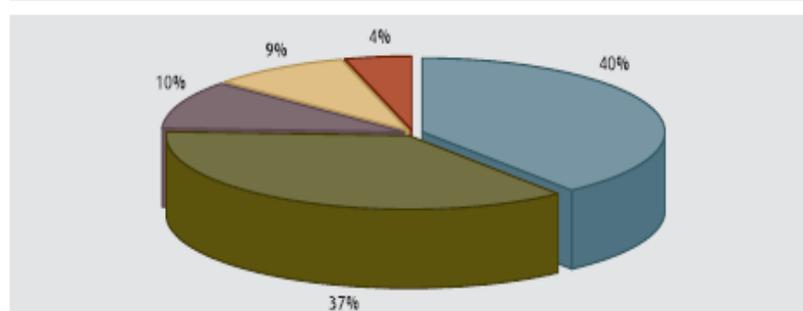
##### Complaints and signals by type of breach

Types of breaches:	Number
Property-related problems	410
Social activities	183
Public utilities	115
Discrimination, equal opportunities, civil and political rights	69
Administrative service	53
Law and order	49
Health	27
Miscellaneous	196
<b>TOTAL</b>	<b>1102</b>

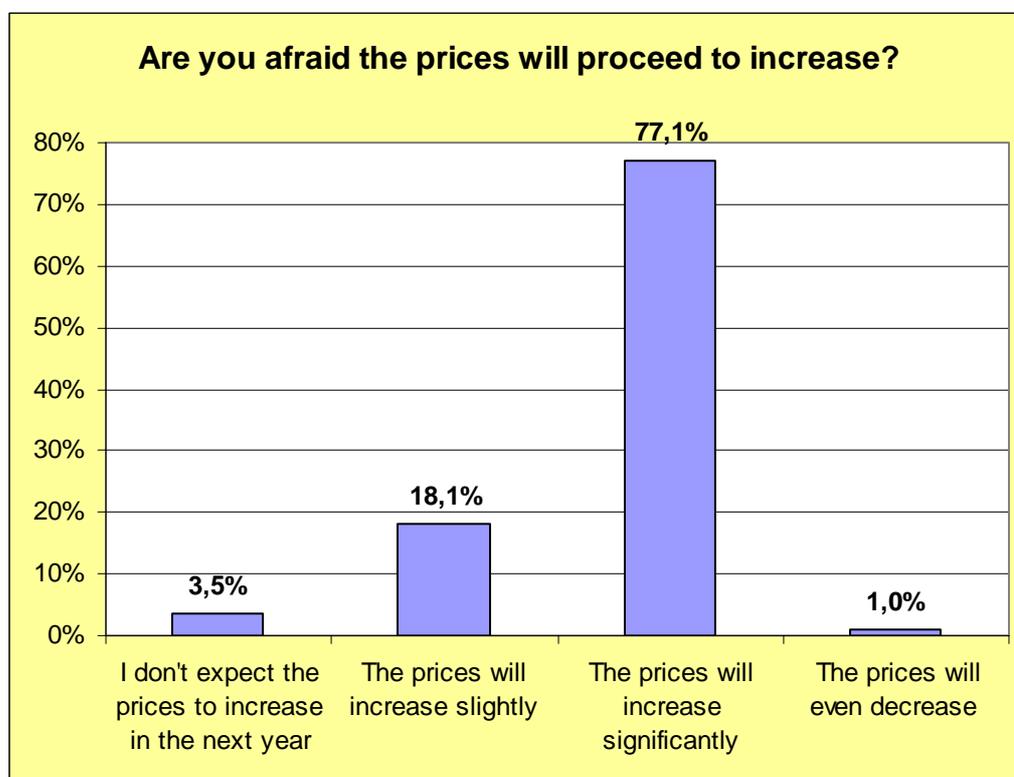


##### Complaints and signals related to social activities

Social activities:	Number
Social security contributions and compensations	72
Labor legislation and employment	67
Disabled people's rights	19
Social assistance	17
Miscellaneous	8
<b>TOTAL</b>	<b>183</b>



## 4.5. Annex 5 – Expectations for the future



Source: Alpha Research Agency 2007<sup>12</sup>

The survey does not show considerable restriction of consumption, but rather shows a psychological effect of the increase in prices. Nevertheless, the concern about the significant increase in prices is relevant to all status groups – the low income groups and the high income groups of people. The public at large is aware of the fact that the increase in prices is contingent upon a certain number of factors, such as imperfections of the market – price speculations, difficult self regulation of prices, bad climatic conditions, and certain negative impact of the mass media. However, the combination of these factors enhances the effect of panic among people. At the same time a considerable part of the Bulgarian citizens (42%) consider that the lack of control on part of the government is one of the main reasons for the increase in prices. However, this is reflected in the evaluation of the performance of the government and the approval of its activity has reached the lowest levels (25%) since it came to office.

<sup>12</sup> The data is from a national survey conducted by Alpha Research Agency among 1156 adult people in the period 24 September – 4 October 2007, commissioned by Capital Newspaper.