

National Strategic Reference Framework

Bulgaria 2007-2013

Working Draft Position Paper

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1. PREPARATION OF THE NSRF

The National Strategic Reference Framework (NSRF) is a new instrument for the programming of Structural Funds Assistance for the period 2007-2013. It is not so much a management tool, such as the former CSF, but rather sets out the frame for strategies of the Operational Programmes co-financed by the ERDF, ESF and the Cohesion Fund. It is prepared by the Bulgarian authorities after consultation with relevant partners and in dialogue with the Commission with a view to ensuring a common approach.

1.1. National preparation process and timetable

The Bulgarian Ministry of Finance is the co-ordinating body and has final responsibility for drafting the NSRF. According to the Ministry, the document has been discussed at four working group meetings in the period January-April 2006. Several roundtables were organised in which representatives of the public administration, such as ministries, agencies, as well as socio-economic partners, representatives of relevant NGOs, academic institutions and others participated, discussing socio-economic analysis, strategies and priorities for development. The Bulgarian government in its Co-ordination Council meeting of 14 April adopted the NSRF and submitted to the Commission on 28 April 2006. An 'ex ante' evaluation is being carried out and expected for September 2006.

1.2. Internal Commission preparation process

Preliminary bilateral contacts: CSG, shadow Monitoring Committees, bilateral contacts.

The first meeting on the Bulgarian National Strategic Reference Framework between the Commission and the Bulgarian authorities took place on 29 November 2005, marking the start of the negotiations on the Cohesion Policy assistance for Bulgaria for the period 2007-2013.

Commission services found that the first draft still needed a clear and coherent vision on national development priorities. It urged the Bulgarian authorities to integrate national growth and employment agendas with EU Cohesion policies. A core message was the need for strong co-ordination in the preparation and management of SF programmes. Operational Programmes should be coherent and comprehensive inside a well-designed strategic and organisational framework.

A second draft of the NSRF was presented during the Peer Review, which was conducted in February 2006 due to the conclusions of the October 2005 Comprehensive Monitoring Report. DG REGIO visited the Ministry of Finance once more on 3-4 April 2006, further discussing the draft NSRF and delivering the first informal comments. On 28 April 2006 DG REGIO received the official draft of the NSRF.

1.3. Partnership

Chapter 5.9 of the NSRF treats the implementation of the partnership principle during the drafting phase of the NSRF, listing a number of institutions and organisations primarily from the side of employers and employees side.

However, there is the impression that consultation of socio-economic partners could have been more extensive, e.g. representatives of regional administrations and ethnic minorities representatives of employers' and employees' organisations.

- In view of certain echoes from the NGO sector suggesting that consultation has been rather limited, this issue will have to be examined carefully during forthcoming discussions with the Bulgarian authorities.

2. ANALYSIS OF THE SOCIO-ECONOMIC SITUATION

The Bulgarian authorities also prepared a National Development Plan (NDP), which was originally foreseen to function as a Community Support Framework. Although this instrument has meanwhile been taken out of the Structural Funds Regulations, the NDP nonetheless continues to function as the main strategic document on the basis of which the Structural Funds and the Cohesion Fund financing for Bulgaria will be based after the country's accession to the EU. Unfortunately, the NDP is not used or discussed in the NSRF. There are in fact very few references, connections or illustrations made and thus it is unclear how the NSRF is embedded in the country's national policies for development.

- The relationship between the NSRF and the national development policies of the NDP should be clearly explained, so the overall context for the expenditure of the national, EU and other (IFI) funding available can be given.

2.1. Recent economic developments

Real GDP growth was 5.7% in 2004 and accelerated further in the first half of 2005 to 6.2%. It was mainly driven by strong domestic demand which in turn was fuelled by credit growth, higher employment and rising incomes. In the second half of 2004 higher exports gave an additional boost to GDP growth. The further acceleration in the first half of 2005 was mainly the result of particularly strong gross fixed capital formation and higher government expenditures in the run-up to the elections in June 2005. Heavy floods during the summer 2005 led to a significant drop in agricultural production and also a marked slow-down in the growth of services and industry, implying also a substantial decline in the growth of exports. Thus real GDP growth decelerated significantly in the third quarter of 2005 and reached 5.5% for the whole year.

Price increases were relatively high in the first half of 2004 due to higher food prices and increases in administered prices and excise duties. In the second half of 2004 inflation started to slow down, reaching 4% until the end of the year, and remained relatively stable at this rate for most of 2005. On the back of rising prices for oil, food, and certain services, inflation accelerated again in the last four months of 2005. For the whole year, average inflation thus decreased from 6.1% in 2004 to 5.0% in 2005, while end-of-year inflation increased from 4.0% to 6.5%.

The current account deficit¹ increased from 5.8% of GDP in 2004 to 11.8% in 2005, while the trade deficit rose from 15.1% of GDP in 2004 to 20.4% in 2005.

Employment growth slowed down from above 3% in 2004 to 2.0% in 2005, reflecting mainly a scaling-down of government employment programmes and lower public sector employment. The employment rate, although steadily growing in the last years, was 54.2%, still much below the EU average of 63.3 % for 2004. The early school leavers' indicator for the country in 2004 was 21.4 compared to the 15.6 EU 25 average. The unemployment rate continued to fall from 12.0% in 2004 to 10.1% in 2005.

2.2. Administrative structure

As of 31 December 2005, the central administration counts 224 administrative structures, including the administration of the Council of Ministers and 16 ministries. Within the Ministries there are 36 executive agencies. There are 28 regional and 264 municipal administrations. In order to comply with the classification system of Eurostat, the Regional Development Act established

¹ Following changes in the methodology for estimating wage income abroad and the recording of imports at FOB prices, the figures for the current account deficit and the trade deficit in 2004 and 2005 have been revised considerably in March 2006.

six planning regions (Vidin, Russe, Varna, Burgas, Plovdiv and Sofia) in 2004 corresponding to NUTS II. Within the regional administrations of the planning regions, departments for technical co-operation, coordination and management of regional programmes and plans were established for the coordination, development and implementation of projects under the Structural Funds and the EU pre-accession instruments.

In 2004 a Council for the Modernisation of the State Administration was appointed and assigned with the task to assess the establishment, transformation or liquidation of administrative structures. In 2005 Parliament decided to create two new ministries: the Ministry of State Administration and Administrative Reform (MSAAR) and the Ministry for Disaster Management Policy.

Business confidence in the administration depends on economic stability, an effective enforcement of the legal framework, particularly regarding property rights, and non-corrupt practices in the administration, judiciary, police and other services. At present, the business community and the public do not hold the quality of the administrative services in very high regard, despite on-going administrative reform. Low financial incentives in the state administration lead to high turnover of staff from the public to the private sector, making it difficult to attract experienced new personnel and maintain a high level of public service.

The SWOT-analysis states that one of the strengths of Bulgarian administrative capacity is "established central and regional structures for effective implementation and management of the Structural Funds of the EU". However, many these structures have been established only recently and need a lot of capacity building before being able to effectively absorb Structural Funds. This applies especially to the regions and municipalities. With the exception of a few of the larger municipalities, they are weak both with respect to financial autonomy and administrative capacity.

- It is important that the NSRF reflects the preparedness of the country to realise the policies as from the day of accession. It is therefore necessary to provide updated information on the legislative basis for the practical realisation of the intentions.
- The SWOT-analysis should give a realistic picture of the condition and competencies of administrative structures in Bulgaria.

2.3. Experience from past and current programming periods

Bulgaria has been eligible for pre-accession financial instruments, such as ISPA and Phare, yet makes no mention of them or reports on implementation experience. The pre-accession period demonstrates implementing bodies being stretched beyond the limits of their capacity. Despite positive experiences in capacity building through "learning-by-doing", such as project preparation, feasibility studies, land acquisition process, environmental impact assessments, etc., these limitations have led to long delays in implementation of projects. That is why lessons from this period, as well as the deficiencies listed in Chapter 21 of the latest Comprehensive Monitoring Report regarding structures, staffing, systems etc., need to be described and taken into account when preparing for the implementation of SF.

A large part of the problems identified in the NSRF for targeted actions have already been dealt with by the new EU Member States. Bulgaria should take advantage of the experience of the new Member States and their lessons learnt in the field of Structural and Cohesion funds absorption, incorporating awareness of possible risks and strategies to overcome them in the NSRF.

In planning of employment and social inclusion dimensions of the NSRF, reference should be made to the already existing strategic documents agreed between the Commission and the Bulgarian government such as the Joint Assessment Paper on Employment and the Joint Inclusion Memorandum.

- Describe the implementation of pre-accession financial instruments, such as Phare and ISPA, in Bulgaria and discuss what can be learned from the experience and how these lessons will be taken into account, briefly referring to the latest Comprehensive Monitoring Report, as well as experiences in the new Member States.

2.4. Socio-economic analysis

Assessment of the quality and relevance of the socio-economic analysis contained in the NSRF. In particular: are all relevant areas of intervention covered? Is there a comprehensive quantification of problems and needs? Are data used comparable with EU benchmarks and sources? Are there alternative scenarios developed? Are the assumptions realistic and consistent? Are the needs in terms of administrative and institutional capacity identified?

The quality and relevance of the socio-economic analysis contained in the NSRF need to be improved drastically. The analyses of the different subjects vary greatly: from one or two lines in case of the services sector to an extensive paragraph on energy intensity. Given the fact that Bulgaria does not have to submit a National Reform Programme yet, it is important that sufficient information is given on the Bulgarian economy and society in order to gain a good insight in its condition. The information in this chapter should be structured along the main themes of the integrated guidelines and on growth and jobs ².

2.4.1. Economic development

The different items under 2.1.1 are difficult to discern (GDP, capital flows, economic sectors, inflation, technologies, research, unemployment, etc). They seem to be randomly selected resulting in a lack of consistency between paragraphs. Parts of the text of 2.1 are in fact not a situation analysis, but already outline strategies e.g. the last paragraphs of 2.1.2, where the problems of the disadvantaged groups are discussed.

2.4.2. Energy

As the Bulgarian economy is extremely energy-consuming and admittedly "is vulnerable to external energy fluctuations", one would expect in the analysis a reference to the heavy dependency of Bulgaria on energy imports, the constantly growing crude oil prices and (if the tendency remains for the years to follow) their influence on the performance of the economy during the whole programming period. This should also be reflected in the SWOT.

2.4.3. Transport

The analysis does discuss briefly the unbalanced development of different modes of transport in Bulgaria, but fails to analyse the link between the transport infrastructure and economic growth, or the condition of urban transport (mentioned as a 'weakness' in the SWOT). Other SWOT items, such as delays of big projects, the transport infrastructure capacity are also not explained in the analysis.

² The National Development Plan would presumably provide more information. In fact, sub-chapter 2.1 has mainly been extracted from the analysis in the National Development Plan 2007-2013. However, this has resulted in a fragmented sub-chapter, containing sometimes contradictory statements. For example, the unemployment level here is commented to be "close to the average unemployment rate in the EU", while in the strategic Chapter 1 as well as in the SWOT analysis, the unemployment is referred to as "high", giving grounds to doubts about the quality of the analysis as such.

2.4.4. Environment

The analysis of the environment seems to be but a part of analysis of the Bulgarian economy, focussing on energy water and waste, but ignoring e.g. an analysis of bio-diversity. Sustainable development and protection of the environment have been horizontal priorities inside the EU for many years. A coherent analysis of the environmental situation in Bulgaria is therefore indispensable.

2.4.5. Employment & labour market

The Bulgarian labour market shows contradictory developments. On the one hand Bulgaria presents a significant drop in unemployment in recent years (only slightly above the European average), on the other hand levels of participation are low, employment in agriculture is high and there is a considerable mismatch of skills.

- The related text is very sketchy and needs to be developed and enhanced. The analysis of certain types of unemployment like youth unemployment and long-term unemployment should be improved, as they might be a consequence of the gap between skills acquired through education and training and the requirements of the labour market.
- No information is provided either on the existing types of work or on the sectoral structure (share of part-time work, self-employment, work rotation, employment level in agriculture, industry, services and public sectors, driving forces, etc.).
- There is no reference to labour market institutions and their provision of active labour market measures although their modernisation has been considered a priority for EU funding under the OP HRD.
- The impact of certain labour market bottlenecks on the economic development of the country, identified in the operational programme, should be analysed and fully considered in the overall strategic approach.

2.4.6. Education

Although the educational structure of the population is assessed as "satisfactory", there is an urgent need of restructuring and modernising of the educational system.

- The paragraphs on education need to have a general analysis of the educational assets and weaknesses, before launching a discussion about educational disadvantage.
- The NSRF should outline the main features of educational reform and efforts to increase quality and relevance of the education system.
- The NSRF could be more explicit on how a better co-ordination between educational outcomes and labour market needs would be achieved, such as co-operation between the relevant Ministries in this area.
- The educational disadvantage of minorities that is clearly highlighted in the JIM should be adequately addressed without being limited to the Roma minority.

2.4.7. Demographics

Bulgaria is experiencing a negative demographic growth and projections indicate that the population could shrink from the current 7.7 million people to just above 5 million in 2050. These demographic tendencies will have an impact on both the labour market and on the (intra) regional development. On the other hand, after accession Bulgaria will become an attractive country for non-EU workers. The NSRF is, however, silent on the consequences of these demographic developments on decisions regarding infrastructure investments and in human resources policies.

- Describe consequences of demographic developments, in particular with regard to labour market constraints and skills gaps.

2.4.8. Social inclusion / disadvantaged groups

The NSRF refers to 'isolated Roma communities', whereas they constitute nearly 10% of residents. Other minorities are not mentioned at all. With regard to the problems of disadvantaged groups, Roma people are the most vulnerable group in terms of access to education, employment, health and housing, but it is not clear how these issues are linked.³

- There should be a separate section in NSRF on Roma issues with reference to the Roma Decade programme and key elements on involvement of Roma in relevant activities.
- Maintain the concept of vulnerable ethnic minorities as it is used in the JIM (chapter 3.6).

2.4.9. Health

The NSRF identifies two main challenges: to rehabilitate health infrastructure and to develop a modern health information system, including electronic health services. Investing in health is an essential factor for ensuring that more people work and continue working as they grow older, for improving productivity and contributing to the economic growth and to social welfare. The longer people are in good health, the longer they can remain active and work and, so, contribute to the economic development of their country.

- The NSRF provides few details on the present state of the Bulgarian health infrastructure, as well as the rationale for the chosen strategy.
- Another area that requires attention with regard to the public health and its relation to the Lisbon targets is occupational health and safety.

2.4.10. Territorial development

Development disparities between the six planning regions are rather limited, according to the NSRF. However, underlying much of the data (but rarely made explicit, or referred to only as centre-periphery disparities) are the much wider disparities between urban and rural areas in Bulgaria. The treatment of rural/agricultural aspects in the NSRF is, however, rather superficial. Relative to urban areas, rural areas in Bulgaria face development disparities such as over-dependence on agriculture, poor infrastructure (water, waste management, roads, ICT penetration...) and service provision relative to urban areas. Moreover, the impact of the likely further restructuring in the agricultural sector for employment and the wider development of rural areas need to be developed further in the analysis, and in the strategy that follows.

- It would seem important to bring out more clearly in both the analysis and SWOT the extent of rural areas in Bulgaria in a sub-section (Chapter 2.8 of the JIM could be helpful).

2.4.11. Administrative capacity

The NSRF provides scarce information on the current process of ambitious reform of public structures in Bulgaria. The overall aim of these reforms is to improve the quality of services provided to the civil and business society, demanding a lot of resources. However, situation. Chapter 2.1.3 on administrative capacity does not represent a situation analysis, but rather a repetition of the OP intentions and objectives (see chapter 3.6, pp. 36ff). Several strategic

³ A recent report by the UNDP presents empirical evidence about the living conditions of the Roma in BG: http://europeandcis.undp.org/?menu=p_cms/show&content_id=A3C29ADB-F203-1EE9-BB0A277C80C5F9F2

documents are mentioned but they are not used to build a coherent and explicit strategy for EU funding in this area. It is unclear what is meant by 'state' administration in the NSRF, which normally comprises the administration in the ministries, state agencies and the regional governors. 'Public' administration, on the other hand would also incorporate the municipal administration and the judiciary system. The educational and health sectors represent yet another type of public service providers.

On public procurement, the legal framework, the institutional framework and the appeal procedures have been established. However, serious concerns as regards the capacity to implement and enforce legislation in a transparent manner, free from political interference, remain.

- There should be thorough analysis of the situation as regards the administrative capacity of the country. In particular, this part of the analysis needs to reflect on the weaknesses identified during the pre-accession period, including on issues like judiciary and corruption, in order to provide the ground for a strategy to remedy current shortcomings. The wider public administration should be targeted with the Structural Funds.

2.4.12. Quantification

Comparisons are made with the EU average values for some indicators, with EU 15 as well as with EU 10 for others. Although the country lags behind most of the EU members regarding its economic and social development, such an approach is not justified in terms of quality of the document and should be changed in the next draft.

- The Bulgarian authorities are invited to use the Lisbon / structural indicators consistently and for education and social inclusion those used in the context of Education and Training 2010, the Employment Strategy and the Social Inclusion process (OMC – Laeken indicators) where possible. Indicators should be broken down by gender where relevant.
- The analysis would be much more comprehensible if it would refer to one and the same group of Member States, when comparing to Bulgaria.

2.5. SWOT Analysis

Analysis of the quality and relevance of the SWOT analysis, in particular: is the SWOT analysis backed-up by underlying analysis and data? Is each of the four dimensions of the SWOT analysis complete and comprehensive? Are there aspects neglected in the SWOT and, if so, which ones?

The identification of strengths, weaknesses, opportunities and threats in the form of a SWOT analysis is supposed to be a tool to identify the strategic choices made after the driving forces and development tendencies for the whole territory, including the sectoral and regional dimension of socio-economic development, which have been revealed in the socio-economic analysis.

The SWOT analysis in the NSRF shows a structure almost identical to the title of the different OPs. This does not provide for an integrated view on strengths and weaknesses across the Bulgarian socio-economic situation. Many items in the SWOT table are not covered in the socio-economic analysis:

- The entire section on administrative capacity, 'Economics' and 'Transport' in the Threats section, the Strengths of Environment, cannot be traced back to the socio-economic analysis. For HRD and social issues just one single point of potential strength is given, although a lot has been done in the last several years. More attention should be paid to linking the existing strengths and opportunities to the problematic areas, such as the extremely low activity rate, the high percentage of long-term unemployment, the mismatch between the supply and the demand side of the labour market, etc.

- The section on agriculture/rural areas is based on the EAFRD programme only and so does not cover the full range of issues that EU support for rural areas may need to target. Urban-rural disparities could be more explicitly covered under the section on 'Regions'. High dependence on agriculture/agricultural employment should be included in either the 'Economic' or 'Human Resources' sections.

- All items in the SWOT table should be covered in the socio-economic analysis.
- The concept of Opportunities appears to have been misunderstood. Opportunities should be based on observed Strengths, not resemble goals and objectives.
- There is no added value in the list of significant development disparities (point 2.3), which simply repeats the SWOT analysis.
- The sections on Human Resources and Social Issues need to be consistent with the JIM and the JAP.

3. **STRATEGY**

Analysis of the overall strategy and main objectives of the NSRF, its structure and priorities.

3.1. Objectives of the NSRF

3.1.1. Overall objectives

The document starts with a chapter entitled the 'Strategic Vision and Objectives of the NSRF, before the socio-economic analysis. In short, Bulgaria is to become a country with a higher standard of living by 2013, based on a sustainable socio-economic growth while fully integrating into the European Union. Two medium-term strategic goals have been set:

- 1) High sustainable economic growth based on a dynamic knowledge-based economy. Strategy: increasing capacity of the industrial and services sectors to develop and use new technologies; improve basic infrastructure; investing in education, training and transfer of new technologies, linking scientific, educational and productive sectors
- 2) Increasing the productivity and quality of the work force in order to achieve high levels of employment, income and social integration.

Besides being improperly placed before the socio-economic analysis, Chapter 1 is unclear, incoherent and often takes refuge in commonplaces. Chapter 3 is the actual chapter on the strategy of the SF interventions, divided between different themes: competitiveness and business environment, human resources development, transport, environment, regional development, modernising the administration.

The document fails to define overall objective(s) to which OPs should contribute to. The 'strategic priorities' (to be renamed thematic and territorial priorities according to wording of the General Regulation) are not clearly derived from the two medium term goals. It seems that the strategic priorities have been derived directly from the Priorities of each of the 6 OPs (plus EAFRD and EFF interventions). This bottom-up approach does not respect the fact that a specific theme can be found in several programmes e.g. transport in the OPs Transport and Regional Development (and Rural Development), business development in the OPs Competitiveness and Regional Development, etc.

- The thematic areas of the strategy should be treated in a comprehensive and coherent way. A table should be added illustrating which OPs cover a certain theme.

- Explanation is needed on cohesion policy interventions and their influence on potential internal disparities between regions and urban-rural territories
- The draft CSG on Cohesion indicate that 'Taking on board the territorial dimension will help to prevent uneven regional development from reducing overall growth potential'. Explanation is therefore needed within the strategy of how cohesion policy will intervene to mitigate any negative effects from a potential increase in internal disparities between regions post accession.
- Paragraph 1.1 seems superfluous; its heading should reflect growth and employment and not competitiveness; points 1.2 and 1.3 state this correctly. The bullet point under 1.2 on human capital should refer to training, too, and not simply to education.
- The text under heading 1.3 'Employment' is insufficient – demographic developments would require greater attention; the reference to education and training is piecemeal; there is nothing on the Public Employment Service, active labour market policy or entrepreneurship.
- Points 1.4 and 1.5 are presented as additional goals although they are possibly horizontal issues – the presentation is intertwined (urban and rural issue) and very unclear.

3.1.2. Specific objectives – thematic areas

In order to achieve the above mentioned strategic goals and the NSRF vision, SF interventions aim to:

- raise the competitiveness of the Bulgarian economy,
- develop human resources and improve the social infrastructure,
- improve and develop basic transport and environmental infrastructure,
- achieve sustainable and balanced regional development and
- modernise Bulgarian administration structures and services.

3.1.2.1. Competitiveness

Small and medium sized enterprises

Small and medium enterprises represent 99 % of all enterprises in Bulgaria, accounting for 79% of the employment. In order to realise their development potential, the strategy is to increase their competitiveness through the introduction of new technologies, put special emphasis on the dynamic ICT sector, increase investment in R&D, strengthen their innovation capacity, provide support for innovative start-ups, stimulate new production and management techniques and increase their export orientation. At the same time alternative sources of financing will be developed (venture capital) as the banking sector is hesitant about financing innovation activities.

Other development strategies for SMEs focus on decreasing the energy intensity (improving energy efficiency, introduction of energy saving technologies, renewable energy sources), strengthening links between business, science and education (improving links between research organisations, universities and enterprises, technology clusters, etc.), improving the business environment (administrative services, strengthening capacity of NGO's as intermediaries, access to consultancy services).

A positive observation of the strategy for SMEs is that the authorities realise that innovation is as much about management techniques and business environment as it is about inventing new products or introducing modern production technologies.

The NSRF states the intention of building a pro-innovative infrastructure (page 28), but does not dwell on how many technological centres, knowledge transfer centres, business incubators exist in Bulgaria and if these are being fully utilized. The research and innovation potential in the public

sector, such as universities and research institutes is rather low and many scientific and technical infrastructures are outdated.

The NSRF declares to concentrate efforts on fostering the international competitiveness of Bulgarian SME's and developing a knowledge-based economy (page 26), leading to higher value added of the output. Considering the current structure of Bulgarian economy, it would seem more realistic if the choice of fostering international competitiveness would not exclude fostering innovation in more traditional sectors that are now the base of Bulgarian comparative advantages. This objective could be supported by the creation of an efficient innovation system that would facilitate the links between business, science, education administration and non-governmental sector.

Business environment

The NSRF rightly emphasises the need to improve the business environment (page 28). This has been raised as an issue both in the Commission's monitoring reports and in the assessments of the Pre-accession Economic Programmes. Surveys tend to show that over-regulation and inefficiencies of the administrative system are perceived as particularly problematic from a business perspective.

- The NSRF should include more information about development policies of the different sectors of the Bulgarian economy.
- The main obstacles for doing business in Bulgaria, namely over-regulation, inefficiencies of the administrative system and corruption, should be explicitly mentioned, as well as the strategies to overcome them e.g. as part of the thematic priority 'Administrative Capacity'.
- Elaborate on creation of intermediation/coordination mechanisms between of business and government.
- Elaborate on development of industrial sites as part of improving the business environment.
- The difficulties to find sufficient financial resources in a context of very strong credit expansion should be explained.
- The link between SMEs and training / demanded skills (human resources development).
- More information on the current situation of technological centres, knowledge transfer centres and business incubators should be provided.

Innovation, research & development

The strategy for innovation and strengthening the links between business, science and education is to concentrate scarce resources and accelerate the transfer of scientific research into marketable results.

The national innovation strategy is lead by the Ministry of Economy and Energy while the research and science policy is lead by the Ministry of Education and Science, but the lack of coordination between different policy instruments appears to be a major weakness of the Bulgarian innovation system⁴ hampering the dissemination of R&D results. It is not clear how the NSRF will overcome such deficiency and it would be important to understand how EU support (through the NSRF) is complementing the National Innovation Fund and the National Science Fund.

⁴ See Innovation Scoreboard 2005, http://trendchart.cordis.lu/reports/documents/Country_Report_Bulgaria_2005.pdf

- How will EU support (through the NSRF) complement the National Innovation Fund and the National Science Fund?
- Additional information on those industrial sectors showing 'strong potential for research activities' and that would especially be suited for developing cluster initiatives.
- This section needs also to include information on human resources (the strategy for HRD only mentions 'improved education to foster R&D').

Energy

The national strategy for the deployment of Structural Funds targets SME energy efficiency, energy saving technologies and renewable energy sources. However, the NSRF lacks a general presentation of the national strategic orientations for the energy sector including the high dependence on foreign imports, closure of the Kozloduy nuclear power plant and the intensity of energy consumption. The latter is estimated to be 8 times higher for Bulgaria than the EU average, annihilating comparative advantages of low labour costs and making the country extremely vulnerable to external energy fluctuations such as the growing crude oil prices.

- A general presentation is needed on the national strategic orientations for the energy sector, indicating which types of renewable energy sources are to be targeted.

3.1.2.2. Human resources & social infrastructure

Employment

The NSRF shows inconsistency when providing and interpreting data for the employment situation in the country. The main areas of concern are the low levels of activity and employment rates and the impact labour shortages could have on future growth. The NSRF must describe the strategy in place to overcome the mismatch between the supply and demand side in the labour market, based on profound analysis of the different age cohorts. These areas of concern should be complemented by actions to further prevent and overcome the youth unemployment and indicating both scope and timing. Activation policies should be further reinforced with a special focus on labour market integration.

- In § 3.2 the strategy for HRD speaks of a “profound analysis of the labour market” and “partnership with stakeholders” though there are no references to where they can be found, either in the document or elsewhere.
- The NSRF should also outline how it intends to use the ESF for capacity building of social partners and promoting joint social partner actions (Art. 5.3 of ESF Regulation).

Education & lifelong learning

Quality of education has become a Europe-wide issue, requiring further investment in order to achieve the targets set as part of the Revised Lisbon agenda. The NSRF should be stronger in describing the steps needed to improve the Bulgarian education system, including teachers' training. It refers to an improvement of quality of education, but it does not indicate, even broadly, how this may be achieved.

Bulgaria should use this programming period to lay down the strategic basis of restructuring its education system, making education more attractive, preventing drop-outs (early school leaving), introducing new methodologies, teaching materials and ICT opportunities together with long-distance learning. Priorities for action should reflect demographic trends such as depopulation, uneven access to education and high-level of early-school leavers, etc.

Life-long learning (LLL) as part of the educational policy should show a proper balance between educational and vocational training initiatives. Together with greater investment in human capital and LLL (BG now has only 1.4 % of the adult population participating in education and training, compared to the 9.9 % EU average) employers and the employees need to be informed about the practical results of LLL to foster continuing training for workers and the unemployed. The specific problems of vulnerable ethnic minorities need to be addressed.

- The strategic basis for the restructuring of the education infrastructure in Bulgaria has to be indicated in the NSRF.
- The NSRF should discuss investment in LLL and how employers and the employees can be informed about the practical results of LLL.
- Reference should be made to the “Education and Training 2010” work programme.

Social inclusion

In the last Comprehensive Monitoring Report, social inclusion remained an important item. Vulnerable groups in Bulgarian society could be supported through an inclusive labour market policy and LLL initiatives coupled with special agreements with the employers' organisations. The NSRF also needs to address the quality of social services, the capacity of service providers and the coverage throughout the country.

A coherent strategy for the integration of the Roma minority is lacking. Such strategy needs to align itself to the policy strategies the government has signed up to (e.g. Decade of Roma Inclusion, JIM) and has to ensure that Roma integration is tackled as a multi-dimensional task cutting across sectoral or departmental responsibilities.

- The vulnerable ethnic minorities deserve special attention, because of the aggregation of problems, which would warrant a separate paragraph under Chapter 3.2., including issues such as improving access to education, health, employment, etc.
- This section has to be in line with the JIM.

Health

The health status of the Bulgarian population has been constantly declining in the last fifteen years. The NSRF addresses very important issues such as prevention, information campaigns and rehabilitation, especially among the vulnerable groups. Given the size of the problems, prioritisation and strategic choices are inevitable, but these are not mentioned (§ 3.2.4).

The Bulgarian authorities should explain how demographic projections are taken into consideration when deciding which health services to modernise where. Promoting health information through e-health might not be the most appropriate strategy considering the low rates of ICT penetration and ICT literacy in Bulgaria, especially in rural areas. Which percentage of health "customers" would this sort of infrastructure cover? Finally, it should be explained how these investments are integrated with the comprehensive reform of the health sector which is currently being prepared.

Although mentioned in the employment part of the NSRF, occupational safety and health (OSH) promotion is a policy that is not explicitly referred. Given the high percentage of accidents at work and the low level of real risk awareness among the employed, it would be appropriate to promote OSH widely within the next programming period.

- The NSRF should address prioritisation and strategic choices regarding public health.
- Occupational safety and health (OSH) promotion needs to be discussed in the NSRF.

3.1.2.3. Transport

The NSRF does not present a clear overall strategy for all modes of transport. Instead, the presented strategy reflects the current structure of institutions in Bulgaria responsible for the different modes of transport, showing fragmented responsibilities and raising doubts about the ability to react decisively and effectively.

Investment master plans are needed for both the road and the railway sector, defining key priorities based on a demand-driven approach (e.g. bottlenecks, main corridors, etc), not forgetting Priority Projects of European interest, namely the Sofia-Kulata motorway, the Vidin-Kulata railway link and the Danube river. Analysis of the reasons for the present dilapidated state of the infrastructure, especially in railways, is needed and reference made as to how this can be avoided in future.

Roads

Existing road infrastructure needs maintenance and/or reconstruction. Actions will cover building, rehabilitation and reconstruction of the motorways, I-class roads, II-class roads along trans-European transport corridors. Greater focus on key priorities and most heavily trafficked routes is required.

The Bulgarian Government's plans with regard to concessions in the roads sector should be outlined as this will significantly influence what can be financed via EU funds. The rest of the road network (II and IV class roads) is not discussed in this section, however, which does not present an integrated strategy and gives the impression once more that the NSRF transport strategy simply mimics the OP Transport, ignoring the regional and rural development strategies.

With regard to road charging (tolls and user charges), co-funding of TEN-road infrastructure investments by EU funds is subject to the respect of Directive 1999/62/EC of the European Parliament and of the Council of 17 June 1999 on the charging of heavy goods vehicles for the use of certain infrastructures and its modifications. For investments in road infrastructure to be co-financed through EU funds, the criterion of safety merits is equally to be taken into account given the fact that the infrastructure is the key to safe road traffic.

Railways

Even though Bulgaria's railway network is already extensive, the NSRF emphasises the need to construct new, and modernize existing railways,. Rather than new connections, the focus should be on raising the quality and the efficiency of the existing railway infrastructure with priority being given to key corridors with greatest traffic prospects, including main corridors linking to neighbouring countries.

Particular reference should be made to organizational issues and future operation and maintenance of railway infrastructure. What is meant with a 'high-speed' railway system?

EU Cohesion and Structural Fund support for rail infrastructure should enhance the creation of an EU-wide interoperable network. Implementation of projects should comply with the interoperability requirements of EU Directives.

Fair and efficient charging schemes for rail infrastructure and for other transport infrastructures as well as open transport markets for all modes will contribute to finding an optimal balance of different transport modes.

Airport capacity

This strategy item is new compared to previous drafts of the NSRF and the OP Transport. It is not treated in the socio-economic analysis. It is also not clear which actions the BG authorities plan other than 'improving and modernizing key airport infrastructure' and whether it is to be implemented via concessions.

Maritime and inland waterway navigation and safety

“A considerable part of the inland-waterway and seaports has insufficient technical equipment, and their overall state does not correspond to the safety and traffic requirements.” Does the OP Transport include sea ports in its SF/CF development strategy?

Environmentally friendly transport infrastructure.

This concerns urban transport and would be more properly placed under regional development i.e. integrated urban development.

- The NSRF needs to present a clear overall strategy for all modes of transport.
- There should be a clear indication of the priority projects of European Interest and the efforts of Bulgaria for their timely implementation.
- Focus should be on raising the quality and the efficiency of the existing railway infrastructure on key corridors.
- What is meant with a high-speed railway system and what are the proposals?
- The information in the footnotes of paragraphs 3.3.1 and 3.3.2 need to be integrated in the socio-economic analysis.

3.1.2.4. Environment

Because sustainable development of the environment is a horizontal objective, the various initiatives should be compatible and complementary. Bulgaria is described in section 3.4 as having poor “environmental infrastructure facilities”, which is asserted to limit the country’s ability to face competitive pressures after accession and to weaken its capacity to attract investments. No clear link is established between these and the “main environmental targets”, which are stated to be improving water supply and waste management, and environmental (which parts?) and biodiversity protection.

Actions for the protection of biodiversity are not founded in the socio-economic analysis, except in a footnote. The claim that biodiversity protection will be a prioritised horizontal issue, tackled by all relevant structural interventions in 2007-2013 e.g. including transport needs to be substantiated.

A description should be added of the current and planned legal background, implementation structures and capacities, and the responsibilities of all relevant stakeholders (including municipalities and regional water companies) in achieving a coherent and integrated approach to the water sector in Bulgaria.

- The objectives in the NSRF need to be related to national and EU environment policies.
- The NSRF should present an integrated strategic approach for the development of the water sector or report on efforts by the Bulgarian government in that direction. A coherent strategy and the co-ordination of the different policy instruments is needed as well as target indicators to allow monitoring of progress in achieving environmental objectives.
- The information in the footnotes of Chapter 3.2 needs to be integrated in the socio-economic analysis.

3.1.2.5. Regional territorial development

Development and improvement of the regional infrastructure and communication links (ICT)

This item stems from the first Priority in the OP for Regional Development, which deals with integrated urban development. The term infrastructure is used here in its widest sense, covering

transport, communication, social, health and educational infrastructure and should preferably be dealt with in the ‘sector’ chapters of the NSRF.

Raising the quality of life in the planning regions and their attractiveness by cultural heritage valorisation

This objective comes down to developing tourism, more specifically in areas rich in cultural and natural heritage. Because of the potential for tourism development and thus contributing to regional economic growth and job creation, the process of depopulation might be reversed. However, preservation of cultural heritage sites should not be jeopardised just for tourism purposes. Moreover, the Community Strategic Guidelines for 2007-2013 underline the importance of developing cultural assets and services in general. Improvement of cultural infrastructure and support of cultural activities are also necessary factors to support the main objectives of this process. They should particularly be encouraged as concerns improvement of the urban environment.

Integrated urban development and improvement of the urban environment

Activities are to include rehabilitation of old industrial areas and the improvement of the urban environment in residential districts with high levels of social exclusion.

Diversification of rural economies

It is unclear what contribution cohesion policy will make to the economic diversification of rural areas. The Regional Development OP touches on the issue but it has implications for several OPs, not just Regional Development.

- The NSRF does not give insight into territorial priorities, whether attention will focus on specific regions and, if so, the selection criteria. The NSRF needs to elaborate on the claim that there are no major disparities between regions (see also JIM, chapter 2.8). There certainly are stronger internal regional disparities in both urban and rural areas. A sub-section devoted to these territorial aspects should show coherent strategies on how these issues are to be addressed (for rural areas the complementary interventions under cohesion policy and EAFRD)
- The NSRF does not provide insight into a national urban development policy.
- The issue related to housing provision for the poor and particularly for the Roma population should be addressed, including coordination mechanisms amongst line ministries. Integrated urban development should also refer to security aspects such as prevention of urban crime.
- The comment that “the specific objectives of the regional development policy complement and expand the actions undertaken in the framework of the other policies, ...” belongs in the section discussing the individual OPs.
- Clarify what contribution cohesion policy will make to the economic diversification of BG's rural areas.

3.1.2.6. Administrative capacity

The NSRF strategy on administrative capacity simply repeats the Priorities in the Operational Programme, thus failing to give an overall picture.

Local administrations have crucial role in the delivery of public services. They need a lot of support because they are experiencing both a chronic lack of human resources and an aggregation of problems. With regard to developing these human resources, the NSRF should explain how it will help to strategically reform the public sector. Training measures under the Administrative Capacity OP should be different from more general efforts for human resources development (OP HRD).

To start with the introduction of e-services might be over-ambitious at this stage; provision of better face-to-face services, improving management in general and increase project management might be more practical and realistic when developing local and regional administrative capacity. The planned interventions under Priority 4 of the Regional Development OP could serve as a handle for a more elaborate treatment of this issue in the NSRF.

- The strategy for developing administrative capacity should clearly indicate the type of administration targeted, the scope of interventions, and which parts of the state and/or public administration will get priority.
- In the light of the latest Comprehensive Monitoring Report, the judiciary system and the incentives to fight corruption should be addressed. Actions regarding the accountability and corruption in the administration are necessary. Prevention of, and fight against crime should be given the right importance in the NSRF.
- The emphasis on e-services at the expense of other, more traditional forms of improving administrative service to the public is questioned.

3.1.2.7. Horizontal issues

This chapter mixes implementation, EU policy and strategy issues: public procurement and state aid concern implementation issues, equal opportunities and environment have a policy character, and elsewhere in the document sustainable regional development and administrative capacity refer to strategies. The different horizontal issues should therefore be treated in the appropriate sections of the NSRF.

Equal opportunities

The NSRF only vaguely refers to gender issues, in particular gender mainstreaming (and this only in relation to one OP), where it should be given more attention. The respective responsibilities of and the co-ordination between the various equality bodies need to be clarified.

Public procurement

In order to improve the administrative capacity for public-private partnership and public procurement, the Bulgarian authorities should develop activities in close co-ordination with the Public Procurement Agency and with the Economic and Social Policy Directorate in the Council of Ministers, respectively in charge of implementation of the EU Acquis in the fields of public contracts and of concessions.

References to the Procurement regulatory framework should refer to the adoption of the Amendments to the Public Procurement Law (SG No. 18/28.02.2006) and of the new Concessions Act (SG No. 36/2.05.2006) and take into account the relevant changes, notably the remedies system, whereby the Commission for the Protection of Competition has replaced the Court of Arbitration.

Programme Monitoring Committees do not bear responsibility for ensuring compliance to public procurement procedures.

Environmental protection

It is unclear how environmental issues will be integrated "at all stages of programming". There is no specific reference to Strategic Environmental Assessment (programme level) or Environmental Impact Assessment (project level).

- The different horizontal issues should be moved to appropriate sections in the NSRF.

- There should be specific reference to Strategic Environmental Assessments (programme level) and Environmental Impact Assessments (project level).
- Gender equality and gender mainstreaming need to be addressed.

3.2. Consistency with National Reform Programme

As Bulgaria is not yet a Member State, it has not been required to adopt a National Reform Programme. It is understood that the preparation of an NRP will commence later in 2006. This dispensation, however, increases the importance of a good and thorough socio-economic analysis in the NSRF. The NSRF could perhaps provide compensations by putting more emphasis on its contribution to the Lisbon Objectives. For the HRD dimensions of the NRP, the NSRF could refer to the Joint Assessment Paper and the Joint Inclusion Memorandum.

3.3. Consistency with Community Strategic Guidelines (CSG)

Extent to which the CSG have been taken into account and how. Are the CSG guidelines explicitly identified? Are all the guidelines being addressed?

Most of the Guidelines can be traced back to the Operational Programmes. Urban regeneration in the **OP Regional Development** complies with Guidelines 1.2 (environment & growth), 3.3 (human capital): education infrastructure. Improving (public) transport, roads and ICT meet other Guidelines, such as expanding and improving transport infrastructures and promoting the information society.

Compliance of the **OP Competitiveness** with the Community Strategic Guidelines is obvious: Priority 1 invests in knowledge-based economy and innovation activities (technology start-ups, R&D, product innovation, etc), complying with Guidelines 2.1 Increase/improve investment in RTD and 2.2 Facilitating innovation and promote entrepreneurship. The same can be said of Priorities 2, 4 and 5. Priority 2 "Productivity and efficiency of Micro & SMEs" also addresses Europe's intensive use of traditional energy sources. Priority 3 is totally committed to improving access to finance for SMEs. Many Lisbon labelled activities as proposed (except the transport ones) are dependent on the absorption capacity of SMEs. Several studies, amongst which the Peer Review and a Phare report, seem to rate this capacity rather low, based on pre-accession experience, the structures and number of SMEs in Bulgaria, etc.

The **Transport OP** is totally oriented towards expanding and improving transport infrastructures, the very first of the CSG, and should focus on TEN-priorities.

The **Human Resources OP** and the Administrative Capacity OP comply with the guidelines on 'More and better jobs': more people in employment and modernising social protection systems, improving adaptability of workers and enterprises and the flexibility of the labour market, and increasing investment in human capital through better education and skills.²⁶

The **Administrative Capacity OP** aims to increase productivity and quality at work in the public sector.

The **Regional Development OP** and the **Human Resources OP** also contribute to helping to maintain a healthy labour force

- The NSRF should explicitly refer to the text of the CSG. Though the NSRF document claims repeatedly its strategy is in line with the CSG, it does not refer explicitly to the text of the guidelines where this should be the case.
- The NSRF should address the risk of low SF absorption capacity of SMEs

- A table should show the consistency between the CSG and the NSRF (in Annex, to be developed further).

3.4. NSRF Internal consistency and quantification

Is there a clear vision of what is to be achieved? Are the objectives clearly defined? Are they realistic and relevant? Are they quantified? Are the priorities consistent with the objectives? Are priorities addressed in a balanced way? Is value added of the EU intervention identified? Are the relations between priorities identified? Is the way in which the strengthening of the administrative and institutional capacity appropriate and consistent with the other interventions? How are the horizontal priorities of the Structural Funds addressed? Are there additional horizontal priorities identified?

Although the NSRF does provide a vision of what is to be achieved, it indicates a direction rather than clearly defined goals. Objectives are often of a general nature, where more choices in the strategic planning of the SF need to be made, together with information on national policy approaches. OPs and NDP could provide more concrete information in these respects.

When the objectives are not clear it is of course hard to indicate target figures. Quantification in the form of indicators is therefore still to be completed. Annex 4 shows a number of possible indicators, but it hardly presents a 'system' as the title claims. In general, very few targets have been set, both in the socio-economic analysis as well as the strategy.

3.5. Earmarking targets by Operational Programme

Besides the allocations to Priorities of OPs, there is no quantification of earmarked 'Lisbon' related activities. Although it is not compulsory, the Commission recommends undertaking such an 'earmarking' exercise. Indicating which planned actions of the OPs could be regarded as Lisbon related expenditure, would facilitate the verification of progress on the Lisbon agenda.

4. OPERATIONAL PROGRAMMES AND FINANCIAL TABLES

This section addresses the internal consistency of the OPs. In particular: are the objectives clearly defined? Are they quantified? Are the priorities consistent with the objectives? Are priorities within an OP addressed in a balanced way? Are the priorities across OPs complementary and mutually supportive? Is value added of the EU intervention identified? Are the relations between priorities identified? How are the horizontal priorities of the Structural Funds addressed?

- The text on the OPs should refer to the priority axes for each OP.

4.1. OP Transport

The overall goal of the OP is to develop sustainable transport, by targeting congestion, noise and pollution levels, promoting the use of environment-friendly modes of transport, and thus creating better jobs and improving the quality of human life. The two specific goals (though the OP announces three) to achieve the overall goal are integration of the national transport system into the European Union transport network and creating a balance between different modes of transport.

In order to complete the trans-European transport network, the OP wants to focus on eliminating bottlenecks in the Danube River, completing the priority roads and railways, raising the quality of

the main road and railway arteries, promoting inter-modal transport by sea and inland waterway, as well as developing high-quality urban transport in the capital Sofia.

Priority 1 – Railway infrastructure on main corridors, and combined transport

Priority 2 – Road infrastructure on main corridors

Priority 3 – Environmentally friendly transport in urban areas

Priority 4 – Maritime & river navigation

- The OP wants to develop metropolitan railway in the big cities. Does this refer to the Sofia subway or a more regional express net.
- There is a sincere risk of overlap with the OP Regional Development. From a policy point of view, it makes more sense to integrate urban transport into strategies for urban regeneration.

4.2. OP Environment

Compliance with the acquis clearly is the main motivation for the interventions in the environment sector, but this could be expressed more clearly in the NSRF. Also, the planned allocation out of the SF and CF to this programme is unlikely to be sufficient to finance all the planned activities (solid waste management and wastewater collection and treatment sectors) in order to comply with the acquis. The NSRF should indicate scope and calendar.

Priority 1 – Waste water infrastructure in settlements with more than 2000 inhabitants

Priority 2 – Waste treatment infrastructure

Priority 3 – Preservation and restoration of biodiversity

Priority 4 – Technical assistance

- The Commission urges the Bulgarian authorities to present an integrated water policy targeting the whole water management system. With the implementation structures for water projects as they are currently proposed, there is a risk that the current split between two OPs (Environment and Regional Development) and two Managing Authorities is neither operational nor feasible.

4.3. OP Economic Competitiveness

The general objective of the OP Competitiveness is to support the development of a dynamic economy, able to be competitive on European and world markets, through raising innovation capabilities and improving the business environment, preparing enterprises for the Common Market and the dynamics of the global economy.

Priority 1 - Development of knowledge-based economy and innovative activities : technology start-ups, developing and introducing new technologies (SMEs), innovation networks and services

Priority 2 - Increasing the productivity and efficiency of Micro & SMEs : modernization of management and production technologies in SMEs, starting entrepreneurs, saving energy & diversification of energy sources, developing clusters and business networks.

Priority 3 - Improving the access to finances for MSMEs : guarantee funds, venture capital funds, micro-credit

Priority 4 - Development of business environment: consultancy and information services to enterprises, improving the national quality control infrastructure, information and awareness campaigns, laboratory equipment.

Priority 5 - International marketing: attracting foreign investment, export promotion, tourism.

There are some real challenges to absorption; the Chamber of Commerce has 44,000 members and the Industrial Association 12,000. Some €800 million has been allocated for direct support to SMEs, and this means that the OP is anticipating an average figure of probably in excess of €100,000 per applicant, which seems rather ambitious in the light of the financial state of Bulgarian enterprises.

- The Ministry of Economy has launched a study into the absorptive capacity of the SME sector, the results of which should be used in the NSRF as well as the OP.
- There are complementarity and demarcation issues with certain other OPs, especially regional development (urban regeneration and industrial sites, human resources development, rural development) that need clarification.

4.4. OP Regional Development

There are a number of problems with a specific territorial dimension in Bulgaria. Most significant are the lack of mobility of the population in rural areas and the stark differences in development between the larger regional urban centres and less-urbanized areas, i.e. villages in the periphery, mountains and rural areas. The OP has the overall objective to improve the quality of the working and living environment, increase accessibility between towns and surrounding areas, create new economic opportunities. To reach this objective, the strategy is to develop the physical, economic and social living and working environments of urban centres, connect hinterlands with urban centres and connect these urban centres with each other. In case smaller municipalities cannot be given adequate access to urban centres, alternative economic means of existence and inter-regional networks should be developed.

Priority 1 - Urban Regeneration and Development : environment infrastructure (water supply, flood prevention, noise reduction), social infrastructure (educational, cultural, welfare, health), economic **infrastructure** (delocation, brown field development, business parks, soil decontamination, public utilities) and public infrastructure (recreational zones, parks, streets, sidewalks, monuments, social housing).

Priority 2 - Transport & ICT : urban transport infrastructure and rolling stock, roads, regional public transport and rolling stock, ICT networks.

Priority 3 - Tourism : Attractions and related infrastructure, services, product development and marketing.

Priority 4 - Capacity building for smaller municipalities : partnership, strategic planning and project development, small scale local investments, inter-regional co-operation.

In order to concentrate resources and thus increase the effect of SF interventions, the Regional Development OP distinguishes eligible areas. For example, as a tourist hotspot, the Black Sea coast is basically excluded under the tourism priority, already receiving a lot of private investments. The same can be said for the urban development Priority, targeting 32 urban agglomerations.

- The OP Regional Development targets the "significant intra-regional development disparities", yet there is little analysis on this phenomenon.
- Priority 1 primarily concerns physical infrastructure investments. When planning integrated urban development, so called soft measures are needed as well. The number of eligible areas still seems rather high given the range of actions and limited financial funds.
- Capacity building for smaller municipalities is discussed neither in the socio-economic analysis, nor in the strategy of the NSRF.

- Demarcation & co-ordination with the programme for Rural Development (EAFRD)?

4.5. Human Resources Development Operational Programme

- References to JIM and JAP need to be made on a strategic i.e. NSRF level and not just on an OP level.
- The reference to EQUAL is unclear. The NSRF is confused where it talks about 'the OP priorities are in compliance with EQUAL' (section 5.2), as EQUAL is not a regulation or a directive. However, the OP should place emphasis on the EQUAL principles Innovation, Partnership, Gender Mainstreaming, and Transnational co-operation.

4.6. Administrative Capacity Development Operational Programme

- To what extent is the Administrative Capacity OP going to address the social partners/NGOs and their administrative capacity is another issue that needs clarification. Raising administrative capacity should embrace the wider public administration, also addressing the weaknesses of the judiciary system and the incentives to fight corruption.

4.7. Financial table

<i>Financial table for the NSRF - Indicative annual allocation by Fund and Programme</i>									
Convergence			Community participation						
OP	Fund	Total	2007	2008	2009	2010	2011	2012	2013
ERDF and CF									
OP "Competitiveness"	ERDF	873	78	110	145	141	137	133	129
OP "Regional Development"	ERDF	1337	119	168	222	216	210	204	198
OP "Transport"	ERDF +CF	1328	119	167	221	214	208	202	196
	ERDF	323	29	41	54	52	51	49	48
	CF	1005	90	127	167	162	158	153	149
OP "Environment"	ERDF +CF	1328	119	167	221	214	208	202	196
	ERDF	323	29	41	54	52	51	49	48
	CF	1005	90	127	167	162	158	153	149
ESF									
OP "Human Resources"	ESF	873	78	110	145	141	137	133	129
OP "Administrative capacity"	ESF	135	12	17	22	22	21	21	20
TOTAL									
NSRF 2007-2013		5873	525	739	976	948	921	895	869
Total ERDF		2855	255	359	474	461	448	435	422
Total CF		2010	180	253	334	324	315	306	297
Total ESF		1008	90	127	168	163	158	154	149

The NSRF states that co-financing may lead to an aggravation of the budget balance (page52). Co-financing may be a good opportunity to re-structure budget expenditure but this should not lead to an aggravation of the budget balance.

- The document does not justify or explain the proposed allocation of SF assistance to OPs.
- The budget for the Territorial Co-operation should be included.
- Amounts should be given in full euros and in current prices.

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|--|
| <ul style="list-style-type: none">• The financial table for the NSRF does not include any national co-financing, either from public or private funds. The table could be completed with this information |
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5. ADDITIONALITY AND EFFICIENCY

5.1. Administrative efficiency

How has the strengthening of the administrative efficiency of the MS been addressed. Are the efforts appropriate? Are the relevant areas addressed? Is the approach consistent with the rest of the thematic priorities?

Improving administrative capacity has proven to be a factor of importance for rapid development. That is why it is disappointing that the NSRF only touches upon the reform of the state administration with rather vague formulations like "all interested parties in the development of the state administration", "unsatisfactory assessment of the general public", etc. and does not provide a thorough analysis. This has to be changed, with references made to the pre-accession experience of implementing EU assistance.

5.2. Ex-ante verification of additionality

In general, the impression is that the table considers additionality as an exercise linked to co-financing, which is a misinterpretation. Though they are linked, additionality covers all national public or equivalent spending for development, whether they are actually co-financed or not.

The general rule that the average annual level of expenditure shall be at least equal to the amount of average annual expenditure in real terms attained during the previous programming period seems not to have been met for the Productive Sector, where the table also indicates no expenditures at all for the industry sector. The figures in the NSRF table are not in accordance with the figures presented in the Additionality table, making it seem that national annual average co-financing is higher than EU funding.

As additionality is based on payments, the national part of co-financed aid from the Community must be considered in the year when the spending turns out, even if the commitments or decisions took place earlier. Therefore the national (public) part of payments in relation to pre-accession instruments such as Phare and ISPA should be included in the tables for the appropriate years.

Expenditures are only included under the 'CSF - National' heading (column 5). Firstly, Bulgaria is not a member, secondly the CSF will not be continued in the next budget period. If Phare or ISPA support is meant, then column 4 should be filled out as well.

The 'Not EU co-financed' column (col 6) is empty, though there must have been national development expenditures in Bulgaria, which should be included in the table. This part is essential for the whole additionality exercise.

Columns 10 and 11 do not seem to acknowledge that the co-financing rate for Bulgaria will be very high. According to the figure in the table, for EUR 408.55 million Community grant an amount of EUR 560.15 million is calculated, suggesting the expected EU co-financing will be less than 50% (!).

The 'of which public companies' columns are empty (col 3 & 9). Does this mean that there are no public companies in Bulgaria? If this is the case, it should be stated explicitly. If not, then their expenditure should be included in the table.

The explanation provided in the paragraph on 'additionality table preparation' is insufficient and not easy to understand. For example, it refers to 2004-2005-2006 data, but 2006 data cannot be included, as expenditures for the year 2006 actual cannot yet be known until the end of this year.

- The table should be revised, taking the above into account ⁵.

6. IMPLEMENTATION

6.1. Implementation of the Strategy

With regard to co-ordination of development strategies, on a national level a Coordination Council for the NDP and NSRF has been established, chaired by the Minister of Finance. The members of the Council are deputy ministers from each Bulgarian ministry. Six Regional Development Councils (RDCs) support the implementation of the EU Cohesion policy within the territory of Bulgaria at NUTS II policy and planning level.

- Chapter 8 should describe arrangements made for management and control systems. Where chapter 8.2 deals with the structures that are to deal with the implementation structures of the Structural Funds, it does not mention Managing and Audit Authorities. To complete the picture, information contained in Chapter 8.3.1 should be integrated into Chapter 8.2, to be renamed 'Designation of authorities', providing more information.
- The allocation of ministerial responsibilities with regard to the water and transport sectors seems artificial and should follow a more logical structure if an efficient implementation of the respective strategies is to be achieved.
- Policy tools that will be used in Bulgaria to help integrate environmental concerns in the various policies (e.g. transport) and planning levels should be highlighted.

6.2. Internal coordination arrangements for ERDF, CF & ESF

The Central Co-ordination Unit in the Ministry of Finance has formal responsibility for coordinating the implementation of the Structural Funds. Its authority, however, needs to be strengthened if it is to be effective in performing this role, a view echoed by reports such as the Peer Review Report and the Phare Absorption Capacity study.

An Operational Programme for Technical Assistance at national level would support the coordination in implementing the Structural Funds by ensuring reliable management information as well as providing appropriate communication to the general public about the European interventions. Thus other Operational Programmes will benefit from the Technical Assistance Operational Programme as well. At the same time, a Technical Assistance Programme will raise the quality of the financial control and audit system.

- There is no reference to the specific roles of the ERDF and the Cohesion Fund within the strategy, in particular where their scopes of intervention overlap, such as for transport and environment.
- The role of the Regional Development Councils with regard to implementation of Structural Funds is unclear, as it only refers to responsibilities for national policies and programmes.

⁵ Total Productive sector 0.31 < Total 0.20 for 2007-13. There are incomplete cells in column 2 (total 7 should be equal to 2-4). Columns 5 and 6 seem to have been in reverse order.

- The Bulgarian authorities are invited to present an Operational Programme for Technical Assistance.

6.3. Coordination with other instruments of assistance

6.3.1. EAFRD and EFF

Coordination on all levels is crucial if synergy between different policies and maximum impact of socio-economic development of the country is to be achieved.

The NSRF contains descriptions of mechanisms and procedures for ensuring coordination between the assistance of the Funds of the Community cohesion policy and the assistance Funds from the EAFRD and the EFF, including demarcation lines with the actions supported by these Funds.

The text in section 4.1 simply lists the strategic goals of the NSP for RD. The authorities should explain how they see the complementarity/synergies of the interventions under cohesion and R&D policy to meet the considerable needs of rural areas.

Chapter 4.2 discusses the complementarity and coordination between activities financed by the ERDF, ESF, the Cohesion Fund, EAFRD and EFF, chapter 5.8 describes briefly the co-ordination and complementarity between the different SF OPs, and Chapter 8 contains a section on co-ordination on a national, regional and local level with regard to implementation.

There are a number of areas in Section 4.2 as regards complementarity with EAFRD interventions which require clarification or where the text used in the NSRF is not the same as that used in the NSP under EAFRD. These include:

- The BG authorities should include identical text on agriculture/rural demarcation issues in both the NSRF and NSP.
- It would be more transparent if the programme for rural development financed by the EAFRD is discussed together with the SF OPs in chapter 5.8. Chapter 4.1 could then be integrated into chapter 3.
- While the Central Coordination Unit is to ensure co-ordination between OPs and EAFRD assistance, no equivalent function is listed for ensuring coherence and co-ordination between the strategies of NSRF and NSP for Rural Development. The BG authorities need to explain in more concrete terms how co-ordination between cohesion policy and EAFRD will be ensured for preparation of strategy/programmes, but also for implementation at national/regional/local level e.g. to avoid double funding of projects.
- For investments in road infrastructure, what definition of 'rural areas' will be used to determine eligibility of support of municipal roads by EAFRD?
- There is no reference to demarcation for investments in food processing sector (only for renewable energy and fishery products). Such a demarcation is proposed in the NSP.
- The demarcation proposed for both economic diversification (SME's) and vocational training appear rather narrow as far as EAFRD intervention is concerned. These are key issues for rural diversification. It needs to be ensured that there is both scope and funds to pick up these actions under SF OPs.
- It needs to be clarified what impact the (extensive) use of the ESF in the agricultural sector (incl. food processing) – see page 44, chapter 4.2 – will have on the availability of ESF for other sectors. The planning and quantification of respective needs should be explained.

6.3.2. Territorial Co-operation programmes

- The NSRF should contain further information on the Territorial Co-operation programmes involving Bulgaria by making a clear distinction between the three strands (cross-border, transnational and interregional co-operation programmes), but also between the different financial instruments (ERDF, IPA and ENI).
- A short description of each Bulgarian border should also be provided focusing on the main challenges for the partners.
- References to Macedonia should be amended to the recognized term by the Commission of "the former Yugoslav Republic of Macedonia."

6.3.3. International Financial Institutions

- The co-ordination with the interventions of the EIB and of other IFT's and instruments, such as EIF should be illustrated, notably with regard to JASPERS, JEREMIE and JESSICA.

6.3.4. National financial instruments

There is no description of links with, or complementarity between the SF and national, sector, regional and urban policies of Bulgaria. For example, while measures to build municipal capacity for NSRF implementation are being envisaged, the implementation structure at local level is unclear (only through the one municipal representative per planning region within the RDC?).

- Include descriptions of links between the SF and national, sectoral, regional and urban policies of Bulgaria where appropriate.

6.4. Macro-economic stability

Bulgaria operates under a currency board arrangement and has been experiencing very high trade and current account deficits, implying a number of unique challenges for the use of Structural Funds (SF). If used efficiently, the Structural Funds can make an important contribution to reducing these external imbalances by strengthening the competitiveness and growth potential of the Bulgarian economy. On the other hand, there is a certain risk that if these SF are not used in the most productive way and fail to produce a substantive positive supply-side effect, external imbalances could even be exacerbated.

- These risks and opportunities should be discussed in greater detail in the analysis of development disparities, weaknesses and potential (section 2) and in the assessment of the macroeconomic impact (section 7).

7. OVERALL ASSESSMENT

This section summarises the missing elements of information and identify how the NSRF could still be further improved. It will eventually constitute the basis for formulating the observations to be addressed jointly by the Commission services to the MS, and for establishing the main lines of the strategy for negotiation with the MS.

7.1. Major elements missing in the draft NSRF

- *Insufficient information is given on the Bulgarian economy and society*

Given the fact that BG did not have to submit a National Reform Programme, it is important that sufficient information is given on the Bulgarian economy and society. The socio-economic analysis provides too little information to substantiate the strategy. Many items in the SWOT table are not covered by the socio-economic analysis. In the present version this is certainly not the case.

- *Pre-accession experience*

Bulgaria has been eligible for pre-accession financial instruments such as ISPA and Phare, yet makes no mention of them or reports on implementation experience. The implementation of pre-accession financial instruments, such as Phare and ISPA, in Bulgaria should be discussed, as well as the learning experiences and how these will be taken into account, also with regard to the setting up of future management and implementation structures, such as for water and roads.

- *Coherent development strategies*

The strategy section in the NSRF is a direct reflection of the priorities in the different Operational Programmes. This does not represent a coherent national strategy. Similar themes can be found in different programmes e.g. transport in the OPs Transport, Regional Development and Rural Development, business development in the OPs Competitiveness, Regional Development, etc. The different themes should be treated in a comprehensive and coherent way.

- *Community Strategic Guidelines*

Concrete references to the Community Strategic Guidelines are needed, as well as information on earmarking SF expenditures, indicating which planned expenditures are in line with the Lisbon agenda.

- *Indicators*

Use of quantifiable indicators of achievement: there are hardly any quantified objectives.

- *Ex ante evaluation of the NSRF*

Although not obligatory, the Commission welcomes the initiative of the Bulgarian authorities to commission an ex ante evaluation of the NSRF.

- *Capacity building*

Information on planned capacity building for and joint actions of social partners in line with the ESF regulation.

- *JASPERS, JEREMIE & JESSICA*

The NSRF should take planned interventions of the EIB and of other IFI's and instruments, such as EIF, into account, notably with regard to JASPERS, JEREMIE and JESSICA.

7.2. Observations and key issues to be addressed with the MS

7.2.1. Policy issues

- *Macro-economic stability*

The fact that Bulgaria operates under a currency board arrangement and has been experiencing very high trade and current account deficits implies a number of unique challenges for the use of Structural Funds (SF) which should be adequately reflected in the NSRF. If used efficiently, SF can make an important contribution to reducing these external imbalances by strengthening the competitiveness and growth potential of the Bulgarian economy. On the other hand, there is a certain risk that if these SF are not used in the most productive way and fail to produce a substantive positive supply-side effect,

external imbalances could even be exacerbated. The focus on the possible impact on exports in the NSRF is too narrow, while largely ignoring the possible impact on imports (and thus the trade balance) and the potential for import substitution, which could equally have a positive impact on the current account.

- *General administrative capacity*

Important elements of the Bulgarian state administration that may hinder economic activity are the complexity of the administrative framework and the non-publication of procedures governing some administrative services, which are identified as elements injuring the principle of legality in administrative decision-making. If procedural guarantees for citizens, when dealing with the administration, are dependent on arbitrary decisions of the intervening authority that may vary extensively, this can have important repercussions for the choice of locations for businesses investments. Legal uncertainty and inequality before the law may ultimately lead to an atmosphere of corruption, jeopardizing, among others, the country's attractiveness for foreign investment. SF support to administrative reforms should therefore also directly promote reforms that will introduce a rule-of-law-based system.

- *Innovation, research & development*

In Bulgaria, the innovation strategy is led by the Ministry of Economy & Energy, while the research and science policy is led by the Ministry of Education & Science. Though this division of policy fields is common to other countries in the EU, the achievement of the NSRF objectives seem to call for coordination of strategies. Yet the lack coordination between different policy instruments appears to be a major weakness of the Bulgarian innovation system hampering the dissemination of R&D result. The lack of coherence between analysis and proposed activities in the NSRF on the one hand with the operational measures on the other hand might be symptomatic. It is unclear how the NSRF will overcome such deficiency. It would be important to understand how EU support is complementing the National Innovation Fund and the National Science Fund.

- *Transport*

The NSRF does not present an integrated transport strategy, thus failing to provide a good overall picture of the transport infrastructures situation in Bulgaria or a clear idea of the criticality of the problems to be tackled. Regional and rural development strategies are being ignored.

The transport system should aim at an optimised combination of the different transport modes. It is not enough to assess each mode of transportation in isolation. Master plans are needed for the road and rail sector, defining key priorities and establishing effective, efficient, coordinated approaches.

- *Environment*

From the description of the goals and priorities, it is not obvious why environment has been chosen as a thematic area. It is necessary first to identify those environmental improvements that will contribute the most to the NSRF overall goals and priorities, which will provide a basis for selecting priorities for development. Environmental protection can indeed contribute to economic and social development, but the NSRF is not clear on what the connections are. The Bulgarian authorities should explain how improvements in the areas identified will contribute to attracting investments and improving ability to face competitive pressure.

The Commission would like to be informed about an integrated strategic approach for the development of the water sector. The Bulgarian authorities are invited to consider

allocating responsibilities for the water sector to one Ministry and one OP, since the current split between two OPs and two Managing Authorities is neither operational nor feasible.

- *Employment and labour market policies*

Unemployment decreased significantly in the last few years, nevertheless it still remains high and structural problems persist. The employment rate has slightly increased, but it is still substantially below the EU average. In conditions of declining labour supply (quantity and quality), due to both negative demographic evolution and a declining activity rate, further important efforts will be necessary to increase the provision and resources of active LM programmes, while improving the targeting of vocational qualification and training measures towards young unemployed, discouraged workers and disadvantaged groups will maximise the effectiveness of these programmes. The provision of training as an integral component of the temporary subsidised work schemes will increase the adaptability of the labour force and will increase sustainability of jobs.

There is a need to develop a stronger and more efficient activation approach through the systematic and effective engagement of the Employment Agency. The new framework for the implementation of active LM policy will require a transformation of the working culture and methods of the Employment Agency, as well as appropriate financial and staff resources, while maintaining effective territorial coverage.

- *Education and lifelong learning*

There needs to be a general analysis of the educational assets and weaknesses, since there is an urgent need to restructure and modernise the educational structure in Bulgaria. The suggested interventions in the NSRF, however, will hardly lead to substantial positive changes within the programming period, given the generally conservative educational sphere.

Notably, focus should be placed on improving teachers training and teachers' status, on a strategy to prevent early school leaving (especially important among the Roma community), including through better guidance and counselling services, and on continuing training for workers and unemployed people.

The efforts to develop a comprehensive strategy for LLL, establishing appropriate links between initial and continuing training will need to be accelerated, in close co-operation with the social partners. In this framework, there is a need to make the reforms of the vocational education and training systems responsive to LM needs, while social partners need to be actively involved in the reform and design of the VET content and the implementation of training actions.

- *Social inclusion / minorities*

More must be done for disadvantaged groups of the population. Particularly high levels of poverty are found among Roma, who constitute almost half of the poor population (46.5%). Measures to promote the access of Roma to primary health and health insurance should be implemented. Furthermore, the disproportionate share of Roma children in specialised schools dropping out of school should be dealt with. As for other policy fields, a coherent approach and targeted action is required in the NSRF concerning the equalisation of access to education employment and health care, as well as improving the quality of social services provided.

- *Energy*

The Commission would like to get informed on the national strategic orientations for the energy sector. Energy consumption in Bulgaria is estimated to be 8 times higher for Bulgaria than the EU average. Together with the high share of energy imports, this makes the country extremely vulnerable to external energy fluctuations such as the growing crude

oil prices. International energy developments influence the performance of the economy during the whole programming period; therefore the NSRF should take trends in the European and world economy into account.

- *Urban & rural development and regional balance*

It is important to show actions intended for tackling the lack of experience in terms of generating of urban development projects, including beneficiaries. It is equally important to elaborate on the forms of partnerships and consultation envisaged with the citizens and local players and the actions intended to stimulate such participation.

A clearer vision is needed on how Bulgaria wants to tackle internal (urban-rural) disparities and how cohesion policy will complement EAFRD in promoting restructuring and economic diversification in rural areas as mentioned in the CSG for Cohesion Policy.

7.2.2. Implementation issues

The Commission recognises the tremendous efforts being made to set up the right structures, systems and recruit staff on time for the implementation of the Structural Funds. But experience with the ISPA suggests that there are great difficulties coping with the Chapter 21 requirements at present, as shown by delays in project development, problems in tendering procedures, difficulties in managing contractors, etc. The Commission's concerns relate to administrative capacity (the right structures and staff to cope), financial management and control procedures (formal requirements being met but systems only recently set up and are not stable) and management of procurement process (quality, irregularities, political interference, complaints). These issues are highlighted by delays in EDIS process.

- *Allocation of SF assistance to OPs*

The Commission would like to discuss the method for deciding the proposed allocation of SF assistance to OPs as well as the co-financing rates.

The NSRF states that co-financing may lead to an aggravation of the budget balance (page52). It is the Commission's opinion that co-financing may be a good opportunity to re-structure budget expenditure but this should not lead to an aggravation of the budget balance. This risk can be avoided if national spending priorities are better aligned with spending priorities of Structural Funds

- *Experience from current and past programming periods*

Bulgaria has been eligible for pre-accession financial instruments such as ISPA and Phare. The pre-accession period demonstrates implementing bodies stretched beyond the limits of their capacity, leading to long delays in implementation of projects. What lessons from this period, regarding structures, staffing, systems etc., have been learned and how will these lessons be taken into account when preparing for the implementation of SF?

Moreover, a large part of the problems, identified in the NSRF for targeted actions, have already been dealt with by the new Member states. In terms of taking into account the two-year experience of the new Member states and their lessons learnt in the field of Structural and Cohesion funds absorption, are the Bulgarian authorities aware of possible risks and what strategies will be devised to overcome them.

- *Partnership*

Although it is up to Bulgaria to decide on the most representative partners, consultation should take place on as wide a platform as possible. There have been complaints from groups about the lack of opportunity to contribute (e.g. the Roma community, municipalities). Only when programmes and projects are supported by a large group of

economic and social partners, NGO's, local, regional and urban authorities, etc, will they become truly sustainable.

- *Administrative Capacity for SF delivery*

This must be significantly enhanced to deliver policies and programmes efficiently, especially because the inflow of SF/CF will represent 3 times the equivalent of the pre-accession assistance. A strong political commitment is needed to ensure that implementing bodies have the necessary resources - especially the right staff.

Enhance capacity building in the delivery of policies and programmes, including with regard to the enforcement of legislation. Managing Authorities should make sure management structures are up to the job to implement the Structural Funds. Especially co-ordination between the different Managing Authorities and in the regions will be decisive in determining a successful outcome. The co-ordination on a regional level also needs to be urgently developed, avoiding the creation of parallel implementation structures. A sufficient share of the SF budget should be allocated to Technical Assistance for (i) the management of the programme (ii) the strengthening of final beneficiaries.

- *Responsibilities for the water sector*

The Bulgarian authorities are invited to consider allocating responsibilities for the water sector to one Ministry and one OP, since the Commission is convinced that the current split between two OPs and two ministries is neither operational nor feasible.

- *OP Technical Assistance*

An Operational Programme for Technical Assistance at national level is needed to improve the coordination in implementing the Structural Funds, the gathering of reliable management information as well as publicity. However, the Bulgarian authorities should set aside sufficient human and management resources and assign enough and sufficiently qualified staff.

For the MoF to show serious commitment to this task, Structural Funds co-ordination should therefore be separated from the pre-accession instruments Phare and ISPA, in order to concentrate (human) resources. Joining the CCU with the Certifying Authority in one Directorate should be considered. Another condition for a separate OP is the introduction of a single Management Information System for all Operational Programmes.

- *Management and control systems*

Financial management and control procedures should be described, making references to the findings in recent reports such as Chapter 21 and recent audit reports from the Commission. The Commission – before approving the SF programmes - must be fully convinced that adequate systems and structures are in place at all levels so as to safeguard the Community's financial interests. Particular attention should be given to the procurement process which must be fully transparent, open and free from interference.

Consistency between NSRF and CSG

Community Strategic Guidelines		Priorities (programme number)
Making Europe and its regions more attractive places to invest and work	Expand and improve transport infrastructures	➤
	To strengthen the synergies between environmental protection and growth	➤
	Address Europe's intensive use of traditional energy sources	
Improving knowledge and innovation for growth	Increase and improve investment in RTD:	➤
	Facilitate innovation and promote entrepreneurship	
	Access to finance	
More and better jobs	Improve adaptability of workers and enterprises and the flexibility of the labour market	➤
	Increase investment in human capital through better education and skills	
	Help maintain a healthy labour force	
	Administrative Capacity	➤
Taking account of the territorial dimension of cohesion policy	- The contribution of cities to growth and jobs - Supporting the economic diversification of rural areas	➤
	Cooperation (Cross-border, Transnational, Inter-regional)	