



**REPUBLIC OF BULGARIA**

**PROGRAMMING PERIOD 2007 – 2013**

**NATIONAL STRATEGIC REFERENCE  
FRAMEWORK**

Draft

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## 1. STRATEGIC VISION AND OBJECTIVES OF THE NSRF

The NSRF strategy sets the major development policy objectives and priorities to be supported under the Structural Funds in Bulgaria for the period of 2007-2013. The NSRF presents the national development strategy based on national priorities which will be financed by instruments of the EU Cohesion policy. The strategy is in compliance with the Community Strategic Guidelines.

This document is based on an extensive analysis of the country's development bottlenecks and the National Development Plan 2007-2013. The main purpose of the NSRF is to present the government's strategy to counter the existing development gaps or disparities between Bulgaria and EU members states, to foster the development of the sectors in which Bulgaria has or can potentially have a comparative advantage, to present the role of the Structural Funds (SF) and describe the administrative mechanisms and necessary improvements for implementation of the development strategy.

The strategy has been developed in line with the Community Strategic Guidelines (CSG)<sup>1</sup> and is built upon two fundamental principles: economic and environmental sustainability and balanced economic growth. The NSRF for the 2007-2013 programming period forms the basis for the medium and long-term sustainable development of the country. The main goal of the Bulgarian authorities is to increase incomes and the standard of living.

The Bulgarian authorities and social stakeholders in partnership have agreed on the **strategic vision and objectives** for the country: **By 2013 Bulgaria should become a country with a higher standard of living, based on a sustainable socioeconomic growth during the process of full integration into the European Union.**

To achieve its vision, Bulgaria has two **strategic medium-term goals**:

- To attain and maintain high economic growth through a dynamic knowledge-based economy in accordance with the principles of sustainable development.
- To improve the quality of human capital and to achieve employment, income and social integration levels, which provide higher living standards.

The **first goal** aims at reducing the gap between the level of GDP per capita in the EU and Bulgaria. Investments in the knowledge-based economy should increase capacity both to develop and use new technology. The Bulgarian policy emphasises as key factors for sustainable development the need to modernise and restructure the industrial and services sectors and to develop the necessary basic infrastructure. The strategy focuses on the need for investment in education, training, acceleration of the transfer of new technologies (including investment in environmentally friendly technologies), and building a link between the scientific, educational and productive sectors. The Bulgarian government considers innovation as an important factor in improving competitiveness on the foreign goods, service, and capital markets as well as a way to improve the environment in the country.

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<sup>1</sup> COM(2005) 299, published on 15 July 2005

The **second goal** aims at increasing the productivity, quality and competitiveness of the work force, achieving a low unemployment rate, increasing living standards and improving the social inclusion of the disadvantaged, minorities and vulnerable groups. Our policy will be orientated towards guaranteeing the adaptability and mobility of the work force.

In order to achieve the above mentioned strategic goals and the NSRF vision, interventions till 2013 will be focused on the following **strategic priorities**:

- Development of the competitiveness of the Bulgarian economy;
- Development of human resources and improvement of the social infrastructure;
- Improvement and development of the basic infrastructure;
- Sustainable and balanced regional development;
- Modernization of the Bulgarian administration and improvement of its services.

The implementation of the interventions envisaged to fulfil the country's strategy requires that the following main **thematic areas** should be tackled:

- Enterprises and business environment;
- Transport;
- Environment;
- Human capital;
- Regional development;
- Administration.
- Agricultural and rural development;
- Fisheries and aquaculture.

The interventions in the last two mentioned areas are envisaged under financial assistance from the European Agricultural Fund for Rural Development /EAFRD/ and European Fisheries Fund /EFF/. These interventions are organized, presented and formulated in **2 National Strategic Plans and Programmes**:

1. National Strategic Plan for Rural Development and Rural Development Programme
2. National Strategic Plan for Fisheries and Aquaculture and OP Fisheries and Aquaculture

The strategic goals and priorities of the National Strategic Plan for Rural Development and National Strategic Plan for Fisheries and Aquaculture are both consistent and in compliance with the strategic goals of the NSRF for the 2007-2013 programming period. The implementation of the strategy of the above mentioned strategic plans will contribute to the achievements of the NSRF strategic goals.

### **1.1. Contribution of NSRF Strategy to EU Priorities for Competitiveness and Employment**

The National Strategic Reference Framework of Republic of Bulgaria for the period 2007-2013 (NSRF) has been developed in line with the Community Strategic Guidelines for 2007-2013 and the Integrated Guidelines for Growth and Jobs (2005-2008) as well as the sustainability principles expressed in the Gothenburg European Council agreement. The

NSRF has the objective of supporting the integral strategy of the country using the Structural and Cohesion funds effectively and with respect to the needs of the country.

## 1.2. Growth

In line with the first NSRF objective of fostering growth, the combined actions of the Structural funds should help in accelerating the rate of convergence of the Bulgarian economy to the EU average in GDP per capita levels. This requires improving Bulgaria's present growth performance (which had a real annual average value for the period 2000-2004 of 4.9%). The aim is to achieve an average real growth rate of 5.8% for the period 2007-2013. The improved competitiveness of the economy will increase the average annual export of goods to nearly 19,245 billion € in 2007-2013. In 2005 the export of goods amounted to euro 9,451 billion €. <sup>2</sup>

In 2005, Bulgaria's position to attain the EU member states' standards in the area of macroeconomic stability was good and this positive situation can be built upon further. The indicators for the budget deficit, government debt/GDP ratio and interest rate have already met the Maastricht Criteria. The inflation level still doesn't approach the required target. The main problems, which have to be addressed in order to attain long-term sustainable development are: low income levels, high energy intensity of the economy, low living standards of the population, high unemployment, poor infrastructure and the trade deficit.

Bulgaria is a small open economy directly exposed to competitive pressures at international level. It is for this that increasing the competitiveness of the economy, through targeted public investments and structural changes are considered the highest priority for the country's socio-economic development. To this end, the NSRF strategy adopted has a strong **Lisbon agenda** component, aimed at increasing the productivity levels and value added to Bulgarian goods and services. It therefore pays particular attention to investing in development of the following:

- Human capital: increasing the quality of education with respect to business requirements and thus employability and thus guaranteeing a higher economic activity level
- Infrastructures: ensuring a sufficient coverage of basic infrastructures, necessary for a functioning modern economy,
- Facilitating technology transfer and the diffusion of innovations for enterprises: building a link between the scientific, educational and productive sectors and favouring the access to information and communication technologies (ICTs). Accelerating technology transfer and innovation activities is a necessary prerequisite to improving competitiveness on the foreign trade, services, and capital markets.

Ultimately, the aim is to increase employment, productivity and the value added of the output produced output (and thus the real incomes) and to reach a higher level of social integration aimed at improving living standards.

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<sup>2</sup> AEAF forecast



### 1.3. Employment

The Community Strategic Guidelines objective for more and better jobs is fully taken into account within the process of the NSRF design and implementation. The employment goal plays a central role given the high Bulgarian unemployment rate. The NSRF has a strong employment component and the different areas of action are designed to complement each other in this respect. Bulgaria faces a large and complex number of problems linked to employment, and the economic performance of the country will depend on its capacity to reverse the situation. Low participation rate in the labour market, high share of long-term unemployment, social exclusion, the poor quality of human capital, inadequate quality of education and vocational training and the negative demographic trends create major barriers to the development potential of the country. This threatens in particular the capacity to maintain the necessary growth rate differential with the EU during the process of economic and social convergence.

Based on the state of the labour market and the need to increase the growth potential, Bulgaria presents in the NSRF an employment programme designed to put a strong emphasis on the longer term needs, i.e. training and education. It is in line with the needs of building a knowledge-based economy. A main emphasis is put on the provision of education, responding to the needs of business and the importance of increasing the use of ICT as well as fostering innovation. Bulgaria can still rely on a high level of under-utilised human capital potential and has to build rapidly on it, through ensuring adequate education. The investments in SMEs development, scientific research and innovations will ensure high returns. They are necessary to achieve long-term growth objectives and convergence. Bulgaria also recognises the fundamental need to increase productivity and to develop competitive sectors, to counterbalance the pressures on inflation and the current account.

### 1.4. Socio-economic and environmental sustainability

Bulgaria aims at narrowing the income and living standard gaps with the EU average through a policy of sustainable and balanced growth. This is in line with the CSG objective of increasing the **attractiveness of the country, its regions and its cities**. State and Structural funds interventions have been devised to promote medium- and long-term socio-economic sustainability.

The environment is a cross cutting priority across all Operational programmes, aiming to protect the environment and rich biodiversity. Preserving the environment is vital for retaining the status of the country an attractive tourist destination in Europe. The social, as well as economic value of the environment is important and is fully recognised by the NSRF.

The NSRF pays particular attention to the relationship between the quality of infrastructure and services in the cities and their links to the rural areas and other regions or countries. The important integrated planned transport investments aim at facilitating this integration. The concern over the quality of life in cities and regions is also clearly expressed in the CSG. Bulgaria has an acute problem in reversing the tendency of declining living conditions in cities and settlements, some of which have significant historical importance and potential cultural, economic and tourist value. Fostering the balanced growth of the regions and cities by preventing the deterioration of utility infrastructure and providing financial support to SMEs in the regions is another high priority.

In line with the sustainable development principle, NSRF includes activities for development of the country's capacity to manage and channel the increasing share of the tourism sector, taking into account both the local potential and also the related risks. The plan aims at maximum utilisation of the economic potential in order to limit the negative impact on the environment and to preserve the national heritage by overcoming the negative tendencies of the last decade.

### **1.5. Territorial, regional, and urban dimensions of NSRF**

The NSRF presents the entire strategy for achieving and developing sustainable territorial communities, which is to be realized through the operational programmes.

Sustainable development is a fundamental goal of the EU, which requires interrelated and coherent economic, social and environmental policies. The Operational Programmes will conform with the key priorities of spatial planning.

Sustainable development of territorial communities presume the achievement of stable economic growth, in conjunction with social welfare and full possibilities for social inclusion. The cities play a key role for the building of sustainable territorial communities, due to their economic, cultural and social importance in the regions in which they are situated as well as at national level. The implementation of Operational Programmes refers to different spatial levels of existence of sustainable communities– local, urban and regional. The NSRF through its Operational Programmes aims at developing sustainable territorial communities, taking into account the different cultural, religious and educational fabric that characterizes them.

Sustainable communities are based on good organisation and strive for the protection of the environment. Of primary importance is achieving a balance between public and private services in the social, educational and health sphere. The NSRF endeavours to increase the sustainable use of natural resources, minimizing pollution, protecting and improving the biodiversity, achieving sustainable production and consumption.

Providing transport and developing ICT at public utilities improves access to work places, schools and health services, thus contributing to the development of an innovative local economy and achievement of the aims of Lisbon strategy. Mobility and possibilities for life long learning brings stability to the business communities, integrates them at national level and provides economic strength and attractiveness to the regions.

The NSRF strategy aims at integrating the rural, urban and regional dimensions of the country to develop sustainable territorial communities.

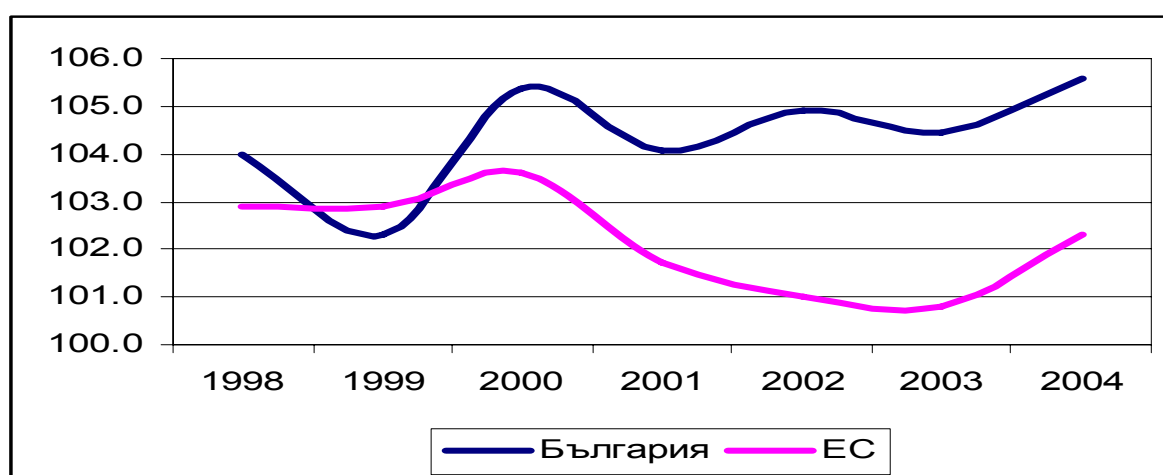
## 2. ANALYSIS OF DEVELOPMENT DISPARITIES, WEAKNESSES AND POTENTIAL

### 2.1. Analysis of Existing Development Disparities

#### 2.1.1. Economic development

Gross Domestic Product registered a sustainable growth since the introduction of the currency board in the middle of 1997. In 1998-2004 the accumulated growth achieved an increase of nearly 30% versus 16.4% of EU 25 average. However, despite this high growth rate the average income in Bulgaria still accounts for only 32.6% of EU-25.

*Figure 1 GDP growth of Bulgaria and the EU (% to the previous year)*



Blue curve – Bulgaria; Purple curve - EU

Domestic demand has been the engine of growth in 1998-2004. Both consumption and investment registered higher growth than GDP. Increasing domestic demand underlies the widening current account deficit, which increased from 0.5% of GDP in 1998 to 11.9% in 2005.

The considerable trade balance deficit was the main factor for the increase of the current account deficit. The combination of the fixed exchange rate and a high current account deficit is not sustainable in the long-run. Shifting from growth based on domestic demand to an exports-based growth is the most important challenge for the Bulgarian economy in the period 2007 - 2013.

Investment goods account for a good part of the imports. Investments were the most dynamic component of the domestic demand and their share in the GDP increased from 13% in 1998 to 21% in 2004. Savings did not increase at the same rate and the saving-investment gap grew significantly. The saving rate in Bulgaria, which is only 16% in 2004, lags well behind the saving rate in member states. The widening gap between investment and saving rate makes the Bulgarian economy heavily dependent on foreign capital inflow. Foreign direct

investment (FDI) is viewed as an important part of capital inflow, not only as a source of financing the current account deficit but also as a source of up-to-date production technologies and management that will improve the competitiveness of the Bulgarian economy. Increasing both the quality and quantity of FDI is of great importance for improving the international competitive position of the economy.

In relation to the supply side of the economy, services sector has developed most dynamically. This is due to the expansion of the private sector in areas like communications, finance, and tourism. In the period 2000-2005, tourism registered very high growth and related revenue increased by 65.4%. This is due to the full privatization of the sector and the notably strong investments in new hotels.

**Figure. 2. Contributions of economic sectors to GDP growth**



*Blue column – Agriculture; Red column – Industry; Yellow column – Services*

The industry's most dynamic component is the processing industry, which has recorded double figured real growth on a yearly basis. High growth in this industry is a sign of the country's recovery in this market at international level.

Agriculture registered very unbalanced development as the value added varies substantially. The restructuring of the sector is slow due to the uneven distribution of the assets among a considerable number of the many, but small-sized existing farms. Lack of a functioning land market diminishes the possibility for collateral for agricultural credits, which makes banks reluctant to provide such credits to farmers. The role of official financing from the state budget or international programmes is still very important for the sector.

Overall, services contribute to the GDP growth, which mainly is due to the penetration of private funds, the deregulation of the services' market, as well as the improved credit expansion of banks.

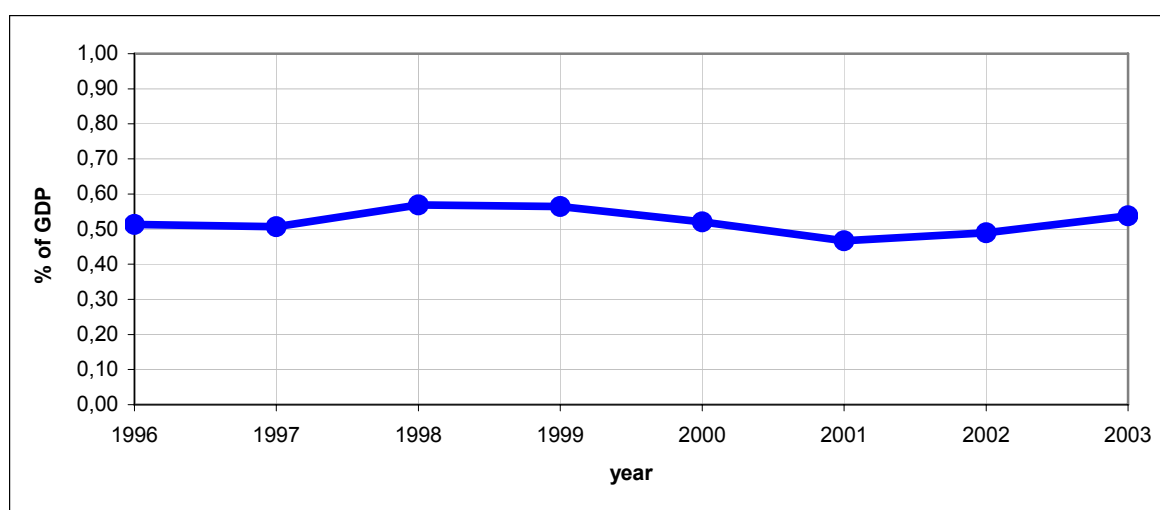
The inflation rate has decreased significantly since the middle of 1997. Tight money supply associated with the currency board arrangement was the main factors for the lower inflation rate. However, inflation in Bulgaria is still higher than the EU average due to a number of

factors. Administrative prices (electricity and water supply, central heating, medicines, etc.) as well as the high energy intensity of the economy are still pro-inflationary factors. The Bulgarian economy uses about 2 times more energy per Euro of GDP than the EU average, taking into account the purchasing power of the population. High energy intensity makes the economy vulnerable to external energy fluctuations. The relatively high inflation rate underlies national currency appreciation in real terms. The real exchange rate appreciated by 24.3% between 1998 and 2004. The higher inflation rate and real appreciation of Bulgarian currency make exports expensive and reduces the international competitiveness of the Bulgarian goods and services.

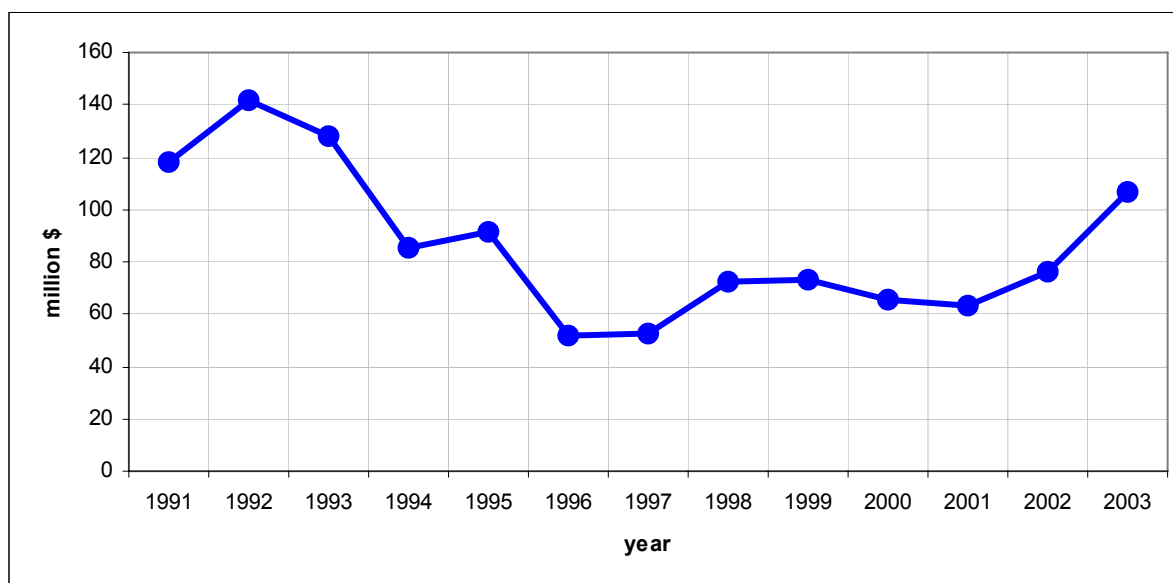
The use of outdated technologies in industry and services is one of the major causes for the labour productivity disparity between the EU and Bulgarian enterprises. During the period 1998-2004 the level of gross fixed capital formation as a percentage of GDP remained relatively low (average level for the period – 16.1%), although it is increasing compared to the new EU member states, which are ranging from 21.1 to 27.58%. This problem is especially pronounced in the SME sector where 46% of enterprises lack sufficient financial resources for investment and upgrading, 62% of SMEs do not plan to introduce new technologies in their main production activities<sup>3</sup>. This is resulting in a 2-7 times lower productivity level for this group compared to the enterprises in the new EU member states. Until 2003 only 842 enterprises have received ISO 9001:2000 quality management systems certificates and only 17 enterprises ISO 14001 environment management systems certificates.

Regardless of the increase of resources allocated for research in the last two years, this amount is lagging considerably behind the EU average. In order to achieve the Lisbon Agenda goal of 3 percent of the GDP to be used for R&D in 2010 (about 1% public and 2% private), the state expenditure for R&D has to triple, without taking into account GDP growth. Also, the private share would require a 20-fold increase. This evidence shows that the objective of reaching 3% of GDP until the year 2010 for R&D is not attainable. A more realistic target for overall expenditures for R&D in the medium term is about 1% of GDP.

**Figure. 3. Overall expenditure for R&D**



<sup>3</sup> According to the Annual Report for the SMEs for 2004, the coefficient for replacement of the long-term assets by the SMEs is 66% lower than for the large enterprises.

**Figure 4. Expenditure for scientific research**

The R&D expenditures of the business sector are an important indicator for the innovation activities. The Bulgarian companies participate far less in the financing of research and development activities (their share accounts for 20.4% of total expenditures for research and development for 2003) in comparison to the average EU-25, which cover 64.6% of the expenditures for research and development, against 35.4% participation of the government<sup>4</sup>. The low innovation activity is especially acute among the SMEs. In Bulgaria the share of SMEs introducing innovations accounts for only 9.4%, while this indicator is ranging from 12.5 to 29.8% in the new EU member states.

A strong link between all participants in the innovation system is a prerequisite for an efficient transformation of research into new products. In Bulgaria the cooperation among business, science and other institutions in innovative projects is relatively weak. Only 10.1% of the innovative enterprises cooperate with universities and research institutes. Also, 5.4% of the innovative enterprises interact with research and technological centres, 9.5% rely on government support, 8.9% on external consultants and 15.5% collaborate with trade associations<sup>5</sup>. These figures are very low and thus reflect the low level of national innovative enterprises. Bulgarian innovative SMEs also rarely cooperate with other SMEs for implementation of R&D projects<sup>6</sup>.

Information and communication technology (ICT) contributes for 40% of Europe's productivity growth and for 25% of GDP growth in EU-25. The i-2010<sup>7</sup> Initiative of the EU,

<sup>4</sup> According to the European innovation scoreboard 2005

<sup>5</sup> Source: Vitosha research survey(2004)

<sup>6</sup> According to the data from European Innovation Scoreboard 2005 only 2.5 of the Bulgarian innovative SMEs cooperate with other SMEs, while this indicator is ranging from 3.8 to 32.9 for the new EU member states.

<sup>7</sup> COM(2005) 229 final: Communication from the commission to the council, the European parliament, the European economic and social committee and the committee of the regions "i2010 – A European Information Society for growth and employment"

launched in May 2005, targets promotion, wide application and the development of ICT as a prerequisite for competitiveness and employment. The use of ICT in Bulgarian enterprises is still low. In 2004<sup>8</sup> 40% of them use the Internet compared to 88 % in the EU-25, but only 6,2 % use the Internet for on-line marketing and 4.7 % for electronic trade. Only 1.33% of the enterprises use IT systems for management of orders and purchases. Only 4.5 % use electronic resource planning systems and 6.4 % use groupware applications. The development of electronic trade and electronic business in the country is negligible compared to the rapid global development.

There are substantial delays in the use of the Internet by households and companies in certain regions. With the exception of the Northern regions, broadband networks, providing access to electronic services are in very short supply outside the district centres, particularly in medium-sized towns and sparsely populated regions. In the field of electronic communications, assistance from public funds is becoming essential for decreasing territorial imbalances in access to electronic services and development of the information society. Analysis of investment in telecommunications, and particularly in broadband infrastructure, demonstrates very positive effects in terms of economic growth for disadvantaged regions, thereby reducing their isolation.

The Bulgarian economy occupies last place when compared to the EU-25 on the indicator for energy intensity of the economy. Eurostat data on relative energy consumption<sup>9</sup> indicate that Bulgaria's industrial sector energy consumption is 2 times higher than that of EC-25, taking into account the purchasing power of the population. In addition, the surrounding infrastructure and buildings are out of date and do not cover the basic requirements in terms of energy efficiency. Bulgaria has no primary energy sources and relies very much on imports. The country imports about 70% of its primary energy resources, which account for about 20% of the GDP. According to the Accession Agreement between Bulgarian and the EU (Technical Adaptations), the country has to increase the share of the energy, produced by renewable energy sources up to 11% of gross domestic consumption by 2010. It has been between 6 and 8% for the period 2000-2004. In order to fulfil this commitment it is necessary to implement measures to encourage the production of the energy by renewable energy sources. Bulgaria is lagging behind in the development of its gas distribution networks and the supply of gas to households not only in comparison to EU countries but also compared to neighbouring countries. Currently gas distribution is carried out on the territory of about 35-40 municipalities, which represent about 15% of the municipalities in Bulgaria, while for the EU these figures reach up to 80%. In addition only about 0.4% of the households are covered, where for the EU this figures reaches up to 50%. The expansion of gas distribution networks to municipalities, which are currently not licensed and which are not included in the List of new gas distribution networks, shall support the development of the municipalities, and their attractiveness for investors. In addition there will also be a positive effect towards decreasing the energy intensity in relation to GDP and environmental protection.

In 2005 the average **unemployment rate** was about 10%, which is close to the average unemployment rate in the EU. However, unemployment is considered an important issue for the country as the participation rate is much lower and the long-term unemployment rate is nearly two times higher than the EU average. There are different factors, affecting the

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<sup>8</sup> According to e-Bulgaria report of ARC Fund (2005)

<sup>9</sup> Defined as primary energy use per unit of GDP (tons of oil equivalent per 1000 euros)

development of the labour market - declining educational standards and poor interface between business and education, which contributes to the high long-term unemployment rate. In addition, a lot of Bulgarian companies do not implement “on the job” training programmes systematically. Investments in human capital are a prerequisite to increase the adaptability of people to changes in the labour market caused by technological and economic development. People with low professional skills and education are especially vulnerable and account for a bigger part of the long-term unemployed.

The planning regions do not differ significantly in terms of economic development, employment rate and quality of infrastructure. GDP per capita vary between 24-26% of the EU average. The employment rates vary between 43.7% in the North-West planning region to 56.4% in the South-West region. However, the data identifies considerable disparities across municipalities. The centre-periphery contrast is evident within all six planning regions.

The situation analysis of the **transport infrastructure** and the comparative analysis of the transport infrastructure in the EU Member States show, that the development of motorways in Bulgaria is slow. The national territory’s coverage with motorways, four-lane, and three-lane roads is unbalanced. Nearly 30% of the motorways and 50% of I-class roads in the country are not in good condition and need rehabilitations and reconstruction. The percentage for II-class and III-class roads is significantly higher. The small number of by-pass roads to shift the traffic from the populated areas is another weakness of the road network as a whole. The country has 23 road cross-border check points which could not be considered as sufficient. Development and maintenance of the municipal roads , which covers over 55% of the overall length of the road network in the country, is problematic. The constant worsening of municipal roads condition and the necessary restructuring of social economic sectors highlight the problem of lack of good quality road connections.

In relation to **railway transport** the operational and technical conditions in the railway infrastructure are poor. A considerable number of the railways lines were constructed more than 50 years ago and enable maximum speed of up to only 100 km/h. The main part of security, telecommunication facilities and the electric power supply facilities are more than 20 years old and the funds available for maintenance, replacement and modernization in the last 15 years have been insufficient. The railway network in the country is of “closed” type and there are only 8 cross-border check points with the neighbouring countries.

In relation to **maritime and inland waterway transport** most ports were constructed at the beginning of the last century which has a negative effect on their technical condition and technological capacity. The capacity of the passenger and freight terminals in all airports is not sufficient and does not correspond to the requirements for modern European airports.

The insufficient quality of **infrastructure for water supply and sewage systems**, as well as **systems for waste water treatment**, create a lot of environmental and public health concerns. Relatively high level of amortization is typical for the water supply network. The leakage from the national water supply systems amounted to 61.6% in 2004. 21.6% of the population do not have regular water supply due to imposed water supply restrictions. This percentage increases to 45.5% in the worse affected North-West planning region. Only 69.2% of the population has access to the national sewage system and 40.5% to WWTP. In 2003 the internal losses in the irrigation network amount to 62%. It is necessary to construct adequate infrastructure for water supply and to construct and renovate the existing WWTP and the networks for discharge and treatment of waste water as a precondition for sustainable development of the municipalities in Bulgaria.



Development of the adequate **infrastructure for waste management** is another challenge for the achievement of high environmental standards. In 2004 the waste collection system covered 84.2% of the population of the country, which includes mainly the inhabitants in big cities. In the period 1999-2003 the quantity of municipal waste was about 3230 thousand tons per year. In 2004 data from municipality administration shows that 3092 thousand tons of municipality waste and 338 thousand tons of other waste were collected. Unsatisfactory quality and range of the existing systems for waste management, as well as the existence of warehouses for municipality waste, which do not correspond to the legislation requirements and the EU standards represent a high risk to human health as well as for the environment.

The **agriculture sector** proved highly inefficient in comparison to the EU average. The gross value added/gross output (GVA/GO) ratio in the agricultural sector is 43% versus 51.6% in the 15 EU member states. The lower ratio indicates much lower productivity of the sector compared to the EU average.

The share of agricultural sector in gross value added decreased from 13.9% in 2000 to 10.9% in 2004. At the same time the share of the employees in the agricultural sector remains high – approximately 25%<sup>10</sup> of the total number of employees. This is much more in comparison to the 5.2% of the EU - 25 average.

The economy in the rural areas is much more dependent on agriculture as a main source of income in comparison with the other parts of the country. Nearly 78 % of those employed in the agricultural sector work in the rural areas<sup>11</sup>. Only 24% of those employed in the rural areas are employed full-time, which illustrates the need for diversification outside of the agricultural sector. At the same time, GDP per capita in the rural areas is much lower than in the urban areas. It is 34% lower than the average for Bulgaria and more than two times lower than the GDP in the urban areas. The reason is relatively lower value added in the agricultural sector which dominates rural areas economy.

### ***2.1.2. Social development and social inclusion***

Bulgaria does not differ from the EU average in terms of percentage of population below the poverty line<sup>12</sup>. According to the monitoring of households carried out by the National Statistical Institute (NSI) in 2003 an estimated 14% of the population fell below the poverty line. The EU average is about 15%. As far as the new EU Member States are concerned, the share of poor households is, as follows: Latvia – 17%, Lithuania – 16%, Estonia – 18%, Hungary – 10% and Czech Republic – 8%. However, Bulgaria differs significantly from the EU in terms of the contribution of social transfers toward reducing poverty. In 2003 social transfers (without pensions) reduced poverty by only 1.9%, while in the member states social transfers reduce poverty by 9%.

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<sup>10</sup> According to preliminary data for 2004

<sup>11</sup> According to data from the census of agricultural farms in Bulgaria, conducted in 2003 by the MAF

<sup>12</sup> The Eurostat method has been used according to which the poverty threshold is 60% of the median equivalent income (the so called relative method). Calculations are made using the equivalence scale in order to take into account the economy of resources resulting from the cohabitation of persons forming a household. A Eurostat equivalence scale has been used: 1 – for the first household member, 0,5 - for any subsequent adult member and 0,3 – for a child under the age of 14.

**Health care services** cover mainly treatment activities, while the other three pillars of the system, i.e promotion, prevention, and rehabilitation are rather neglected. Health is one of the most information dependent sectors as well as one of the priorities in the i2010 Initiatives, which encourage the use of electronic services in Europe. The consolidated budget expenditures on health care tend to increase from 3.3 percents of GDP in 2000 to 4.7 percent in 2004. However, the outdated and already used up infrastructure and technical facilities, added to the underdeveloped information infrastructure of health system all contribute to a poor quality of health services.

Health prevention in accordance with the EU strategy for development of health care in the EU is a priority. In addition the good opportunities for development of the prevention and rehabilitation associated with the numerous mineral springs remain rather neglected.

The most important challenges for the health care system in Bulgaria are improving the outdated and used up technical facilities, development of modern informational health infrastructure, introduction of electronic health services, development of promotion, prevention and rehabilitation.

The **educational structure of the population** is satisfactory, except for the Roma minority, which remains extremely poorly educated. In general, in 2002 the comparison made between the educational structures of the population of the 15 EU Member States and Bulgaria did not indicate substantial disparities. However, the illiteracy among the Roma minority is slightly above the average level in European countries. The number of illiterate Roma people has increased by 60, 6% in the period between the last two national censuses (1992-2001).

There are huge disparities between urban and rural areas in terms of access to education. The index for junior high school level completion grew by 1.9% in towns, but fell by 6.7% in villages over the period 1996-2001. The 2002 human development index (monitored by UNDP) indicated a low level of literacy and a low rate of school enrolment in remote municipalities and municipalities with high concentration of ethnic minorities. Data for 2003 indicated that Bulgarian Roma people are among the most vulnerable groups in terms of education – 42% of children in Roma households did not complete elementary education. This index is 11.8% in Slovakia and 22% in the Czech Republic.

Bulgaria had a good tradition in mathematics and natural sciences in secondary education. However, TIMSS international study on the quality of mathematics and natural sciences education clearly demonstrates a deterioration of educational standards in Bulgaria. In the past, out of 50 countries Bulgaria reached the 9<sup>th</sup> place for mathematics and 5<sup>th</sup> place for natural sciences, while in 2003 these positions have declined to 25<sup>th</sup> and 24<sup>th</sup> respectively. Higher education in the country is lagging behind as far as modernisation of curricula is concerned<sup>13</sup>. The curriculum is not adequate to requirements of labour market and economic development of the country. The link between education and business is poorly developed in the country. The use of ICT in schools is significantly behind the average of the EU<sup>14</sup>. For the academic year 2004/05 the number of students per computer is 24, which is the same as the new member states have had in 2001. The forecast is that in 2007 Bulgaria will have the same level as EU 15 have had for 2001. Only 36% of schools have connections to the Internet.

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<sup>13</sup> European network for quality assurance in higher education – ENQA – European Higher Education Area..

<sup>14</sup> Data from e-Bulgaria (2005) of Applied Research Communication Fund (ARCF)

However, the most serious problems are related to the low computer literacy of the teachers (only 16% have the necessary computer skills, while only 6% have computer qualifications) and to the lack of educational materials in electronic format. Modernisation of necessary materials and technical equipment for education, development of better informational and educational materials in electronic format, investments in teacher qualifications (including ICT) and R&D, are the main prerequisites for better balance between the quality of working force and the needs of Bulgarian business.

Bulgaria has a **rich cultural heritage**. There are significant historical and archaeological sites of interest providing opportunities for development of tourism. At the same time underdeveloped infrastructure, including roads, to the cultural heritage prevents the realization of this potential. The opportunities offered by new technologies for promoting existing cultural sites (internet sites with digital cultural contents, electronic libraries, museums, etc.) are not fully utilized.

The Bulgarian government and the organizations from the non-governmental sector pay increasing attention to the **problems of disadvantaged groups** (for instance people with disabilities, long term unemployed, isolated Roma minority groups). Ministry of Labour and Social Policy executes the Updated Social Plan against Poverty and Social Isolation, Plan for Equal Opportunity of People with Disabilities, and The Strategy for People with Disadvantages. Certain non-governmental organizations (UNDP, FLRG, Association of Social Enterprises) support these national policies with realization of similar programmes, addressing residential problems of the isolated Roma communities, popularization of social entrepreneurship, problems with Roma youth, improvement of the conditions for social inclusion and professional realization of people with disabilities.

### *2.1.3. Administrative capacity*

#### **Reform of the state administration**

The government has taken a commitment to discuss with all interested parties the development of state administration policy as well as to make an ex-ante evaluation of its impact on the society. The Ministry of State Administration and Administrative Reform will further improve the quality of the administrative services provided. This will contribute to the effectiveness and the efficiency in the process of management of the human resources, of the communication with the society of the process of formulation and realization of the policies, and the creation of mechanisms for management of the resources. These mechanisms are developed in accordance with the targets for growth and the new working places stated in the Revised Lisbon Agenda. Innovative methods for management in these administrative structures will improve the communication with interested parties and coordination of sectoral policies.

Development of the administrative capacity is one of the priority areas for the Bulgarian government. Good management, modernization of the state administration, and improvement of the quality of the administrative services are among the main factors for the improvement of the competitiveness of the economy contributing to higher economic growth and overall development of the country.

Reform in the state administration is based on a revised Strategy for Modernization of State Administration – from Accession to Integration 2003-2006, the White Book of Achievements and Challenges in front of the Bulgarian State Administration in the EU, the National

Development Plan 2007-2013, the Programme of the Government 2006-2009, and the priorities of the Ministry of the State Administration and the Administrative Reform.

The assessment of the general public and the business of the quality of the administrative services is unsatisfactory. Despite the on-going administrative reform the flexibility of the administration should be improved. Low financial incentive in state administration in comparison to the private sector will increase staff fluctuation and will negatively influence the new personnel, although its overall educational level is sufficient. In addition, insufficient internet coverage impedes the development of the e-government, which prevents the connections between the administration and the consumers of its services.

## 2.2. SWOT Analysis

<b>Strengths</b>	<b>Weaknesses</b>
<p><b><u>Economic</u></b></p> <ul style="list-style-type: none"> <li>• Stable macroeconomic environment</li> <li>• Reliable banking system, rapid credit expansion</li> <li>• Increasing rate of investments</li> <li>• Growing contribution of SME's to GDP growth</li> <li>• Increasing share of the private sector in economy;</li> </ul>	<p><b><u>Economic</u></b></p> <ul style="list-style-type: none"> <li>• Low GDP per capita</li> <li>• Low level of FDI</li> <li>• Underdeveloped non-banking financial system</li> <li>• Restrictions for SMEs for starting business (lack of financing, existence of administrative barriers, underdeveloped system for support)</li> <li>• Outdated technologies and production techniques</li> <li>• Low adoption of ICT by the SMEs and weak development of electronic trade</li> <li>• Low energy effectiveness of the economy</li> <li>• High resource dependency and low value added of final output</li> <li>• Low level of investments in R&amp;D</li> <li>• Low level of participation of the private sector in R&amp;D activities</li> <li>• Low labour productivity;</li> </ul>
<p><b><u>Human Resources and Social Issues</u></b></p> <ul style="list-style-type: none"> <li>• Good territorial coverage of the social infrastructure</li> </ul>	<p><b><u>Human Resources and Social Issues</u></b></p> <ul style="list-style-type: none"> <li>• Discrepancy between qualifications of the labour force and labour market needs</li> <li>• High unemployment rate; low economic activity ratio</li> <li>• Depopulation</li> <li>• Outdated and obsolete technical equipment of educational, health, and other social infrastructure</li> <li>• Underdeveloped structures for preventive treatments and</li> </ul>

	<p>rehabilitation in the health sector</p> <ul style="list-style-type: none"> <li>• Poor quality in the field of education and health sector. Insufficient level of access to the health services</li> <li>• Insufficient level of adequacy of the infrastructure in urban area for the needs of disabled people</li> </ul>
<p><b><u>Transport</u></b></p> <ul style="list-style-type: none"> <li>• High density of transport network</li> <li>• Relatively high contribution of the transport sector to the economic growth.</li> <li>• Relatively high degree of compliance of Bulgarian transport regulations with the European one</li> </ul>	<p><b><u>Transport</u></b></p> <ul style="list-style-type: none"> <li>• Low technical quality of the transport infrastructure, outdated transport schemes and technologies</li> <li>• Unbalanced development of different modes of transport within the national transport</li> <li>• Relatively closed transport system with insufficient transport links with neighbouring countries</li> <li>• Low quality and safety of the urban transport</li> <li>• Low degree of compliance with the principle of environment healthy urban transport.</li> </ul>
<p><b><u>Environment</u></b></p> <ul style="list-style-type: none"> <li>• Low level of water pollution, high level of construction of water supply infrastructure</li> <li>• High biodiversity</li> <li>• Emissions of air pollution are lower than the allowance of the Kyoto Protocol</li> </ul>	<p><b><u>Environment</u></b></p> <ul style="list-style-type: none"> <li>• Insufficient construction and depreciated infrastructure for collection and treatment of waste water</li> <li>• Insufficiently developed systems for waste management and inadequate measures for waste minimization, recycling and utilization</li> <li>• Significant number of existing polluted terrains</li> </ul>
<p><b><u>Regions</u></b></p> <ul style="list-style-type: none"> <li>• Preserved natural environment with rich cultural and historical heritage</li> <li>• Relatively balanced network of urban and rural areas</li> <li>• Insignificant regional disparities between the planning regions</li> </ul>	<p><b><u>Regions</u></b></p> <ul style="list-style-type: none"> <li>• Significant intra-regional disparities</li> <li>• Underdeveloped regional and local infrastructural networks</li> <li>• Low quality of working, living environment, physical infrastructure and public services in cities and urban areas</li> <li>• Obsolete educational, healthcare, social and cultural facilities</li> <li>• Lack of broadband internet infrastructure and access to e-services in lagging behind and low-populated areas</li> <li>• Lack of support and high level of amortization of residential buildings in big cities</li> </ul>

<p><b><u>Administrative capacity</u></b></p> <ul style="list-style-type: none"> <li>• Adopted legislation in the field of state administration and approved structures for its execution and control</li> <li>• Established central and regional structures for effective implementation and management of the Structural funds of the EU on</li> <li>• Relatively good education of the servants in the state administration</li> <li>• Good cooperation between state administration and socio-economic partners</li> </ul>	<p><b><u>Administrative capacity</u></b></p> <ul style="list-style-type: none"> <li>• Insufficient correspondence between budgets of administrative structures and their strategic targets</li> <li>• Weak intra- and inter-administrative coordination</li> <li>• Weak level of motivation</li> <li>• Underdeveloped e-government</li> <li>• Shortage of modern managerial skills in the administration</li> </ul>
<p><b><u>Agriculture and Rural Areas</u></b></p> <ul style="list-style-type: none"> <li>• Favourable soil and climate conditions for varied agricultural production;</li> <li>• Traditions in the processing of certain agricultural products with good image in foreign markets;</li> <li>• Diversified and preserved environment in the rural areas.</li> </ul>	<p><b><u>Agriculture and Rural Areas</u></b></p> <ul style="list-style-type: none"> <li>• Unfavourable demographic tendencies in a significant part of rural areas;</li> <li>• Higher level of unemployment in comparison to the average of the country;</li> <li>• Underdeveloped and depreciated basic infrastructure including sewage and waste treatment</li> <li>• Low level of specialization and productivity of agricultural farms</li> <li>• High dependency on agriculture in rural areas and lack of alternative (non-agricultural) sources of income</li> <li>• Unstable and ineffective usage of natural resources leading to erosion, pollution, and abandoned areas</li> </ul>
<p><b><u>Fisheries and Aquaculture</u></b></p> <ul style="list-style-type: none"> <li>• Low overall level of water pollution</li> <li>• Highly qualified scientific experts in the areas of fisheries, ichthyology and hydrobiology</li> </ul>	<p><b><u>Fisheries and Aquaculture</u></b></p> <ul style="list-style-type: none"> <li>• Grown old and amortized fishing fleet</li> <li>• Insufficient interaction between base and processing industry</li> <li>• Underdeveloped production of marine aquaculture</li> </ul>

<b>Opportunities</b>	<b>Threats</b>
<p><b><u>Economics</u></b></p> <ul style="list-style-type: none"> <li>• Modernization of the production technologies based on steady growth of investments</li> <li>• Increase of trade with the EU</li> <li>• Increase of SMEs effectiveness</li> <li>• Decreasing of energy intensity of the economy, improvement of the energy effectiveness and utilization of</li> </ul>	<p><b><u>Economics</u></b></p> <ul style="list-style-type: none"> <li>• External competition on main exporting sectors</li> <li>• Inability of large number of enterprises to meet the EU Common market obligatory requirements</li> <li>• Inability of Bulgarian enterprises to integrate in global e-business networks</li> </ul>

<p>potential local renewable energy sources</p> <ul style="list-style-type: none"> <li>• Building a strong link between the business, science, education and the non-governmental sector</li> <li>• Development of non-banking financial sector</li> <li>• Development of better information and consultancy services for businesses</li> <li>• Increase of the share of energy produced by renewable energy sources in gross domestic consumption, decline in dependence of fuel imports</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient capacity for absorption of EU Funds;</li> </ul>
<p><b><u>Human Resources and Social Issues</u></b></p> <ul style="list-style-type: none"> <li>• Development of life-long learning</li> <li>• Creating better qualification of the human resources</li> <li>• Introducing contemporary information technology in the field of education and healthcare</li> <li>• Improvement of human resource mobility and adaptability</li> <li>• Strengthening the link between education and business</li> </ul>	<p><b><u>Human Resources and Social Issues</u></b></p> <ul style="list-style-type: none"> <li>• Risk of social exclusion of vulnerable groups</li> <li>• Immigration of young and highly qualified working force</li> <li>• Not sufficient level of investments in the human resource development from the employers</li> </ul>
<p><b><u>Transport</u></b></p> <ul style="list-style-type: none"> <li>• Localization of the country – cross-point of the Pan European transport corridors IV, VII, VIII, IX и X.</li> <li>• Integration in the Common European Market for transport</li> <li>• Existence of high level of financial support from the EU for modernisation and construction of the transport infrastructure after the EU accession</li> <li>• Existence of opportunities for financial support for the development of effective and environment friendly urban transport</li> <li>• Increase in transport flows through the country</li> </ul>	<p><b><u>Transport</u></b></p> <ul style="list-style-type: none"> <li>• Insufficient capacity and low quality of the transport infrastructure for meeting the increased transport flows</li> <li>• Detouring of the country of transit flows</li> <li>• Delay by the implementation of big transport projects</li> </ul>
<p><b><u>Environment</u></b></p> <ul style="list-style-type: none"> <li>• Increase in environment protection due to application of the EU legislation</li> <li>• Property restructuring in the water sector</li> </ul>	<p><b><u>Environment</u></b></p> <ul style="list-style-type: none"> <li>• Expected increase in expenditure for business and public sector in order to apply new legislation in environment</li> <li>• Negative public opinion for building of equipment for waste treatment</li> <li>• Unforeseen calamities due to the</li> </ul>

	global climate change
<p><b><u>Regions</u></b></p> <ul style="list-style-type: none"> <li>• European cross-border, trans-national, and trans-regional cooperation</li> <li>• Development of the ICT in transition to information society</li> <li>• Utilization of natural, historical, and cultural heritage for stable growth and development of the regions</li> </ul>	<p><b><u>Regions</u></b></p> <ul style="list-style-type: none"> <li>• Delay in the process of decentralisation at district and municipal levels. Strong dependency of municipalities of central budget transfers</li> <li>• Underdeveloped institutional partnership and inter-municipal cooperation</li> <li>• Weak capacity (institutional, financial and technical) of district and municipal administration and local actors to undertake development projects</li> <li>• Unfavourable demographic tendencies – aging population, emigration</li> </ul>
<p><b><u>Administrative capacity</u></b></p> <ul style="list-style-type: none"> <li>• Application of good European practices in the process of policy-making and evaluation of existing policies and legislation</li> <li>• Work optimization of administrative structures</li> <li>• Implementation of the modern practises for management of the human resources in the state administration</li> <li>• Improvement of the access to administrative services</li> <li>• Development of public-private partnership</li> </ul>	<p><b><u>Administrative capacity</u></b></p> <ul style="list-style-type: none"> <li>• Delay in administrative reform due to lower economic growth leading to negative implications to the administration budget</li> <li>• Lack of political support for inclusion of the socio-economic partners in the process of policy-making</li> <li>• Low Internet coverage and delay in implementation of the e-government</li> </ul>
<p><b><u>Agriculture and Rural Areas</u></b></p> <ul style="list-style-type: none"> <li>• Improved access of Bulgarian producers to the EU markets</li> <li>• Creation of employment outside the agricultural sector</li> </ul>	<p><b><u>Agriculture and Rural Areas</u></b></p> <ul style="list-style-type: none"> <li>• Increase competitive pressure on the internal market</li> <li>• Increase of development gaps between urban and rural areas</li> </ul>
<p><b><u>Fisheries and Aquaculture</u></b></p> <ul style="list-style-type: none"> <li>• Improvement of infrastructure</li> <li>• Increase of employment in processing of aquaculture and fish products</li> </ul>	<p><b><u>Fisheries and Aquaculture</u></b></p> <ul style="list-style-type: none"> <li>• Increase competitive pressure on the internal market</li> <li>• Negative consequences of natural disasters</li> </ul>



### 2.3. List of Significant Development Disparities

- Low GDP per capita;
- High unemployment, high long-term unemployment rate, and low economic activity;
- Low labour productivity;
- Discrepancy between of labour force education and skills and the requirements of labour market;
- Use of outdated technologies in production and low level of introduction of quality and environment management systems;
- Low level of investments in ICT;
- Low innovation activity of the business;
- Inefficient interaction between the business, science, education and the non-governmental sector;
- High energy intensity of the economy and low share of energy produced by renewable energy sources in gross domestic consumption;
- Poor quality of the transport infrastructure;
- Significant disparities at district and municipal level;
- Underdeveloped broadband infrastructure and difficult access to public electronic services in economically underdeveloped and sparsely populated regions;
- Low productivity in the agricultural economic activities;
- Limited non-agricultural activities in rural areas (lack of alternative income sources);
- Underdeveloped networks for wastes collection and treatment;
- Poor quality of the water supply network infrastructure, insufficient and depreciated infrastructure for collection and treatment of waste water;
- Outdated facilities and equipment of the education, health and social institutions;
- Low social inclusion of marginalised groups;
- Low level of health promotion, prevention and rehabilitation activities;
- Underdeveloped e-government;
- Low effectiveness of administrative services.

## 3. STRATEGIC INTERVENTIONS BY THEMATIC AREA

This section of the NSRF for the period 2007-2013 presents the strategy by thematic areas in which the resources under the Structural Funds will be distributed.

### 3.1. Development of competitive enterprises and improving the business environment

Bulgaria has been recognized as a functioning market economy in the 2001 Regular Report on Bulgaria's Progress towards Accession. As of 31.12.2005 some 89.25% of the state owned assets are privatized. The introduction of the currency board arrangement in 1997 guaranteed economic stability. The favourable development of the main macroeconomic parameters is creating a major prerequisite for a sustainable economic growth.

There are several obstacles to the increase in the competitiveness of the economy - the relatively unfavourable structure of the funding and the unused potential in the field of

innovation development. This is due to the use of outdated technologies, the relatively slow process of transformation of the research products in marketable results and the low level of absorption of new research products from the enterprises.

During the transition period, small and medium enterprises<sup>15</sup> have gradually established themselves as an important factor in the Bulgarian economy, representing 99.2 % of all enterprises in the country, accounting for 79% of the employment and creating 61.1% of the value added in the economy. Considering the high development potential of the SMEs and their contribution to the decreasing unemployment, Bulgaria will concentrate on fostering their competitiveness on the international markets and development of a knowledge-based economy in compliance with the Lisbon strategy. This will be achieved by accelerating the introduction of new technologies in industry and services, stimulating innovation activities, development of entrepreneurship, creating a favourable business environment, fostering the links between science and business, development of new and strengthening of the existing R&D infrastructure, increasing the capacity of R&D stakeholders and encouraging the accelerated technology transfer.

The support for the SMEs will be accompanied by the establishment of an efficient innovation system. It will facilitate the links between business, education, science, administration and the non-governmental sector conducive to quicker transfer of the research results into new products and services. The intensification of the coordination and the interaction between the business and the science will enhance the innovation activity of the enterprises.

The development of a favourable business environment for the attraction of foreign direct investments is also a priority areas in the NSRF strategy. FDI ensures a direct link with the international markets and guarantee the modernization of the production and management activities of the enterprises.

Improvements in energy efficiency are one of the main prerequisites for increasing the competitiveness of the Bulgarian enterprises and diminishing the high resource dependency of the economy and will also find its place in the NSRF strategy. The efforts under the Structural funds will be targeted at the SMEs as their ability to finance energy efficiency measures from own resources is very limited.

### ***3.1.1. Increasing the competitiveness of the SMEs***

Joining the Common European Market is a big opportunity and also a great challenge for the SMEs, because of their limited resources to adapt to the new market conditions.

For achieving a maximum efficiency and increasing the competitiveness of the SMEs, the introduction of new technologies has to be accompanied by interventions for ensuring conformity with the Common Market requirements. Special emphasis will be put on ICTs which are considered as the main driver of economic competitiveness. The increased investments will lead to higher labour and capital productivity and higher value added of the output. This will ensure the adaptability of the SMEs in a strongly competitive environment.

Knowledge accumulated through investment in R&D, innovation and education is a key driver for long-term economic growth. Policies under the NSRF, in compliance with the Integrated Guidelines for Growth and Jobs (2005-2008), aim at increasing investment in R&D

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<sup>15</sup> In the document are considered the enterprises in the non-financial sector

and strengthening the national innovation capacity, where Bulgaria is still lagging behind compared to EU-25. The strategy aims at contributing to the creation of new markets as well as new production processes used by the enterprises. Furthermore, the actions aim at increasing the capacity of the country to absorb new knowledge and technologies.

We consider SMEs as an important source of innovative ideas and a major channel for transformation of the technological innovations created by research entities. The role of the SMEs in the transfer of new technologies in Bulgaria is currently limited by the high risk associated with the introduction of innovative products to the market. The aim of the NSRF strategy will be to contribute to the achievement of Lisbon strategy by gradually extending the base of the innovative enterprises and providing support for innovative start-ups. It will also include integrated schemes to stimulate the development of new products, new production or management technologies and the marketing of the research results through support for existing SMEs with an innovative potential.

The direct support for the SMEs sector will be accompanied by the development of alternative sources of financing. The actions will be focused on creating new and expanding the existing guarantee, venture capital and micro credit funds. This will tackle the problem of the low activity of the banking sector concerning the financing of innovation activities which are associated with higher risk.

The overall aim of the actions envisaged by the NSRF strategy is to increase the competitiveness of the Bulgarian enterprises on the international markets and stimulate their export orientation. Since Bulgaria is a small open economy, increasing export revenues is a major source for sustainable economic growth. Therefore the NSRF strategy envisages a targeted support for export promotion.

### ***3.1.2. Decreasing the energy intensity of the Bulgarian economy***

The NSRF includes targeted actions for decreasing the energy intensity of the Bulgarian economy as an important element of national competitiveness. In line with the Gothenburg agenda for sustainability and the Green Paper, European Strategy for Sustainable, Competitive and Secure Energy, our actions are aimed at improving the energy efficiency of the SMEs as well as for development and deployment of innovative energy saving technologies and technologies using renewable energy resources. These investments are important to reduce the fixed costs of the companies in the longer term and their high dependency on the import of energy resources. Activities like energy assessment of the needs of the enterprises, installation and introduction of the necessary energy savings technologies and equipment, development of energy saving production lines, renovation of the equipment and heating and water isolation of the premises and the introduction of renewable energy resources for the needs of the enterprises will be supported.

Targeted interventions will be implemented for reaching the share of 11% of the energy produced by renewable resources in the gross domestic energy consumption by the year 2010, according to the Directive 77/2001/EC on the Promotion of Electricity from Renewable Energy Sources in the Internal Electricity Market. To achieve this indicative target, the production of the renewable energy should be increased to 461 TWh in 2010.

### ***3.1.3. Promotion of the innovation through strengthening the links between the business, science and education***

The closer interaction between the different stakeholders of the innovation system aims at uniting the scarce resources and accelerating the transfer of the scientific research into marketable results. The NSRF strategy is to foster the innovation activity of the Bulgarian enterprises by linking supply and demand on the innovation system.

The analysis show a strong potential for development of research activities. The country could benefit from its preserved and internationally recognised institutes in many branches of science<sup>16</sup>. The NSRF strategy will concentrate on building a pro-innovative infrastructure (various forms of intermediaries – incubators; technology centres, science and technology parks; centres for the transfer of knowledge to the enterprises, knowledge transfer centres; spin-offs from the universities) which will ensure the link between the research organizations, universities and enterprises and will guarantee the building of an efficient innovation potential. The expected results are from the one side strengthening the cooperation of the R&D entities and the economy and from the other– increasing the information for the opportunities for innovation development among the enterprises.

NSRF strategy has also identified the need for fostering the business cooperation and development of the public-private partnership through the creation of business networks and support for cluster initiatives. The aim is that through enhanced cooperation between the large enterprises, SMEs and the horizontal research entities and universities SMEs to benefit from the better management, increase of innovation activity and the qualification of the labour force. As a result this will lead to increased competitiveness and export orientation of the production.

### ***3.1.4. Improving the business environment***

The development of a favourable business environment is one of the targeted interventions planned under the NSRF. It will include ensuring modern, effective and transparent administrative services and improving the capacity of the non-governmental organizations for supporting the enterprises.

An important element of establishing a favourable business environment for the development of viable SMEs in the NSRF strategy is strengthening of the capacity of the non-governmental sector, as an active intermediary between business and the Government. The efforts will be directed towards the elaboration of effective “coordination mechanisms” between the state authorities and the socio-economic partners for applying the principles of good governance in the decision making process including those activities related to the absorption of the EU funds.

The non-governmental organizations have to be supported in their cooperation with the enterprises, and to provide quality services necessary for improving their competitiveness. In

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<sup>16</sup>Natural sciences; Mechanical Engineering; Agriculture sciences; Medical sciences; Social sciences and Humanities

this relation the priority activity will to improve the access of the SMEs to quality consultancy services, who are in a disadvantageous position at present. This includes the elaboration and dissemination of a standard basic package of consultative services. The purpose of this activity will be to fill up the existing deficit of services offered to the SMEs sector and to provide opportunities for fair competition and improved business environment.

In comparison to the EU member states, in Bulgaria the cooperation between the representatives of the sector, providing information and consultative services and the business is weak, which leads to ineffective use of the available resources. There is also an insufficient representation of the NGOs in the small towns and limited capacity to provide services. Actions will be directed towards the establishment of a network of the existing NGOs, extending their capacity to support the business in the smaller communities and to the diversification of the offered consultative services.

### ***3.1.5. Promotion of the investment activity and attraction of FDI***

The investment growth will contribute to maintaining a sustainable economy, employment creation and increasing productivity. The NSRF strategy is to promote Bulgaria as an attractive investment destination mainly in high productive branches. The development of industrial and business zones and building the supporting infrastructure is a basic tool for improving the investment activity.

## **3.2. Human Resources Development**

The improvement of the quality and competitiveness of the human capital is decisive for sustainable growth of the economy. The main goals and areas of strategic interventions are based on a profound analysis of the labour market and the social issues.

Bulgaria considers human resources development as a means for increasing the quality of human capital and achieving a higher standard of living through increased employment and the continuous implementation of the life-long learning concept. Bulgaria aims to provide, efficient and adequate education in compliance with labour market needs, better health care and social inclusion of vulnerable groups and disadvantaged people.

The Bulgarian policy in the field of human resource development is focused on four key areas of interventions:

- Increased employment and creation of more and better jobs;
- Improved education and to foster R&D;
- Reinforce social integration of disadvantaged people, ensure equal opportunities and gender equality;
- Provision of better healthcare services to the citizens.

The human development policy will be implemented by establishing successful partnership with the stakeholders.

### ***3.2.1. Increase employment and create more and better jobs***

The policy in the field of human development is based on two main factors – the quality of the offered jobs and the competitiveness of the labour force. The policy will address activities

such as creating more and better jobs, increasing the adaptability, mobility and competitiveness of the labour force. The unemployment rate will be further reduced through the improvement of the quality characteristics of the labour force.

The human resource policy is oriented to enhance the participation in the labour market and access to jobs. The actions envisaged include attracting more people into employment, elaborating mechanisms to create a balance between personal life and business, assisting self-employment and start-up own business, providing variety of working schedules, and flexible employment schemes.

The policy aims at increasing employability, the opportunity for career development, social inclusion and improved living standards through encouragement of life long learning. The introduction of innovative methods and approaches in the education system, as well as the usage of up to date information and communication technologies will be encouraged.

The national employment policy aims at fostering vocational training, acquiring professional skills and on the job training.

The policy will be orientated to enhance labour mobility. The territorial mobility of the labour force will be stimulated by the actions in the field of transport infrastructure improvement envisaged in the Operational Programmes and by encouraging employers to hire people from distant regions. A variety of systems to assist employment search in different territorial region will be provided. Assistance to people to find the job most adapted to their profile will be organised. Moreover, the introduction of the concepts of life-long learning and vocational training will ensure an efficient labour force development and increase the ability to find better jobs.

Additional efforts to ensure appropriate working conditions will be set up. These will be organised through improving management skills, observation of occupational safety and health, and strict control from inspections.

### ***3.2.2. Improving the education and fostering the scientific research and innovations***

The strategy aims to increase the quality and openness of education to the needs of the community and to adapt education to labour market requirements. The state will support the dialogue between businesses and educational institutions to ensure the overall harmonization of the needs and expectations of both sides. Further establishment of career centres administering the link between academic graduates and the labour market will support the business.

Special effort will be made for improving access to education for vulnerable groups and minorities (e.g. isolated Roma communities). Additional attention is paid on the maintenance of premises and school facilities to ensure proper studying conditions. The outdated facilities and equipments in schools will be modernised and IT equipment supplied to ensure adequate quality of education.

At university level the efforts will be aimed at active participation in the Bologna Process, ensuring mobility of students, and participation in the European Higher Education Area, guaranteeing academic and professional recognition. With reference to the objective of building a knowledge-based economy, the educational system will be modernised through

implementing distance learning, information and communication technologies, and e-education.

Special attention is paid to the development of innovation and R&D potential in the scientific field. Bulgaria will take measures to strengthen the innovative potential in the research institutes and universities. The existing technical and information infrastructure, which is not suitable for conducting modern scientific research, as well as the development of the technological transfer in the higher education, will be modernized.

### ***3.2.3. Reinforcing the social integration of disadvantaged people, ensuring equal opportunities and gender equality***

Bulgaria will base its sustainable social development on the reinforcement of social integration of the disadvantaged people, ensuring equal opportunities and gender equality in all areas of socio-economic development.

The policy is oriented towards ensuring adequate social infrastructure for disabled people. Special interventions are planned for improving social services through modernising the system and mechanisms for their provision and encouraging social integration. The policy also aims to guarantee proper access to the labour market, education and healthcare ethnic minorities (e.g. for isolated Roma communities), disadvantaged and groups at risk. As a part of the interventions for building of e-government, targeted activities are envisaged to provide so called “digital inclusion” of people with special needs, e.g. elderly and disabled people, which means facilitation of their access to Internet and public electronic services.

The support for the social integration and the equal opportunities shall be ensured by improving the access to social, educational and health services.

### ***3.2.4. Providing better healthcare services to the citizens***

In order to address the existing national health problems, a number of initiatives will be supported. The access to health services will be improved by renovating and modernising the health services premises and equipment. Planned investments in equipment will result in certain improvement of the quality of the health care provided.

The scope of provided health services will be also enlarged. It will include not only treatments, but also prevention, rehabilitation and health information campaigns.

Special health measures are targeted to broaden diversity of services for vulnerable groups. The strategy envisages improved conditions and quality in the healthcare institutions for people with special needs. A parallel set of activities aims to improve health awareness of the entire population and implement preventive treatments campaigns.

The modern healthcare requires use of new information technologies and new healthcare methods. The policy will be directed to introducing e-health services for the citizens.

## **3.3. Transport**

The main strategic goals of the national transport policy are directed towards sustainable development of the road and railway transport infrastructure of national, EU and cross-border

importance, improvement of the maritime and inland waterway navigation, integration of the national transport network into the EU transport network, achievement of balance and development of links between different transport modes. Achievement of these goals is a precondition for sustainable and balanced long-term economic growth. Development of the trans-European transport corridors, on the territory of Bulgaria will increase the passenger and cargo flows.

Development of environmentally friendly transport infrastructure and construction of by-passes will contribute to the environment balance and improve quality of life in the cities and regions.

### ***3.3.1. Renovation and development of the national road network***

Significant parts of the existing road infrastructure have been poorly maintained and not reconstructed for a long period of time<sup>17</sup>. In order to develop and modernize the road infrastructure actions will be focussed on building, rehabilitation and reconstruction of the motorways, I-class roads, II-class roads along with the trans-European transport corridors. The policy in the sector will ensure that the EU safety and construction requirements are met. This will improve the overall quality of the national transport infrastructure leading to a significant increase in the transport flows through the country. This will also result in strengthening the links between the domestic and foreign companies, fostering private investments and facilitating the establishment of multinational companies in Bulgaria (increasing FDI, growth and employment).

### ***3.3.2. Renovation and development of the railway network***

Although density of the Bulgarian railway infrastructure is high, the quality of the railway infrastructure and travel speed should be improved<sup>18</sup>. The full integration of the Bulgarian railway transport system into the EU transport system and the necessity for development of the high speed railway system is determined in the National Transport strategy. Improvement of the cross-border links will increase the traffic, trade and cross-border cooperation in the region. In order to achieve this aim, construction of new and the modernization of the existing railways that connect the territory of the Republic of Bulgaria with the neighbouring countries, will be undertaken during the 2007-2013 programming period.

### ***3.3.3. Improvement of the Bulgarian airport capacity***

The importance of the air transport for the economy of the country is expanding in recent years. The relative share in the passenger transport within the framework of the national transport system is considerable. The air transport contributes to the increase of

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<sup>17</sup> By the end of 2003, more than 60% of the national road network needs reconstruction, major or periodic repairs.

<sup>18</sup> The total railway line length is 4316 km. The density of the existing railway lines is relatively high in comparison to the countries from Eastern Europe. At the same time nearly 60% of the national railroad network has not been renovated in the last 10 years; 80% of the railway locomotives and 70% of the passenger carriages are older than 20 years.



competitiveness of the Bulgarian economy, especially the tourism sector. The present airport capacity is not sufficient to cope with the future rise in air traffic. It is necessary to improve and modernize the key airport infrastructure, which will enhance its suitability for the forecasted growth of the passenger flows using air transport.

### ***3.3.4. Improvement of the maritime and inland waterway navigation and safety***

The NSRF strategy envisages the improvement of the maritime and inland-waterway navigation and safety. The main national inland-waterway - the Danube River, part of the Trans-European transport corridor VII, is an important trade route between Bulgaria and Central Europe. 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.

### ***3.3.5. Development of combined and multi-modal transport***

The development of effective combined and multi-modal transport will be supported in the next programming period. Furthermore, the multi-modal transport will also contribute to environmental protection. The activities in this field include the improvement of the technical, technological and operational parameters in the terminals, development of the infrastructure for combined transport and the establishment of freight villages.

### ***3.3.6. Development of environmentally friendly transport infrastructure in the cities***

Improvement of the quality of life and the environmental conditions in the main urban areas of the country, is an important priority of the NSRF for the next programming period. The main target is to make the urban transport more efficient and less time consuming and priority will be given to the introduction of environmentally friendly types of urban transport and the development of by-passes in the main cities. In addition, modernisation of urban transport system will bring significant and sustainable benefits for the urban areas.

## **3.4. Environment**

The consistent implementation of the provisions of the environmental policy as well as the processes of restructuring and modernisation of the economy contribute to decreasing the pressure on the environment. In comparison with the EU member states, Bulgaria is still a country with a low level and low quality of environmental infrastructure facilities. This limits the ability of the country to face competitive pressures after Bulgaria's accession to the EU. In addition, the existing infrastructure for the protection of the environment in many cases does not meet current standards and requirements. These problems contribute to diminishing the capacity of the country to attract investments, a consequence of which is the negative impact on the competitiveness of the whole economy and the living standard of the population. Some of the main environmental targets include improvement of the water supply and waste management systems, and environmental and biodiversity protection. The successful solution of these environmental issues will contribute to the overall sustainable development of the country, and to the achievement of higher standard of living of the population. The activities for improvement, preservation and restoration of the Bulgarian environment will be closely coordinated with the regional and rural development initiatives to be implemented during the 2007-2013 period.

A significant precondition for the good management of the national environmental policy is the existence of wide-spread and well-adjusted information and monitoring systems of all environment components. These systems will contribute to the better, and in-time public information, as well as to the correct and on schedule implementation of requirements related to the monitoring and reporting to the relevant EU institutions, according to the EC Directives for various environmental components and factors. Finalization of the establishment and modernization of some information system components in the areas of air emissions, quality of waters, radiation monitoring, as well as for environmental monitoring of SMEs in some selected economic sub-sectors etc. is envisaged.

#### ***3.4.1. Water supply and wastewater collection and treatment***

A significant part of the environmental problems is caused by the lack of well developed sewage<sup>19</sup> systems as well as relatively outdated wastewater treatment infrastructure. Significant water losses are due to the inefficiency of the existing water supply system<sup>20</sup>. Investments in these areas will improve the quality of water distribution and treatment infrastructure and thus improve the living standard of the population. The construction of adequate water supply system, as well as the construction and modernization of waste water collection networks and waste water treatment plants, is a precondition for sustainable development of Bulgarian municipalities and their further growth.

#### ***3.4.2. Integrated waste management system***

One of the main challenges for Bulgarian environmental policy is related to the waste management system. The achievement of satisfactory results in waste management requires a specific hierarchy to be applied, consisting of the reduction of waste accumulation, waste recycling and waste treatment by disposal or incineration (in case no other solution is applicable). The waste generation in the municipal and construction activities and their treatment jeopardizes the quality of environment and is a significant risk factor for the human health and the environment. The current levels of waste generation are high, and the encouragement of implementation of integrated waste management, and specific steps aimed at application of the waste management hierarchy, will contribute to the establishment of sustainable waste management policy. Therefore, the envisaged future steps include measures for construction and modernisation of waste treatment facilities, reclamation and recultivation of existing waste landfills, elimination of uncontrolled illegal waste dumpsites; as well as the extensive introduction of sorting, recycling and composting with the aim of minimising the waste disposed in landfills.

#### ***3.4.3. Closure and recultivation of existing landfills***

Significant part of the existing waste landfills does not meet the national and EU requirements.<sup>21</sup> Due to the potential risk they represent, it is of first-rank importance and will

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<sup>19</sup> In 2003 21.6% of the national population is suffering water supply restrictions; in the NW region this portion reaches 45.5%. The share of population covered by the national sewage system is 69.2%, and the group covered by WWTP reaches only 39.9%.

<sup>20</sup> In 2003 the average internal losses of national water supply systems are estimated to have reached 61%, for agricultural irrigation systems it is 62%. The rate of water losses in some municipalities with outdated water supply systems reached a volume of 80% and above.

<sup>21</sup> Currently there are 55 old municipal waste dumpsites.

be rehabilitated, in order to be further used, or to be closed with parallel construction of new facilities. The Application programme for Directive 1999/31/EC for waste disposal, envisages closure of the existing municipal waste landfills and follow-up recultivation aimed at environmental restoration and protection.

#### **3.4.4. Biodiversity protection**

The protection of biodiversity is also an area that will be promoted using the support of EU Structural funds. This is highly important in the case of Bulgaria with its high number of endemic species and various habitats<sup>22</sup>. A set of activities will take place covering a number of protected areas (i.e. the “Natura 2000” areas) supporting their management, investments for improvement of the existing habitats, research and monitoring of the species development. In addition the biodiversity protection will be a prioritised horizontal issue, tackled by all relevant structural interventions in 2007-2013 such as rural development measures, support for tourism initiatives, etc.

### **3.5. Achievement of sustainable and balanced regional development**

The National regional development strategy for the period 2005-2015 sets up the regional development objectives and priorities. The main objective is the achievement of a sustainable and balanced development of the regions in Bulgaria. Achieving a sustainable and balanced growth across regions requires effective utilization of the local factors of growth. All regions in the country should be involved in the economic growth by developing their growth potential. Investment assistance across regions depends on their socio-economic situation and specific problems.

The policy for achievement of sustainable regional development has a horizontal character and should be considered as complimentary to sectoral policies. In this context, the strategy defines several priority areas which have to ensure coherence with the sectoral policies and synergy across them.

#### **3.5.1. Development and improvement of the regional infrastructure**

This priority focuses on support for development and improvement of the infrastructure, as well as the regional and local transport and communication links as a prerequisite for setting up conditions for boosting development across all regions and increasing their attractiveness for investments. Regional and local infrastructure is an important factor for promotion of business and economic convergence. The specific objectives of the regional development policy complement and expand the actions undertaken in the framework of the other policies, above all in the field of education and social and health care in conformity with the specific local particularities and demands.

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<sup>22</sup> The biodiversity of Bulgarian flora and fauna consist about 3600 higher plants, more than 3660 lower plants, 3500 mushrooms, 709 lichens, 700 spinal animals, more than 400 birds, 94 mammals, about 27000 invertebrates. The endemic species consist 5% of the plants represented, 8.8% of the invertebrates excepting insects, 4.3% of the insects.

The health of the population is considered a national priority. The relevant authorities will undertake the necessary actions for improvement of the social infrastructure – educational and healthcare, as well as for ensuring equal access to social services as a prerequisite for an overall improvement of living and working environment in the Bulgarian cities and regions. Particular efforts will be made for the development of a broadband infrastructure for access to public e-services, as a key factor for knowledge-based economy development.

### ***3.5.2. Raising the quality of life in the planning regions and their attractiveness by cultural heritage valorisation***

Investments in human capital, social cohesion and protection of the natural and cultural heritage in the regions will contribute to make them attractive and improve the quality of life. This priority focuses on the effective employment of regional competitive advantages related to human potential, quality of nature and cultural environment in improving the quality of life within the regions. Cultural tourism is an area of key importance to regions development. The cultural heritage is one of few authentic resources and has to be considered in the context of its high potential to contribute to the economic growth and job creation (in compliance with the Lisbon Agenda and Governmental Programme of the Republic of Bulgaria). Its valorisation would lead to entrepreneurship development and could be used for reversing the process of depopulation in relatively less developed areas with high tourist potential. It could be used as a useful tool for diversification of the economic activities and surmounting the intraregional disparities.

Bulgaria will support and develop the cultural tourism and the entertainment industry in the regions with rich cultural heritage. This is how the country will achieve maximized economic utilization of its cultural heritage potentials. Cultural tourism will create sustainable workplaces in the regions and areas, creating more and better jobs. Building sustainable tourism infrastructure will ensure the preservation of cultural heritage and development of cultural tourism .

### ***3.5.3. Integrated urban development and improvement of the urban environment***

The high concentration of population and economic activities, create problems and require specific measures. The integration of urbanization issues into the the regional development objectives is a new field of activities in the framework of the national strategy. These issues are of increasing importance in the European documents for the next programming period.

The priority focuses on the specific challenges related to urban development and the role of cities for boosting regional development.

Specific measures will be applied with respect to certain urban areas for their physical renewal, aimed at building an attractive urban environment which will lead to future investments and further development. These activities will comprise rehabilitation of old industrial areas and the improvement of the urban environment in residential districts where problems of social exclusion exist.

## **3.6. Building an effective and modern state administration**

In addition to the investment interventions supported by the financial instruments of EU Cohesion policy and addressing the main social-economic disparities in the development of

the country, Bulgaria will put specific efforts to improve the quality, effectiveness and expertise of the administrative bodies and policies.

Bulgaria will encourage a number of activities aimed at increasing the state administration transparency and publicity towards citizens and business, improve the quality of administrative services, increase the qualification of the civil servants in the state administration, as well as the introduction of the information technologies for modernising the state administration.

In line with the Community Strategic Guidelines, strengthening administrative and institutional capacity and good governance are defined as priority for the new programming period and are a key element for the economic development and creation of new jobs.

### ***3.6.1. Applying the principle of “Good governance”***

A modern state administration is necessary for the elaboration and implementation of policies aimed at economic growth, employment and social development. Strengthening the administrative capacity is a prerequisite for good governance and is decisive for the effective control over the absorption of public funds.

The acceleration of the reforms in the state administration through increased transparency and publicity will lead to raised confidence of citizens and business in the administration . This will be achieved by the involvement of all stakeholders in the process of policy formulation, assuagement of the existing regulatory regimes, clarification and distribution of responsibilities among different administrative structures, as well as by the establishment of an effective and objective system for administrating of clients’ and strengthening the feedback.

Actions will be undertaken to reinforce the capacity for effective and efficient policy implementation, as well as to improve the existing mechanisms for impact assessment of the newly proposed laws and rules. The involvement of private partners in the implementation of the state policies, as well as the outsourcing of some administrative services to private companies, will be used in order to increase the efficiency of policy implementation.

### ***3.6.2. Development of human resources within state administration***

The modern state administration with highly qualified human resources and modern management methods will support the building of a knowledge-based economy. The increase of civil servants qualification through differentiated approach will be applied in conformity with the training needs of each administrative structure. Multi-annual training plans will be elaborated applying modern techniques for teaching, education and training and relating the results to career development. The training sessions will be conducted in a efficient and concentrated way ensuring the quality of training. The capacity of the Institute for State Administration an Economic Integration (ISAEI) will be strengthened and some national and international universities will be included in the process of improvement of civil servants’ qualification.

The capacity of the socio-economic partners and the civil society structures to contribute to the process of policies elaboration and implementation will be improved by increasing the knowledge and skills of their servants, targeting an improvement of their partnership with the state administration.

The effective human resource management within the state administration will be facilitated by the improvement of the practices for recruitment of recently graduated students, the procedures for candidate selection and the programmes for acquainting newly appointed civil servants with their job descriptions, business systems, career development plans and the salary and bonus schemes.

### ***3.6.3. Quality administrative services and building of e-government***

The improvement of the quality of the provided administrative services is an area of key importance for reforming public administration. The efforts will be targeted towards integration and standardisation of the administrative services, provided by the different administrative structures, the enlargement of the use of the “one stop shop” model, the establishment of call-centres for providing information to the citizens and business, as well as the establishment of self service spots.

Some additional efforts will be made to publicise available services as well as for regular update printed and on-line information. Information materials in foreign languages, as well as in suitable format for the disadvantage groups will be made available to ensure wider access to administrative services.

Following accession, Bulgaria will act as an external border of the enlarged European Union, and consequently the delivery of administrative services at the cross-border check points will be improved, meeting the European standards for effectiveness, quality and security.

The development of efficient and effective administrative structures is closely related to the introduction of modern information technologies in their work. Bulgaria will make efforts to develop further e-government and increase the quality and quantity of the provided e-services, as this will contribute to the lowering of expenditures and increase the effectiveness of the state administration, leading to an improvement of the economic competitiveness. To achieve this aim, Bulgaria will establish a unified system for data exchange in the state administration with introduce inter-operational national document management in the administration. It is foreseen that a package of standard, generally accessible software modules of services, will be elaborated. At the same time, an entire set of measures for ensuring compatibility between the information systems and servers of state administration and those of the socio - economic partners, will be implemented. Wide publicity campaigns for the promotion of the e-government services will take place. At the same time, the civil servants who are dealing with the elaboration and the implementation of projects of e-government, will be re-trained and qualified.

### **3.7. Horizontal issues**

The compliance with these EU policies will be ensured at all stages of structural funds programming – planning, implementation, financing, monitoring and evaluation of the financial aid. The Central Coordination Unit for the management of the EU Structural will elaborate a manual with the applicable rules of the Community concerning the horizontal issues, as well as the national rules in order to ensure the proper management. The manual will be issued by the 30<sup>th</sup> June, 2006 and will ensure that all requirements of the EU concerning the horizontal priorities are followed.

### **3.7.1. Public Procurement**

According to the Bulgarian legislation the public procurement is regulated by the Law on Public Procurement, in force since 1<sup>st</sup> October 2004. Additional secondary legislation of high importance are the Rules for the implementation of the Public Procurement Law<sup>23</sup>, the Ordinance for the award of small Public Procurement contracts and the Ordinance for the terms and conditions for the award of special Public Procurement contracts.

The state policy in the field of public procurement is carried out by the Minister of Economy and Energy. A separate administrative structure is established with the Minister of Economy and Energy – the Public Procurements Agency<sup>24</sup>, which is responsible for ensuring efficiency of the public procurements system in Bulgaria, taking into account the principles of publicity and transparency; free and loyal competition; equality of all applicants. A court of Arbitration is established with the Agency, which is an out-of-court institution for review and resolution of public procurement-related disputes. A public register of public procurements has been established, which includes the decisions for the opening of procedures for the assignment of public procurements, the announcements, intended for entry in the register, the information as to assigned public procurements and other information set out in the Rules for the implementation of the Act.

At the Operational Programme level, the responsibility for additional control of the compliance to the public procurement procedures will be carried out by the OP Monitoring Committee. If needed the Committee may require an examination by the Public Procurements Agency of a certain procedure or may require certification of the tenders.

In November 2005 the Council of Ministers approved a national strategy in the field of public procurement and concessions. The strategy envisages improvement of the legal framework to bring it in line with the Acquis Communautaire in the field of public procurement and concessions and ensuring conditions for the application of the legislation. Publicity, transparency and equal treatment of all participants in the process of public contracts award will be ensured.

The Public Procurement Agency has prepared a draft Law of Amendments to the Public Procurement Law (LAPPL). The purpose of the proposed draft of amendments is to achieve full compliance of the Bulgarian legislation with the legislation of the EU in the field of public procurement.

### **3.7.2. State Aids**

In accordance with Art. 53 (4) of the Proposal for Regulation of the EC COM (2004) 492, aid to business or public organisations under structural funds should be compliant to the rules on state aid.

In the field of state aid the Parliament has adopted laws covering the main principles of the Acquis Communautaire. Some amendments of the legislation are still needed to harmonise it to the new EU legislation.

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<sup>23</sup> In effect as of 1.10.2004

<sup>24</sup> The Public Procurement Agency is established with a Council of Ministers Ordinance# 56 of 13.03.2004

Another important secondary legislation in the field of state aids is the Rules on the application of the State Aids Act. The document regulates the criteria and the conditions for assessment the compatibility of state aids with the principles of free competition within the meaning of the State Aids Act and the procedure on the investigation and the assessment of aids before the Commission on Protection of Competition.

According to his authority, the Minister of Finance has published an Ordinance on the Set of Rules for the Supervising and Ensuring the State Aid Transparency.

The authorization and control of the state aids is carried out by the Commission for the Protection of Competition, a specialized and autonomous state body. The Commission pronounces a decision whether certain subsidy is state aid or not. The monitoring and transparency of state aids at national, regional and municipal level is ensured by the Minister of Finance. The Ministry of Finance establishes and maintains a register of state aids, where all data both for granted state aid and the proposals to grant state aids at national, regional and municipal levels are entered. The Ministry of Finance submits to the Commission the information for the state aids entered in the register every six months, as well as upon request from the Commission. The Minister of Finance prepares a consolidated annual report on state aids, which represents the total volume, allocation and amount of state aids in the Republic of Bulgaria. It is submitted to the National Assembly, the Council of Ministers, the European Commission and published.

### ***3.7.3. Elimination of Discrimination and Ensuring Gender Equality***

By virtue of Article 14 of the Proposal for a Council Regulation COM(2004) 492, the gender equality principle as well as the protection against discrimination, will be adhered to during all stages of programming and implementation of the Operational programs.

In the area of protection against discrimination a law has been adopted, which is compliant to the Aquis Communautaire. The Protection against the Discrimination Act was adopted by the Parliament in 2003 and entered into force in 2004. The approach used under this Law covers the possible criteria on the basis of which the discrimination is defined. The law prohibits all direct or indirect discrimination based on gender, race, ethnic origin, religion or belief, disability, age or sexual orientation.

In 2005 a Commission on Prevention of Discrimination was established as an independent body, which applies the Law and imposes sanctions in cases of discrimination. The Law also foresees three sub-commissions to be established, which will deal with the following issues – ethnic and racial equality, equal opportunities for men and women and prevention of discrimination on the ground of all other indicators. Under the regulations of the Law, an administrative and court protection is foreseen in the cases of proven discrimination.

The equality of men and women is firmly embedded in the Constitution of the Republic of Bulgaria (Article 6) and the national legislation, which is in conformity with a set of international documents on equal treatment. One of the purposes of the Protection against Discrimination Act is to ensure that women have equal opportunities for participation in all spheres of social life – the prohibition of discrimination, as provided by law, refers to different areas of life, like employment, education and training, health, housing, social protection, submission of goods and access to social services and agencies, performing economic activities, etc. The Act makes provision for at least 40% representation in



government institutions of the underrepresented sex, which is in line with the European standards for balanced participation of women and men in decision-making.

The “Equal Opportunities for Women and Men” Sector, established in 2004 at the Ministry of Labour and Social Policy, is in charge of the development, coordination, implementation and control of the government policy for equal opportunities of men and women. The structure is responsible for the implementation of a system for gender equality in the bodies in charge of EU Structural funds absorption by the creation of a methodology, introducing directly and indirectly, the gender mainstreaming concept.

In November 2004 a consultative body - the National Council for Gender Equality with the Council of Ministers has been established in charge of the consultation, partnership and coordination among the government authorities and the non-government organizations by the elaboration and implementation of the national policy regarding the gender equality. Its members are deputy ministers, directors of agencies and representatives of the social partners. Since the beginning of the year 2005 the first National Action Plan for Encouraging the Equality between Men and Women has been implemented. With the National Plan the institutions and organizations include all issues concerning gender equality in their programs. A National Action Plan for Encouraging the Equality between Men and Women for the year 2006 has also been adopted.

The gender equality issue will be ensured at all stages of programming and implementation of the National Strategic Reference Framework. It has to be taken into account in the criteria for project selection. In all project implementation reports information for the participation of men and women has to be included. Gender equality will be examined in the evaluation of all measures, sub-measures and projects of the respective Operational Program. The various organizations for equal opportunities, including the non-government sector as well as the Commission for the Protection against Discrimination, have to be consulted during the planning, implementation monitoring and evaluation of all envisaged activities.

#### ***3.7.4. Environmental Protection***

Environmental protection as a horizontal priority is associated with sustainable development, which will be promoted through the integration of environmental issues at all stages of programming and implementation of the NSRF. The OP Managing Authorities will maintain operational links with the bodies having specific responsibilities in terms of environmental protection. It is legally ensured, including procedures applied by the Law on Environment Protection and the Regulation on the Conditions, Procedure and Methods for Environmental Assessment of Plans and Programs in force since 1.07.2004, which fully transposes the Directive 2001/42/EC. The Regulation determines the conditions, procedure and methods for environmental assessment of plans and programs, which are in the process of elaboration and/or approval from the central and regional authorities, the local authorities and the National Assembly.

The Law on biodiversity (adopted in 2002), fully transposes into the Bulgarian legislation the requirements of the Bird Directive and Habitat Directive. The Act sets out the criteria for identification and evaluation of the zones of European importance (article 7), which are identical with those, set out in Attachment III of the Habitats Directive. On the basis of the completed evaluation, within 4 years of the adoption of the Act, a national list of the zones of European importance in Bulgaria, including birds, should be prepared. Articles 31 –34 of the Act fully transpose the provisions of article 6 (2), (3), and (4) of the Habitats Directive

concerning the requirements and the assessment of plans and projects which might have a negative impact on the protected zones.

It is provided that the plans, programs and investment projects which are not directly related to the management of protected zones or are not needed for this purpose, but which, separately, or in conjunction with other plans and projects, may have a significant negative impact on protected zones, shall be subject to environmental assessment (for plans and programs), or to environmental impact assessment – for investment projects, included in Annexes No 1 and 2 of the Environmental Protection Act, under the procedure provided for in the same Act.

#### **4. STRATEGY OF INTERVENTIONS COVERED BY NATIONAL STRATEGIC PLAN FOR RURAL DEVELOPMENT AND NATIONAL STRATEGIC PLAN FOR FISHERIES AND AQUACULTURE**

The investments envisaged under National Strategic Plan for Rural Development and National Strategic Plan for Fishery and Aquaculture are coordinated with the investments in human and physical capital which will be financed by EU Structural Funds. This section presents the strategies of rural development and fisheries and aquaculture. The main aim is to demonstrate consistency and compliance between NSRF and the two strategic plans.

##### **4.1. Strategic goals of National Strategic Plan for Rural Development and National Strategic Plan for Fisheries and Aquaculture**

The first strategic goal of the National Strategic Plan for Rural Development associates with the development of a competitive agriculture and forestry and based on innovations in the food-processing sector. This will be achieved through supporting products, that add value to the primary agricultural products, and promoting transfer of innovation to SMEs in the food-processing industry as well as increasing and developing the human potential.

The second strategic goal targets the preservation of natural resources and protection of the environment in rural areas. The interventions in that priority area will be associated with the development of agricultural methods and approaches that aim at preservation of natural resources and protection of the environment. Preservation of natural resources will be achieved through the support for sustainable land and forest management as well as protection biodiversity and NATURA 2000 areas.

The third strategic goal targets job creation and the improvement in the overall quality of life in the rural areas. These will be reached through the creation of alternative employment opportunities, diversification of economic activities, development of services, and building of the necessary infrastructure, preservation of natural resources and protection of the environment in rural areas.

In the 2007-2013 programming period, the specific interventions under the National Strategic Plan for Fisheries and Aquaculture will be targeted to the development of aquaculture production and marketing of fish and fish products, and the improvement of the production conditions in the aquaculture farms to meet high EU standards in the areas of hygiene and work safety. Additional efforts will be made to renovate the technological basis in the processing of fish and aquaculture products, to set up new technologies, and to introduce innovative production methods which will reduce negative environment impacts.

The next area of intervention will be related to the modernization and adjustment of the Black Sea fishing fleet and the improvement of the working conditions and hygiene. Currently, the Bulgarian fishing fleet comprises mainly small-scale vessels which are outdated.

Additional areas of activities will be related to sustainable development of coastal fishing areas. The following activities will be included: strengthening the competitiveness of the sector, restructuring and diversification of economic activities, improvement of the existing infrastructure, creation, modernization and extension of the fishing tourism opportunities as well as the creation of alternative forms of tourism.

#### **4.2. Complementarity and coordination among the activities financed by the ERDF, ESF, the Cohesion Fund, EAFRD and EFF.**

According to the Strategic Guidelines for rural development and the Cohesion Policy of the Community, we have ensured complementary and coordination among the activities which will be financed by the Structural funds (namely: the European Regional Development Fund-ERDF; the European Social Fund – ESF; the Cohesion Fund) and the European Agriculture Fund for Rural Development (EAFRD) and the European Fishery Fund (EFF). The guiding principles defining the demarcation line between the investments in rural development and fisheries and aquaculture and investments in human and physical capital financed by the Structural Funds and the Cohesion Fund of the EU have been adopted.

The investments in infrastructure will depend on the type of the municipality/settlement where the respective intervention will be carried out. The investments in road infrastructure supported by the EAFRD will be for building and improving municipal roads and the streets in the towns and villages of the rural areas. The improvement of the municipal roads among the villages of the rural areas will be supported by EAFRD, while the roads connecting towns to villages will be subject to support by the instruments of the Cohesion policy. Respectively, the support for motorways, first class, second class and third class roads of regional importance and connecting town centres and agglomerations with their surroundings will be supported by the Structural Funds and the Cohesion Fund of the EU.

The investments in water supply infrastructure and sewage systems supported by the EAFRD will be limited only to settlements with population equivalents below 2000 people. The settlements with population equivalents above 2000 people will be supported by the Structural instrument of the EU.

The EAFRD will support the construction of sites for the collection of animal carcasses, incinerators, as well as other infrastructure appropriate for collection/treatment of waste of agricultural origin. Therefore, other waste-depots and other waste-related infrastructure will be supported by the Structural Funds and the Cohesion Fund of the EU.

The EAFRD will support only registered agricultural farmers for investments in eco-infrastructure: rehabilitation and construction of drainage installations, small infrastructure protecting against floods and banks erosion; the remaining beneficiary groups for such investments will be supported by the instruments of the Cohesion policy.

The investments in renewable energy sources will be supported by EAFRD where eligible beneficiary groups will be; registered agricultural farmers, micro-enterprises in the wood processing sector, and food processing enterprises which have up to 750 workers or annual turnover less than EUR 200 million and if they are processing products listed in Annex 1 of

the European Community Treaty, from the sectors eligible under the EAFRD and if they are made in municipalities/settlements belonging to the rural areas. The investment in processing and marketing of fishery products will be supported by the EFF. The remaining groups of potential beneficiaries will be supported by the structural instruments of the Cohesion policy.

The investments in human capital supported by the EAFRD will be targeted at the agricultural and forestry producers and the workers in their enterprises, as well as the representatives of the local communities which will be supported in elaborating and implementing local development strategies. The investments in vocational training in the Fishery sector will be supported by the EFF. All other groups of potential beneficiaries (including from the food-processing industry) for such type of investments will be supported by the structural instruments of the EU.

The investments in tourism will be supported by the EAFRD only for rural tourism projects, where eligible beneficiaries will be physical persons on the territory of the rural areas of the Republic of Bulgaria. Fishing tourism will be supported by the EFF. The potential beneficiaries supported by the structural instruments of the EU Cohesion policy will be the State Tourism Agency, the municipal administrations, SMEs in tourism, municipal associations, and branch, local and regional organizations in the area of tourism. The support will be targeting the development of spa, culture and eco-tourism, as well as the international promotion of the Bulgarian tourism.

In order to diversify the economy of the rural areas and to promote the development of sectors outside agriculture the EAFRD funds will be limited to agricultural farmers and members of their families if they are first of kin<sup>25</sup>, to help them introduce non-agriculture activities and diversify their economic activity. At the same time EAFRD will support the set up and the development of micro-enterprises where eligible beneficiaries will be registered agricultural producers. All remaining groups of potential beneficiaries will be supported by the structural instruments of the EU.

The rural development support will be targeting to micro-enterprises providing basic services for the population and the business (including the penetration and access to ICT) in the rural areas of Bulgaria.

## 5. LIST OF OPERATIONAL PROGRAMMES

The interventions in the above mentioned thematic areas are envisaged under the financial assistance of SF, European Agricultural Fund for Rural Development /EAFRD/ and European Fisheries Fund /EFF/ in order to achieve the goals and priorities mentioned above. These interventions are organized, presented and formulated in 6 **Operational Programmes and 2 National Strategic Plans and Programmes**:

1. Increase the Competitiveness of the Bulgarian Economy
2. Human Resources Development
3. Transport

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<sup>25</sup> According to Family Code, Art.46(1) and Art.47(2)

4. Environment
5. Regional Development
6. Administrative capacity
7. National Strategic Plan for Rural Development and Rural Development Programme
8. National Strategic Plan for Fisheries and OP Fishery

The Goal 3 “European Territorial Cooperation” programming documents should be added to the above mentioned strategic documents.

The OPs have been elaborated following the partnership principle, providing conditions for an efficient implementation of the NSRF by ensuring public awareness and consideration of all stakeholders’ interests.

### **5.1. Operational Programme “Increase the Competitiveness of the Bulgarian Economy”**

The general purpose of the Operational Programme “Increase of the Competitiveness of the Bulgarian Economy” is the development of a dynamic economy, competitive at the European and world market level. The global objective will be realized through two specific objectives, which cover both aspects of the competitiveness – the preparedness of the Bulgarian enterprises for the Common European market and for the fast changing conditions on the international markets, as well as the business environment, in which they operate. The encouragement of the innovations will strengthen the relationship between the science and business and will increase the expenditures of the enterprises on research and development and the value added of the produced services and goods. Decreasing the consumption of energy and resources through modernizing the equipment, the technologies and the production processes will contribute to increasing the productivity of labour and the efficiency of the production as a whole.

The business environment is significantly important for the development of micro, small and medium-sized enterprises, because they do not have the ability and capacity to establish specialised inter-company units, and rely on the information and consultancy services offered on the market. Improving the services for business by the administration shall reduce their expenditures and the easily accessible and better quality consultancy, information, standardisation, certification and metrological services shall contribute to the improved competitiveness of the economy.

### **5.2. Operational programme Human resource development**

The overall goal of human resources development is to increase the quality of human capital and achieve higher living standard through increased employment and the introduction of the life-long learning concept. The OP priorities are in compliance with the eligible activities financed by the European Social Fund, as well as in conformity with the priorities of the European Employment Strategy and Community Strategic Guidelines for 2007-2013 programming period. In addition, the OP priorities are in compliance with EQUAL

Community Initiative, Joint Assessment of Employment Priorities in Bulgaria (JAP) and Joint Inclusion Memorandum (JIM).

### **5.3. Operational Programme Transport**

The Operational Programme “Transport” aims to achieve balanced and sustainable development of the national transport system through the development and modernization of key transport infrastructure links of nation-wide, cross-border and EU importance. The programme also focuses on the full integration of the national transport system into the EU transport network and the improvement of the quality and safety of the transport services. The completion of the trans-European transport network is essential to improve territorial cohesion and boost the competitiveness and growth potential of the enlarged European Union.

Programme implementation will contribute to reduce traffic jams on the major routes in the country and will encourage the inter-modality.

### **5.4. Operational Programme “Environment”**

The OP Environment is based on the EU environmental protection policy goals and priorities, and is mainly oriented towards the fulfilment of the country accession obligations. The programme is also in line with the principles presented in the main national framework documents in the area of environment.

The main goal of the OP Environment will be the improvement, preservation and recovery of the natural environment and development of the ecological infrastructure.

For achieving this goal the policy in sector “environment” is subdivided in three specific operations and six priority axis, which aim at supporting the preservation and improvement of ecological condition of waters in the country, the improvement of waste management and soil protection, decrease of noise pollution and loss of biodiversity.

### **5.5. Operational programme “Regional development”**

The OP “Regional development” will complement the other OP implementing the strategy of NSRF with a specific focus on the significant national intra-regional disparities and on the territorial complementarity of the different EU-supported interventions in order to address the existing specific weaknesses and threats at local level.

In addition to the disparity between Bulgarian NUTS II regions and the EU25 average in terms of income, employment and quality of life, there are a number of problems with specific territorial dimension. Most significant among them are these concerning the mobility of population in low-urbanized areas and the significant differences between big agglomerates and less urbanized areas, i.e. villages with periphery allocation, mountainous and rural areas.

In order to address these issues, ROP has the following strategic goal:

To improve the quality of environment for life and work, with increased accessibility and new opportunities for regional competitiveness and sustainable development.

ROP will put efforts for the achievement of the following specific strategic goals:

- Establishment of sustainable and dynamic urban centres, linked with neighbouring less urbanized areas thus stimulating their opportunities for prosperity and development.
- Mobilization of the existing regional and local technical and institutional resources to implement regional development policies.

The overall logic of interventions implementing this set of strategic goals takes into account the importance of urban centres, determining the need for their development, as well as the development of their neighbouring and periphery areas. This set of activities will be complemented by other interventions, aimed to improve territorial internal and external connectivity, as well as to support the small municipalities with lower technical and institutional capacity through encouraging cooperation between municipalities for integrated development. Support will be provided to a group of territories with tourism potential favourable for economic diversification. In doing so the cultural and natural resources will be valorised, and the marketing of the tourist destinations will be supported.

#### **5.6. Operational programme “Administrative capacity”**

The Operational programme “Administrative Capacity” is horizontal by its scope. Its strategic goal is to build a strong, effective, and modern state administration, able to meet the high expectations of the Bulgarian citizens, business and the European Union for good service and high professional ethics.

The operational programme aims at increasing the transparency and the public image of the state administration, improving the partnership with the stakeholders by the implementation of the principles of good governance. The OP aims at increasing the administration’s effectiveness by improved management and human resources development. The programme aims at the modernization of the state administration by improvement of the quality of services and the wide use of IT.

#### **5.7. Objective 3 “European Territorial Cooperation” programming documents**

Cross-border, transnational and inter-regional cooperation are important priorities in the national development strategy of Bulgaria. According to the new EU Cohesion Policy Regulations, these priorities are included within one Structural Funds objective.

Bulgaria participates in the South East Europe zone for transnational cooperation within the ERDF framework and in the Sea Basin Cross Border Cooperation Programme in the Black Sea within the framework of the European Neighbourhood and Partnership Instrument (ENPI) of the EU. Bulgaria actively participates in five bilateral cross-border programmes, whereby each involves a Joint Programming Document for the period 2007-2013 with the relevant neighbouring country:

Bulgaria – Greece

Bulgaria - Romania,

financed from ERDF;

Bulgaria – Turkey

Bulgaria – Macedonia

Bulgaria – Serbia and Montenegro,

financed jointly from ERDF and the Instrument for Pre-Accession Assistance (IPA) of the European Union.

The strategic aims of the territorial cooperation in Bulgaria could be summarized as follows:

- Accessibility and further facilitation of the free movement of goods and persons;
- Joint management of the natural resources, working out solutions of regional and local ecological problems, sustainable development;
- Economic and social cohesion and development, especially in the area of civil society, culture, education and tourism;
- Development of institutional and administrative capacity at regional and local level and provision of technical assistance for preparation of future projects.

#### **5.8. Coordination and complementarity among the Operational programmes**

In its aggregation, the implementation of the operational programs contributes to increasing the competitiveness of the economy and at the same time addresses the social aspects of the progress: health care, education, social inclusion. The support for innovation activities and investments in SMEs in the OP “Development of the Competitiveness of Bulgarian Economy” is supplemented by investment in human capital via the OP Human resource development. OP Human resource development is complemented by OP Regional development in the social infrastructure investments. Innovation activity and higher quality of education are an indispensable condition for transition to a knowledge economy. Investment in infrastructure (OP Transport and OP Environment) will intensify the business links and sustainable development. The OP Regional development makes a significant contribution to mobilizing the local growth factors through improving the: quality of life and work in urban centres, connections centre - periphery and between centres themselves. The same OP will stimulate inter-municipal co-operation in the process of realization of investment projects in local infrastructure.

#### **5.9. Implementing the Partnership principle**

Bulgarian Authorities recognise that the partnership principle is a necessary element in the process of preparation of the NSRF and OPs. The Bulgarian strategic programming documents are being prepared with the active involvement of wide range socio-economic partners and regional and local authorities. The relevant socio-economic partners are represented in the NDP/NSRF and OPs Working Groups at national level and Regional Development Councils at regional level.

The NDP/NSRR working group meetings are attended by experts of central administration (Ministries), Agency for Economic Analysis and Forecasts, State Agency of Youth and Sports, National Statistical Institute; National Association of Municipalities of the Republic of Bulgaria; Employers Association of Bulgaria; Bulgarian Chamber of Commerce and Industry; Bulgarian International Business Association; Union of the Private Bulgarian Entrepreneurs



“Vazrajdana”; Bulgarian Industrial Capital Association, Bulgarian Industrial Association; Union for Economic Initiative; Confederation of Labour “Podkrepa” and Confederation of Independent Trade Unions in Bulgaria, Bulgarian Regional Development Association, National Council for People with Disabilities, Bulgarian Association of the Social Enterprises.

The OP working groups consist also of representatives of both the public sector – ministries, agencies as well as socio-economic partners, representatives of relevant NGOs, academic institutions and others.

The NSRF has been discussed at four NDP/ NSRR Working group meetings in the period January-April 2006.

Furthermore, several roundtables were organized with the active participation of wider range of socio-economic partners and NGOs for the discussion of NDP and OPs socio-economic analysis, vision, strategic goals and priorities.<sup>26</sup>

Intensive and comprehensive discussions were conducted at these public events. The questions raised were related to issues such as education and science, information society and innovations, renewable energy resources, energy efficiency measures and others. Some practical matters were also discussed. These proposals were discussed and further taken into account in the process of elaboration of the NSRF and OPs.

As a result all parties have supported the conclusion that the state administration is not in competition with the business and socio-economic partners regarding the absorption of the EU Structural funds. An effectively functioning administration is a prerequisite for development of favourable economic environment and the integration of Bulgaria to EU as a whole. In compliance with EU regulations the principles of transparency and publicity will be strictly respected to guarantee the complete involvement of socio-economic partners and civil society organizations in the process of absorption of EU assistance.

## **6. INDICATIVE ANNUAL ALLOCATIONS**

This section of the NSRF presents the indicative financial allocations of investments envisaged under Operational Programmes. In the common NSRF budget for 2007-2009 the EU allocation of funds for Bulgaria is in compliance with the Accession Treaty.

In the distribution of the resources from EU SF and Cohesion Fund for 2007-2013 the latest changes in programming of EU SF and Cohesion Fund are taken into account (“Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund”, the Accession Treaty with Bulgaria (signed 25/04/2005) and the adopted EU Financial Perspectives for 2007-2013 period).

The financial allocations, presented in the table, are elaborated as a result of extensive interactive process, which combines the elements of the so called “up-bottom” and “bottom-up” approach. As a starting point in the process of allocation of the resources from the

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<sup>26</sup> See Annex 1. Information on the public discussions of the NSRF and OPs

national budget and the Structural funds under the Operational Programmes for the period 2007-2013, a proposal has been elaborated, based on the formal rules, defined by the European Commission and the experience of the new EU member states, taking into account the specific character of each country.

Subsequently the OP working groups developed the OP financial tables. The Operational programmes financing is based on analyses of national level measures and budget possibilities for co-financing of the EU SF and CF funds. The financial tables are based on the national priorities analyses with given restrictions but not a sum of individual projects.

<b>Financial table for the NSRF - Indicative annual allocation by Fund and Programme</b>									
<b>Convergence</b>			<b>Community participation</b>						
<b>OP</b>	<b>Fund</b>	<b>Total</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>ERDF and CF</b>									
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
<b>ESF</b>									
OP "Human Resources"	ESF	873	78	110	145	141	137	133	129
OP "Administrative capacity"	ESF	135	12	17	22	22	21	21	20
<b>TOTAL NSRF 2007-2013</b>									
		<b>5873</b>	<b>525</b>	<b>739</b>	<b>976</b>	<b>948</b>	<b>921</b>	<b>895</b>	<b>869</b>
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

## 7. ASSESSMENT OF THE MACROECONOMIC IMPACTS BY NSRF INTERVENTIONS

The interventions envisaged in the NSFR demonstrate the link between the policies in the OP and the Lisbon strategy goals – growth and employment. Presumably when evaluating the macroeconomic effects from interventions in NSFR the contracted sums from SF and CF for 2007-2009 period will be absorbed in accordance with the  $n + 3$  rule. In the period 2010-2013 the  $n+2$  rule will be applied. Effects over the economy are assessed on the basis of actual expenditures, while the effects over the budget and their registering as transfers towards the economy will be valued in the actual year of their payment. It should be noted that this separation between spent funds and spending in time is neutral towards the budget deficit. According to Eurostat methodology, fund transfers which are distributed through the budget are valued as expenses at the end of the actual year of receiving. The need for co-financing will change the budget expenditure structure and possibly this will lead to an aggravation of the budget balance. This valuation is based on the assumption that the co financing will lead to a decrease in government consumption.

The achievement of the main Lisbon strategy goals, more specifically increasing economic growth, is presented from both sides – supply and demand. Direct EU funds effect over GDP (demand side) will come from investments, their share in GDP will grow by 2.8 % percentage points after the middle of the 2007-2013 period. The main impetus is due to government sector infrastructural projects but indirect effects from economic growth will lead to an increase in private sector investments in absolute terms. As a result the total investments will increase in real terms. Most strongly this effect will be felt during the first 3 years of the period when the total investments have risen between by 3.8 to 4.5 percentage points over the base scenario. The SF influence the supply side directly in two ways. The first one is through a larger increase of investments in Bulgaria which will lead to more than 1 percentage point in available capital in the economy compared to the base scenario. Using the production function it has been calculated that this rise will bring higher growth of the GDP by 0.3 percentage points.

The second direct effect comes from the higher increase in Total Factor Productivity. This is a result from funds coming through OP “Development of the Competitiveness of Bulgarian Economy” and OP “Human resource development”. Simulation models show that the increase of the total factor productivity will lead to a 0.2 % points higher growth in GDP.

Incoming financial flows from the European funds during the first 3 years will create a demand shock - marked mostly in relation to increasing investments. This will be compensated from the supply side with a rise in the work force, therefore the accumulated effect during the first three years period will be just under 1% employment growth. As result of the structural funds absorption, the labour productivity will be further increased after the first 3 years of the period.

Total Factor productivity is the main driving force for the higher growth in the period.

Implementing the Lisbon targets due to the rise in the competitiveness of the Bulgarian economy in relation to the base scenario, will have a positive impact on Bulgarian exports with 1.2% points additionally. The reasons for this are the increase of the labour productivity and much easier access to the Common market. Another indirect effect is the rise of the final

consumer expenditures because of income growth in the economy. This increase will reach its peak of 0.8 % points in the middle of the period. The aggregate demand rise will lead to higher imports of goods and services in the studied scenario. This will be most strongly expressed in the first year with 2% points growth. As a result the trade balance deficit will open gradually through the earlier years of the 2007- 2013 period. During 2011 this process will reach its maximum of 2.3% of GDP and in the next two years we can see gradual reduction by 0.4% of GDP in relation to base scenario because of better progress of Bulgarian exports. Regarding the current account, the opening of the trade deficit will be compensated by increase of incoming transfers from the EU. The net effect from the SF resources is positive for the current account. In the earlier years of the period when we still don't have long term effects from the export rise, the improvement is 30 m €. It is expected that in the last 2 years this improvement will be increased so that in 2013 reaches 270 m. €. The funds coming from the EU will lead to increase in broad money. The cumulative effect of that during the planning period over M2 is around 1.5 billion leva and is due to two factors. One is connected with the increase of the currency reserve as the improvement in the current account will lead to the increase in currency in circulation. The other one is connected with the economic activity growth, which increases also the short term deposits (overnight deposits). As a result of broad money rise we can observe a bit higher growth of the annual inflation – around 0.1% points.

## **8. IMLEMENTING THE STRATEGY**

### **8.1. Coordination Mechanisms**

#### ***8.1.1. Coordination at Central Level***

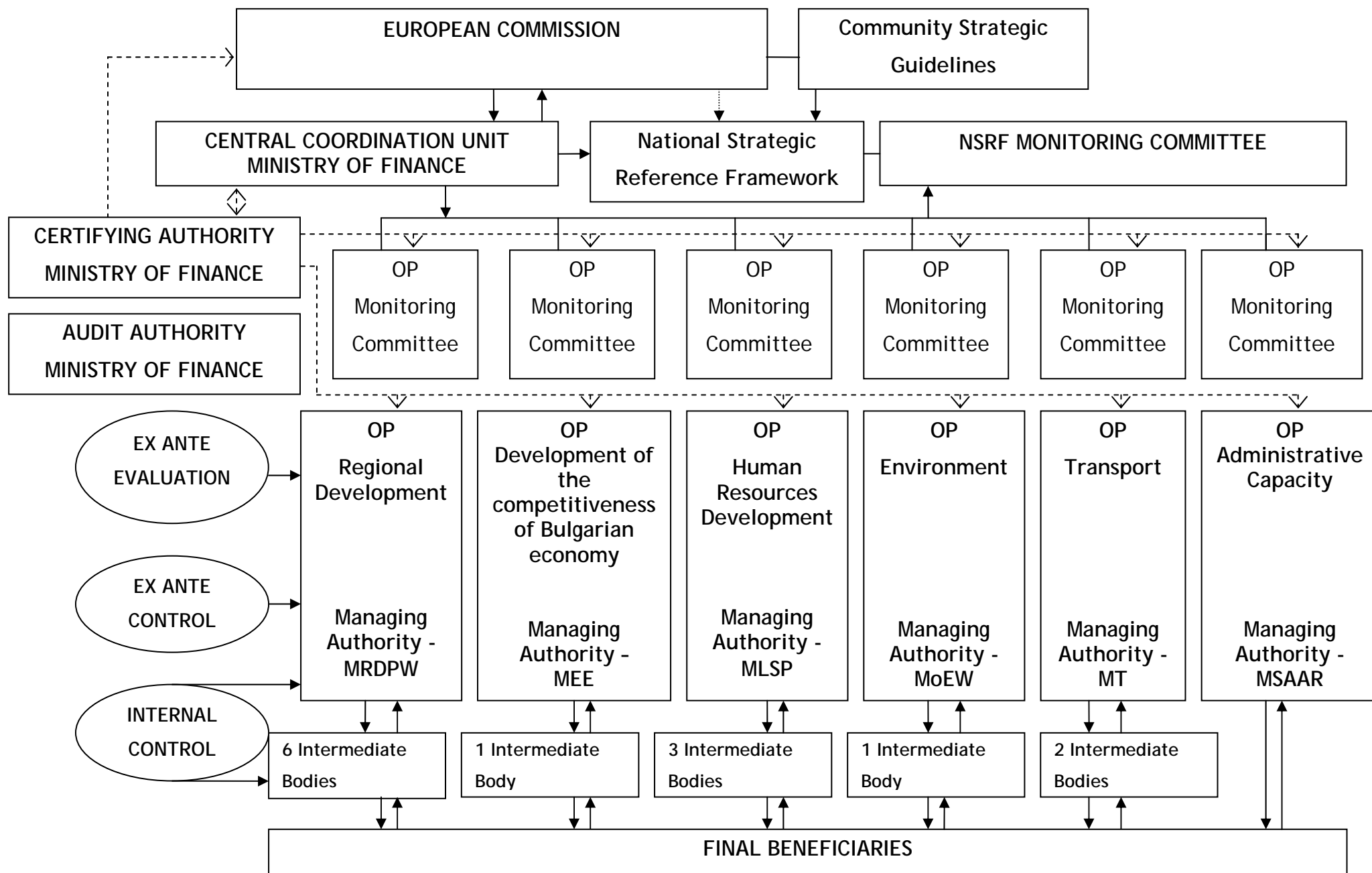
The coordination at strategic level is a crucial element in order to achieve synergy between different policies and consequently to maximize the impact of the socio-economic development of the country.

In order to ensure coordination in the preparation of the strategic programming documents and to streamline the envisaged assistance from EU Structural funds, a Coordination Council on NDP and NSRF was established, chaired by the Minister of Finance. The members of the Council are deputy ministers from each of the Bulgarian ministries.

On the basis of recommendations from the Head of the NDP/NSRF Working Group and the Central Coordination Unit in the Ministry of Finance, the Council examines and adopts:

- The NDP and NSRF, including the socio-economic analysis and objectives and priorities;
- Revisions to the NDP and NSRF;
- Draft Operational Programmes
- Manuals and Rules of Procedure relating to Structural Funds implementation
- Measures to ensure that there is no duplication of measures financed by the OPs.
- Decisions on difficult issues referred to it for advice.

The chart below explains the coordination mechanism:



Additional arrangements following the same rationale are envisaged for the National Strategic Plan for Rural Development and Rural Development Programme to be managed by the Ministry of Agriculture and Forestry and the National Strategic Plan for Fisheries and OP Fisheries to be managed by the Executive Agency for Fisheries and Aquaculture under the Ministry of Agriculture and Forestry.

The coordination mechanism under the European Territorial Cooperation Objective is also separately considered given the specificities of the cross-border, transnational and inter-regional cooperation programmes, which require coordination with other participating countries.

### ***8.1.2. Coordination at Regional Level***

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, which are carrying out this policy on planning region level. The Councils are presided over by one of the district governors on a rotary principle. The Deputy Chairman is a municipality representative. Members of the Council are the district governors from the regions, included in the relevant planning region, one municipal representative from each region, included in the planning region, determined by the Regional Development Council, one representative from the Ministry of Regional Development and Public Works, Ministry of Finance, Ministry of Environment and Water, Ministry of Agriculture and Forestry, Ministry of Economy and Energy and Ministry of Labour and Social Policy and the Ministry of Transport, as determined by the relevant ministers.

The Regional Development Council:

- discuss and co-ordinate the projects of the regional development strategies and the progress of the Regional Development Plan;
- discuss and co-ordinate the measures that should be implemented in the National Operational Programme for Regional Development
- adopt the ex ante evaluation of the projects, suggested for the implementation of the measures;
- give a position on the annual and the final report;
- cooperate with the District Development Councils and with the central bodies of the executive authority;
- is supported by Departments for technical assistance, coordination and management of regional programs and plans.

### ***8.1.3. Coordination at Local Level***

As part of the EU accession process, Bulgaria has reached an agreement on the necessary activities for building up an adequate administrative and financial capacity at local level. Special Directorates have been set up in 20 % of the municipalities (big- and medium-sized) to work with European projects. Units have been established in 37% of the municipalities (medium), comprising of more than two experts, responsible for management of European

projects. In the rest 43% of the municipalities (small) there are appointed civil servants, responsible for European projects, who perform other duties as well. In compliance with the partnership principle and with the commitments, that have been undertaken according to the Official cooperation memorandum, signed by the National Association of Municipalities in the Republic of Bulgaria (NAMRB) and the Council of Ministers in October 2005, three priority areas have been determined, as follows:

“Development of the decentralization in management and financing”, “Expanding the capacity and improving the status and management of municipal property and infrastructure” and “Preparation of the municipalities for the Bulgarian membership in the European Union”.

## **8.2. Functions**

### ***8.2.1. Central Coordination Unit***

The Central Coordination Unit in the Ministry of Finance takes the lead at official level in co-ordinating the operations of the Structural and Cohesion Funds.

The main responsibilities of the Unit in relation to the NSRF are to:

- Prepare the NSRF and negotiate it with the European Commission;
- Act as a central focal point for contact with the European Commission;
- Ensure the application of key Structural Funds principles including partnership and additionality;
- Ensure that operations financed by the Funds comply with EU policies;
- Ensure co-ordination between the OPs and the assistance from the EAFRD, the EFF, the EIB and other financial instruments;
- Prepare and submit Reports to the Commission as required by the Regulations
- Develop and operate the Management Information System;
- Prepare and submit applications to the Commission in respect of major projects;
- Chair and support the NSRF Monitoring Committee;
- Participate in all OP Monitoring Committees.

### ***8.2.2. Certifying Authority***

The main responsibilities of the Certifying Authority in the Ministry of Finance are to:

- Prepare and submit to the European Commission certified statements of expenditure and applications for payment under each operational programme;
- Certify for each OP, that:
  - the statement of expenditure is accurate, results from a reliable accounting system and is based on verifiable supporting documents;
  - the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in



accordance with the criteria applicable to the programme and complying with Community and national rules;

- execute functions of a Competent Body for receiving the payments made by the European Commission under the Structural Funds and the Cohesion Fund;
- Participate in all OP Monitoring Committees and the NSRF Monitoring Committee.

### 8.2.3. *Monitoring Committees*

A NSRF Monitoring Committee will be established to:

- Review progress towards achieving NSRF objectives;
- Consider results of OP implementation through Reports and evaluations;
- Consider and approve Annual Implementation Reports;
- Propose actions to improve the implementation of the operations under the Funds;
- Approve the NSRF Reports required by the Regulation.

Each OP Monitoring Committee will be established as the highest decision making body for the relevant OP. Representatives from the CCU will be members of each OP Monitoring Committee. Its responsibilities shall include:

- Review and approval of the criteria for selecting the operations to be financed;
- Review progress and results made towards achieving the specific targets of the OP;
- Review and approval of the annual and final reports on implementation;
- Proposals to the MA for any revision of the OP likely to make possible the attainment of the Funds' objectives or to improve its management, including its financial management.

For the purpose of the OP Monitoring Committees and for securing the effective observance of the partnership principle, the following three groups of socio-economic partners can be distinguished:

- employers organization and unions (including industrial and trade chambers, business and entrepreneurship associations);<sup>27</sup>
- syndicates, trade unions and other working alliances;<sup>28</sup>
- civil society (including the nongovernmental sector (NGOs), academic communities, consumer associations, ecological and other thematic organizations).

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<sup>27</sup> Bulgarian Industrial Association (BIA), Bulgarian Industrial Capital Association, Bulgarian Chamber of Commerce and Industry (BCCI), Union of Private Economic Enterprise (UPEE), Bulgarian Union of Private Entrepreneurs "Vazrazhdane", Employers Association of Bulgaria (EABG)

<sup>28</sup> Confederation of Independent Trade Unions in Bulgaria (CITUB), Confederation of Labour Podkrepa

### **8.3. Administration capacity and efficiency**

#### ***8.3.1. Structure***

The management of EU funds structures in Bulgaria have been defined – Central Coordination Unit, the Managing Authorities of the Operational Programs and the Intermediate Bodies (Council of Ministers Decision No 965/16.12.2005).

The Certifying Authority and Body responsible for receiving funds from the EU has been designated – the National Fund Directorate in the Ministry of Finance (Council of Ministers Decision No 988/27.12.2005).

Audit of European Union Funds Directorate in the Ministry of Finance is established with CoM Decree No 300/29.12.2005 with responsibilities for the organization and implementation of the specific audits and checks on the activities of the spending units of the EU funds and programmes in accordance to the requirements of the EU regulations.

Internal Audit Directorate is established with CoM Decree No 300/29.12.2005, directly subordinated to the Minister of Finance. Internal audit units within all MAs and IBs in the line ministries are established.

All OP MAs have elaborated Organizational Development Strategies (ODSs) which were submitted to the European Commission

#### ***8.3.2. Human Resources***

The ODSs provide detailed information on functions and responsibilities of OP MAs as well as the functions which will be delegated to the IBs. Human resource development plans (HRDP) are elaborated as integral part of the ODSs. In order to strengthen the administrative capacity of the respective structure, training needs analyses have been carried out and based on the results training plans are available.

For the improvement of the human resources qualification ongoing basic training is planned on a regular basis on: mechanisms of EU Structural Funds, Policy Cycle Management and implementation of the legislation in the field of the public procurement, gender equality, environmental impact assessment, financial control, monitoring and evaluation. This will lead to strengthening the capacity in dealing with policies, programming and implementation of projects financed from the Structural funds of the EU at all levels of the state administration.

#### ***8.3.3. Systems and tools***

##### Guidelines and Manuals

By mid-2006 at the latest the following documents will be circulated:

- Guidance Manual for Implementation and Administration of EU Structural and Cohesion Funds in Bulgaria;
- Guidelines for Elaboration of Procedures Manual of OP Managing Authority;

- Procedures Manual for the CCU and checklists;
- Internal Rules of Procedure for NSRF Monitoring Committee;
- Guidelines for Establishment and Functions of the OP Monitoring Committees (Internal Rules of Procedure and Code of Conduct);
- Guidelines for Establishment of the Projects Selection Committees and Procedures for Project Approval.
- Book-keeping instructions for accounting of the operations carried out by the MAs and the IBs;
- Description of the cash-flows and the responsibilities of the Certifying Authority; the Authority, responsible for managing the EU appropriations; the MAs and the IBs in connection with payments and ensuring the co-financing from the State Budget.

### Information System

A unified Monitoring/Management Information System (MIS) is in the process of being set up for the purpose of the effective management, implementation, monitoring and evaluation of the EU Structural Funds Assistance. The system is installed in the Ministry of Finance, which is responsible for the coordination and the effective management of the EU Structural Funds Assistance in Bulgaria.

The system is used by the Central Coordination Unit, the OP Managing Authorities, the Intermediate Bodies, the final beneficiaries, the members of the Monitoring Committees, the Certifying Authority and the Control bodies by the means of access passwords. The passwords allow different levels of access depending on the user.

The main unit of the information system are the individual projects and the data is submitted by the final beneficiaries. The system gives aggregated information at the level of individual operations, OP priority- and NSRF priority level. The system secures electronic flow of information for the programmes and projects.

The basic territorial unit is a municipality (LAU 1). The MIS allows to visualise the projects in process of implementation in a given municipality, as well as in the relevant district planning regions.

The system will be set up to ensure the ability to exchange electronic data between the MIS in Bulgaria and the system that is being developed at the European Commission (SFC 2007).

### Web-site

Information and publicity measures concerning preparation for, and implementation of, the assistance from the Structural Funds in Bulgaria include a functioning public web-site: [www.eufunds.bg](http://www.eufunds.bg). It is intended to increase public awareness and transparency of the programming process, relevant national and EU documents and EU funding opportunities. The information is regularly updated to include news and events concerning the EU Cohesion Policy in Bulgaria. The Central Coordination Unit and the Managing Authorities will comply with the principles of publicity and transparency and will establish the necessary structures and the relevant instruments.

## 9. ANNEXES

### ANNEX 1. INFORMATION ON THE PUBLIC DISCUSSIONS OF THE NSRF AND OPS

The Bulgarian strategic programming documents for the implementation of the Structural funds for the new programming period 2007-2013 are being prepared with the active involvement of wide range socio-economic partners, regional and local authorities and the society. The National Development Plan, the National Strategic Reference Framework and the Operational Programmes were subject of discussion on a number of public activities, as listed in the table below:

<b>DATE</b>	<b>EVENT</b>	<b>PARTICIPANTS</b>
12th February 2006	Discussion on the main issues of the National Development Plan and the Operational Programmes	<p>Representatives of the State administration (Ministry of Finance, Agency for Economic Analysis and Forecasting)</p> <p>Members of the Institute of Economics and International Relations, Center for Liberal Strategies (CLS), Center for the Study of Democracy (CSD), European Institute, Foundation for Entrepreneurship Development (FED), Open Society Institute, Institute of Economics (Bulgarian Academy of Sciences), Balkan Institute for Labour and Social Policy, Economic Policy Institute, Institute for Market Economics.</p>
21th February 2006	Discussion on some aspects of the National Development Plan and the Operational Programmes	<p>Representatives of the State administration (Ministry of Finance, Agency for Economic Analysis and Forecasting)</p> <p>Economic and Social Committee (representatives of the employers, syndicates and civil organizations).</p>

26th February 2006	Discussion between the authors of the NDP/NSRF and independent experts: “National Development Plan- an inside-outside look”	<p>Representatives of the State Administration (Ministry of Finance, Agency for Economic Analysis and Forecasting)</p> <p>Institute of Economics and International Relations, Center for Liberal Strategies (CLS), Center for the Study of Democracy (CSD), European Institute, Foundation for Entrepreneurship Development (FED), Open Society Institute, Institute of Economics (Bulgarian Academy of Sciences), Balkan Institute for Labour and Social Policy, Economic Policy Institute, Institute for Market Economics.</p>

## **ANNEX 2. ADDITIONALITY TABLES**

### **Introduction**

Article 13 of the draft general Structural Funds Regulation requires that contributions from the Structural Funds shall not replace public or equivalent structural expenditure by a Member State. For regions covered by the Convergence objective the Commission and the Member State will have to determine the level of public or equivalent structural expenditure, and maintain it at the level during the programming period.

Article 13 is still being discussed between the Commission and Member States. However, the EC has published methodological working document “The verification of additionality for the Convergence objective” (Draft n°2, March 2006) which we have used as a guidance for the preparation of the Bulgarian additionality table.

### **Additionality table preparation**

In essence what we have done to calculate the figures for the additionality table was to identify the eligible budget headings and ensure the consistency of the public expenditure data available to complete the table. We have used the consolidated fiscal program reports for 2004 and 2005 and 2006 budget figures (we strip the data from the National fund expenditures – pre-accession and national co-financing funds). Then we used the GDP price deflator to adjust the 2004 and 2005 data and to forecast the 2007-2013 public or equivalent structural expenditure in 2006 prices. For the calculation of the annual average EU assistance for 2007-13 we have used the figures agreed by the European Council on 16.12.2005. We broke down the data by Operational programs and included the information under additionality budget headings by applying the N+2 rule (in order to include only forecasted payments in the table). As a result we have produced an Additionality table which enabled us to compare the public or equivalent structural expenditure before receiving the EU money 2004-2005 and afterwards for the new 2007-2013 programming period. The figures from the draft Additionality table show that Bulgaria will not only keep the rate of the public expenditures on these budget categories but also will increase them with 243,01 mln. euro.

**Additionality table**  
**General financial table for the public and their equivalent structural expenses for Goal Cohesion of the regions**  
**(million €2006 prices)**

	Annual average 2004-05						Annual average 2007-13					
	Total	Of which public enterprises	CSF		Not EU co-financed	Total	Total	Of which public enterprises	NSRF		Not EU co-financed	Total
			EU	National					EU	National		
	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.	Nat + EU	Nat + EU	EU	Nat	Nat	Nat
1	2	3	4	5	6	7=5+6=2-4	8	9	10	11	12	13=11+12=8-10
<b>1. Basic infrastructure</b>	<b>288.24</b>	<b>0.00</b>	<b>0.00</b>	<b>288.24</b>	<b>0.00</b>	<b>288.24</b>	<b>649.80</b>	<b>0.00</b>	<b>132.92</b>	<b>442.74</b>	<b>74.15</b>	<b>516.89</b>
Transport	129.82			129.82		129.82	388.81		76.16	275.58	37.07	312.65
Telecommunications	17.55			17.55		17.55	17.87		4.49	13.38		13.38
Energy	0.96			0.96		0.96	1.32		0.00	1.32		1.32
Environment and water supply	102.20			102.20		102.20	203.12		51.92	114.13	37.07	151.20
Healthcare	37.72			37.72		37.72	38.68		0.35	38.34		38.34
<b>2. Human resources</b>		<b>0.00</b>	<b>0.00</b>	<b>65.21</b>	<b>0.00</b>	<b>65.21</b>	<b>205.49</b>	<b>0.00</b>	<b>131.71</b>	<b>73.78</b>	<b>0.00</b>	<b>73.78</b>
Education	34.70			34.70		34.70	74.07		33.68	40.38		40.38
Training	27.26			27.26		27.26	112.67		82.12	30.56		30.56
R&D	3.26			3.26		3.26	18.75		15.91	2.84		2.84
<b>3. Productive sector</b>		<b>0.00</b>	<b>0.00</b>	<b>0.31</b>	<b>0.00</b>	<b>0.31</b>	<b>125.05</b>	<b>0.00</b>	<b>124.85</b>	<b>0.20</b>	<b>0.00</b>	<b>0.20</b>
Agriculture/ development/ Fishery Rural	0.04			0.04		0.04	96.28		96.20	0.08		0.08
Industry	0.00			0.00		0.00	0.00		0.00	0.00		0.00
Services	0.27			0.27		0.27	28.76		28.65	0.11		0.11
Tourism	<b>37.53</b>	<b>0.00</b>		<b>37.53</b>		<b>37.53</b>	<b>62.51</b>	<b>0.00</b>	<b>19.08</b>	<b>43.43</b>	<b>0.00</b>	<b>43.43</b>
<b>4. Others</b>	37.53			37.53		37.53	62.51		19.08	43.43		43.43
Housing	<b>391.28</b>	<b>0.00</b>	<b>0.00</b>	<b>391.28</b>	<b>0.00</b>	<b>391.28</b>	<b>1 042.85</b>	<b>0.00</b>	<b>408.55</b>	<b>560.15</b>	<b>74.15</b>	<b>634.30</b>

\*EURO/BGN=1/1,95583 (fixed rate since 2000)

**ANNEX 3. IMPACT ASSESSMENT**

<b>Baseline scenario, without EU funds</b>								
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
GDP – current prices	EUR mln.	50,501	54,499	59,133	63,875	69,156	74,751	80,686
Investments	EUR mln.	13,837	14,878	15,954	16,691	17,877	19,179	20,588
Consumption	EUR mln.	44,122	47,619	51,472	55,479	59,337	63,479	68,051
Net exports	EUR mln.	-7,458	-7,998	-8,294	-8,295	-8,059	-7,907	-7,953
Statistical discrepancy	EUR mln.	0	0	0	0	0	0	0
GDP - current prices, structure								
Investments	%	27.4%	27.3%	27.0%	26.1%	25.9%	25.7%	25.5%
Consumption	%	87.4%	87.4%	87.0%	86.9%	85.8%	84.9%	84.3%
Net exports	%	-14.8%	-14.7%	-14.0%	-13.0%	-11.7%	-10.6%	-9.9%
GDP - real growth rates								
Investments	%	9.0%	7.5%	6.8%	5.5%	6.3%	6.0%	6.0%
Consumption	%	5.1%	5.4%	5.2%	4.9%	4.1%	4.1%	4.3%
Exports of goods and non factor services	%	11.2%	10.8%	10.9%	10.2%	10.1%	9.9%	9.0%
Import of goods and non factor services	%	11.1%	10.4%	10.1%	9.1%	8.6%	8.6%	8.1%
Inflation								
end of period	%	3.1%	2.8%	3.2%	3.4%	3.3%	3.3%	3.3%
period average	%	4.1%	2.8%	3.2%	3.4%	3.3%	3.3%	3.3%
GDP - deflator (%)	%	3.7%	2.3%	2.9%	2.6%	2.9%	2.8%	2.8%
GDP - real growth rate	%	5.4%	5.5%	5.4%	5.3%	5.2%	5.1%	5.0%
Exchange rate (BGN/USD)								
- end of period		1.61	1.60	1.60	1.60	1.59	1.59	1.59
- period average		1.61	1.60	1.60	1.60	1.59	1.59	1.59
Gross National Income	EUR mln.	49,200	52,952	57,367	61,975	67,081	72,614	78,375
Gross National Disposable Income	EUR mln.	51,804	56,417	61,090	65,364	70,475	76,210	82,159
Savings	EUR mln.	7,682	8,799	9,618	9,885	11,138	12,732	14,108
Savings/GDP	%	15.2%	16.1%	16.3%	15.5%	16.1%	17.0%	17.5%
Savings-Investments	EUR mln.	-6,154	-6,079	-6,337	-6,806	-6,740	-6,447	-6,479
<b>Savings-Investments (in % of GDP)</b>		<b>-12.2%</b>	<b>-11.2%</b>	<b>-10.7%</b>	<b>-10.7%</b>	<b>-9.7%</b>	<b>-8.6%</b>	<b>-8.0%</b>
<b>BALANCE OF PAYMENTS</b>		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Current account</b>	EUR mln.	<b>-3146.7</b>	<b>-3108.1</b>	<b>-3240.0</b>	<b>-3480.1</b>	<b>-3446.0</b>	<b>-3296.4</b>	<b>-3312.9</b>
<i>(in % to GDP)</i>		<b>-12.2%</b>	<b>-11.2%</b>	<b>-10.7%</b>	<b>-10.7%</b>	<b>-9.7%</b>	<b>-8.6%</b>	<b>-8.0%</b>
Goods: credit	EUR mln.	12849.2	14213.2	16057.7	17705.4	19710.3	22145.2	24652.1
Goods: debit	EUR mln.	-17647.3	-19418.1	-21595.7	-23435.9	-25536.5	-28113.2	-30807.8
<i>Balance on goods</i>	EUR mln.	<i>-4798.1</i>	<i>-5204.9</i>	<i>-5538.0</i>	<i>-5730.5</i>	<i>-5826.3</i>	<i>-5968.0</i>	<i>-6155.8</i>
Services: credit	EUR mln.	4878.0	5380.2	5995.0	6586.7	7237.3	7935.4	8605.8
Transport	EUR mln.	1503.4	1662.9	1878.7	2071.5	2306.1	2591.0	2884.3
Tourism	EUR mln.	2513.4	2764.8	3041.3	3330.2	3613.3	3866.2	4078.8
Other	EUR mln.	861.2	952.4	1075.0	1185.0	1317.9	1478.2	1642.7
Services: debit	EUR mln.	-3893.0	-4264.4	-4697.6	-5097.5	-5531.4	-6010.2	-6516.4
Transport	EUR mln.	-2029.4	-2233.1	-2483.5	-2695.1	-2936.7	-3233.0	-3542.9
Tourism	EUR mln.	-930.1	-1013.8	-1105.0	-1193.4	-1277.0	-1340.8	-1407.9
Other	EUR mln.	-933.5	-1017.5	-1109.1	-1208.9	-1317.8	-1436.3	-1565.6
<i>Services, net</i>	EUR mln.	<i>985.0</i>	<i>1115.7</i>	<i>1297.3</i>	<i>1489.2</i>	<i>1705.9</i>	<i>1925.2</i>	<i>2089.4</i>



Income: credit	EUR mln.	476.9	485.7	518.0	561.3	591.2	607.8	638.7
Income: debit	EUR mln.	-1142.1	-1276.8	-1420.7	-1533.1	-1652.0	-1700.4	-1820.1
<i>Income, net</i>	EUR mln.	-665.2	-791.1	-902.7	-971.8	-1060.8	-1092.6	-1181.4
<i>Current transfers, net</i>	EUR mln.	1331.6	1772.0	1903.4	1733.1	1735.2	1838.9	1934.8
<i>incl. payment to the EU budget</i>		-276.7	-297.8	-322.7	-348.6	-377.3	-408.4	-440.8
<b>Financial and capital account</b>	EUR mln.	<b>3945.0</b>	<b>3585.0</b>	<b>3657.1</b>	<b>3729.6</b>	<b>3767.3</b>	<b>3933.6</b>	<b>3972.1</b>
incl.								
FDI	EUR mln.	2696.3	2826.3	2967.7	2997.3	3027.3	3057.6	3088.2
<b>OVERALL BALANCE</b>	EUR mln.	<b>798.3</b>	<b>476.9</b>	<b>417.1</b>	<b>249.5</b>	<b>321.4</b>	<b>637.2</b>	<b>659.2</b>
<b>Reserves and other financing</b>	EUR mln.	<b>-798.3</b>	<b>-476.9</b>	<b>-417.1</b>	<b>-249.5</b>	<b>-321.4</b>	<b>-637.2</b>	<b>-659.2</b>
BNB forex reserves	EUR mln.	-681.3	-358.9	-307.3	-185.9	-270.5	-637.2	-659.2
IMF credit, net	EUR mln.	-94.9	-94.9	-63.3	-17.3	0.0	0.0	0.0
Exceptional financing, net	EUR mln.	-22.1	-23.0	-46.5	-46.3	-50.9	0.0	0.0
<i>Additional needs for financing</i>	<i>EUR mln.</i>	<i>0.0</i>						
MONETARY SECTOR								
Forex reserve (USD mln.)	USD mln.	7,175	7,534	7,841	8,027	8,298	8,935	9,594
months of imports		3.29	3.82	3.58	3.38	3.20	3.14	3.08
Currency in circulation	EUR mln.	5,767	6,039	6,275	6,416	6,597	7,104	7,628
Velocity of money (GDP/M3)		1.98	1.89	1.80	1.72	1.64	1.56	1.49
<b>Alternative scenario, EU funds included</b>								
		2007	2008	2009	2010	2011	2012	2013
GDP - current prices	EUR mln.	50,791	55,181	60,312	65,567	71,339	77,540	84,321
Investments	EUR mln.	14,348	16,102	17,864	19,026	20,490	22,076	23,855
Consumption	EUR mln.	44,211	47,835	52,127	56,551	60,940	65,324	70,234
Net exports	EUR mln.	-7,768	-8,756	-9,679	-10,011	-10,090	-9,860	-9,768
Statistical discrepancy	EUR mln.	0	0	0	0	0	0	0
GDP - current prices, structure								
Investments	%	28.2%	29.2%	29.6%	29.0%	28.7%	28.5%	28.3%
Consumption	%	87.0%	86.7%	86.4%	86.3%	85.4%	84.2%	83.3%
Net exports	%	-15.3%	-15.9%	-16.0%	-15.3%	-14.1%	-12.7%	-11.6%
GDP - real growth rates								
Investments	%	12.8%	12.0%	10.5%	7.0%	6.7%	6.3%	6.2%
Consumption	%	5.3%	5.6%	5.9%	5.5%	4.8%	4.2%	4.5%
Exports of goods and non factor services	%	12.1%	12.0%	12.3%	11.7%	11.3%	11.1%	10.2%
Import of goods and non factor services	%	12.6%	12.3%	12.4%	10.9%	10.0%	9.3%	8.9%
Inflation								
end of period	%	3.1%	2.8%	3.2%	3.4%	3.3%	3.3%	3.3%
period average	%	4.2%	2.8%	3.3%	3.5%	3.3%	3.4%	3.4%
GDP - deflator (%)	%	3.8%	2.3%	3.0%	2.8%	3.0%	3.0%	3.1%
GDP - real growth rate	%	5.9%	6.2%	6.1%	5.8%	5.6%	5.5%	5.4%
Exchange rate (BGN/USD)								
- end of period		1.61	1.60	1.60	1.60	1.59	1.59	1.59
- period average		1.61	1.60	1.60	1.60	1.59	1.59	1.59
Gross National Income	EUR mln.	49,490	53,634	58,545	63,666	69,267	75,408	82,024
Gross National Disposable Income	EUR mln.	52,420	57,798	63,707	68,832	74,732	81,174	88,134

Savings	EUR mln.	8,209	9,963	11,580	12,280	13,792	15,850	17,900
Savings/GDP	%	16.2%	18.1%	19.2%	18.7%	19.3%	20.4%	21.2%
Savings-Investments	EUR mln.	-6,139	-6,139	-6,284	-6,746	-6,698	-6,226	-5,955
Savings-Investments (in % of GDP)		-12.1%	-11.1%	-10.4%	-10.3%	-9.4%	-8.0%	-7.1%
<b>BALANCE OF PAYMENTS</b>		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Current account	EUR mln.	<b>-3138.8</b>	<b>-3138.8</b>	<b>-3212.9</b>	<b>-3449.2</b>	<b>-3424.6</b>	<b>-3183.4</b>	<b>-3044.8</b>
<i>(in % to GDP)</i>		<b>-12.1%</b>	<b>-11.1%</b>	<b>-10.4%</b>	<b>-10.3%</b>	<b>-9.4%</b>	<b>-8.0%</b>	<b>-7.1%</b>
Goods: credit	EUR mln.	12967.3	14517.8	16642.4	18656.9	21036.8	23927.6	26969.7
Goods: debit	EUR mln.	-17914.6	-20088.7	-22850.2	-25230.9	-27873.9	-30897.5	-34096.2
<i>Balance on goods</i>	EUR mln.	<i>-4947.3</i>	<i>-5570.9</i>	<i>-6207.8</i>	<i>-6574.0</i>	<i>-6837.1</i>	<i>-6969.9</i>	<i>-7126.5</i>
Services: credit	EUR mln.	4899.4	5435.4	6101.1	6759.4	7478.0	8258.9	9026.5
Transport	EUR mln.	1517.2	1698.6	1947.2	2182.9	2461.3	2799.5	3155.5
Tourism	EUR mln.	2513.4	2764.8	3041.3	3330.2	3613.3	3866.2	4078.8
Other	EUR mln.	868.8	972.1	1112.7	1246.3	1403.5	1593.2	1792.2
Services: debit	EUR mln.	-3923.8	-4341.5	-4841.9	-5303.9	-5800.2	-6330.4	-6894.5
Transport	EUR mln.	-2060.2	-2310.2	-2627.8	-2901.6	-3205.5	-3553.2	-3921.1
Tourism	EUR mln.	-930.1	-1013.8	-1105.0	-1193.4	-1277.0	-1340.8	-1407.9
Other	EUR mln.	-933.5	-1017.5	-1109.1	-1208.9	-1317.8	-1436.3	-1565.6
<i>Services, net</i>	EUR mln.	<i>975.6</i>	<i>1093.9</i>	<i>1259.2</i>	<i>1455.4</i>	<i>1677.8</i>	<i>1928.5</i>	<i>2131.9</i>
Income: credit	EUR mln.	476.9	486.0	517.1	561.5	592.6	610.2	645.8
Income: debit	EUR mln.	-1142.1	-1276.8	-1420.7	-1533.1	-1652.0	-1700.4	-1820.1
<i>Income, net</i>	EUR mln.	<i>-665.2</i>	<i>-790.8</i>	<i>-903.5</i>	<i>-971.6</i>	<i>-1059.3</i>	<i>-1090.2</i>	<i>-1174.3</i>
<i>Current transfers, net</i>	EUR mln.	<i>1498.0</i>	<i>2129.0</i>	<i>2639.2</i>	<i>2641.0</i>	<i>2794.0</i>	<i>2948.2</i>	<i>3124.0</i>
<i>incl. payment to the EU budget</i>		<i>-278.3</i>	<i>-301.7</i>	<i>-329.3</i>	<i>-358.1</i>	<i>-389.6</i>	<i>-424.1</i>	<i>-461.3</i>
<b>Financial and capital account</b>	EUR mln.	<b>3945.0</b>	<b>3585.0</b>	<b>3657.1</b>	<b>3729.6</b>	<b>3767.3</b>	<b>3933.6</b>	<b>3972.1</b>
Incl. FDI	EUR mln.	2696.3	2826.3	2967.7	2997.3	3027.3	3057.6	3088.2
<b>OVERALL BALANCE</b>	EUR mln.	<b>806.2</b>	<b>446.2</b>	<b>444.1</b>	<b>280.4</b>	<b>342.7</b>	<b>750.3</b>	<b>927.3</b>
<b>Reserves and other financing</b>	EUR mln.	<b>-806.2</b>	<b>-446.2</b>	<b>-444.1</b>	<b>-280.4</b>	<b>-342.7</b>	<b>-750.3</b>	<b>-927.3</b>
BNB forex reserves	EUR mln.	-689.2	-328.3	-334.4	-216.8	-291.8	-750.3	-927.3
IMF credit, net	EUR mln.	-94.9	-94.9	-63.3	-17.3	0.0	0.0	0.0
Exceptional financing, net	EUR mln.	-22.1	-23.0	-46.5	-46.3	-50.9	0.0	0.0
<i>Additional needs for financing</i>	<i>EUR mln.</i>	<i>0.0</i>						
<b>MONETARY SECTOR</b>								
Forex reserve (USD mln.)	USD mln.	7,185	7,513	7,847	8,064	8,356	9,106	10,033
months of imports		3.25	3.69	3.40	3.17	2.98	2.94	2.94
Currency in circulation	EUR mln.	5,775	6,022	6,280	6,445	6,643	7,240	7,977
Velocity of money (GDP/M3)		1.98	1.89	1.80	1.72	1.64	1.56	1.49

**ANNEX 4. SYSTEM OF INDICATORS FOR EVALUATION OF NSRF IMPLEMENTATION**

- GDP – real growth
- GDP per capita
- Jobs created
- Labour productivity
- Export growth
- GDP Energy intensity
- R&D expenses - % of GDP
- Unemployment
- Unemployment for disadvantaged people
- Economic activity coefficient
- Passengers carried out
- Cargo carried out
- Volume of waste water treatment
- Losses from water supply system
- Revenues from different types of tourism