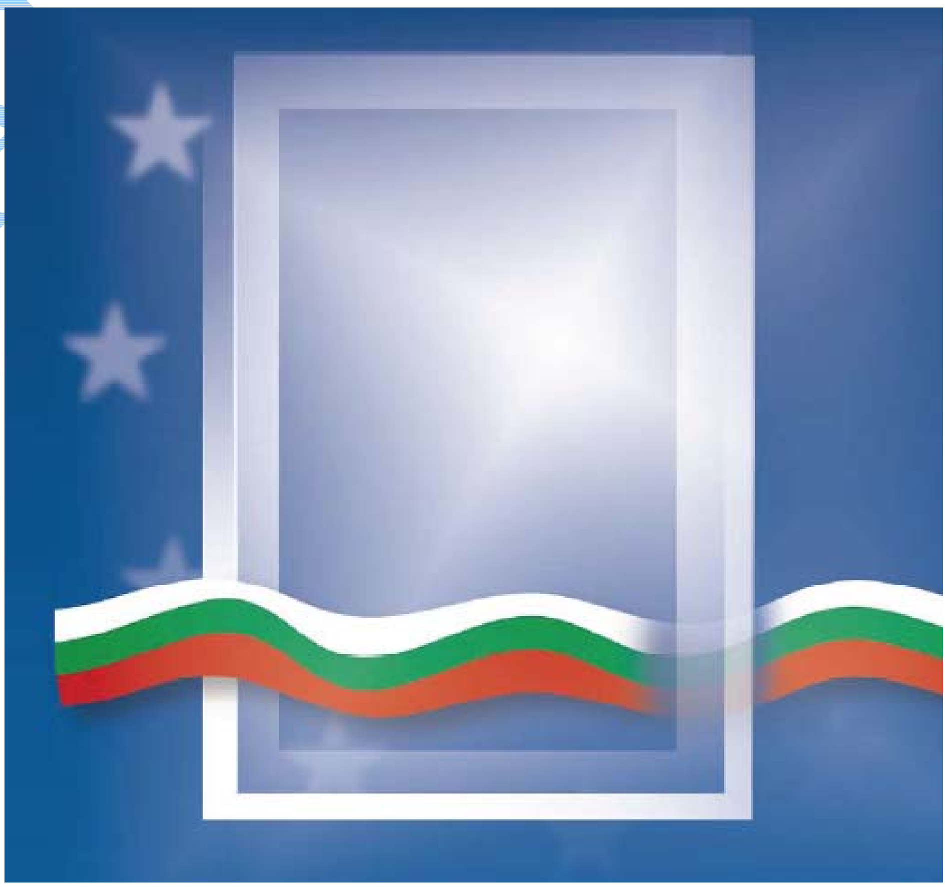
REPUBLIC OF BULGARIA

NATIONAL STRATEGIC REFERENCE FRAMEWORK



PROGRAMMING PERIOD 2007-2013

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Glossary of Acronyms

AA	Audit Authority
AEAF	Agency for Economic Analyses and Forecasts
CA	Certifying Authority
CCU	Central Coordination Unit
CSF	Community Support Framework
CSG	Community Strategic Guidelines
EDIS	Extended Decentralised Implementation System
ERDF	European Regional Development Fund
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EFF	European Fishery Fund
ESF	European Social Fund
IA	Implementing Agency
IB	Intermediate Bodies
IAU	Internal Audit Unit
MA	Managing Authority
MC	Monitoring Committee
MEE	Ministry of Economy and Energy
MEUFD	Management of EU Funds Directorate
MLSP	Ministry of Labour and Social Policy
MoEW	Ministry of Environment and Water
MF	Ministry of Finance
MRDPW	Ministry of Regional Development and Public Works
MSAAR	Ministry of State Administration and Administrative Reform
MT	Ministry of Transport
NAMRB	National Association of Municipalities in the Republic of Bulgaria
NDP	National Development Plan
NFD	National Fund Directorate
NGO	Non-Governmental Organization
NRP	National Reform Programme
NSI	National Statistical Institute
NSRF	National Strategic Reference Framework
OLAF	European Anti-Fraud Office
OP	Operational Programme
OPTA	Operational Programme Technical Assistance
SCF	Structural and Cohesion Funds
SEP	Socio-Economic Partners
SME	Small and Medium-Sized Enterprises
TA	Technical Assistance
UMIS	Unified Management Information System

1. INTRODUCTION

Brief Description of the NSRF Document

The National Strategic Reference Framework (NSRF) has been prepared in line with Article 27-28 of the Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund. It is a mid to long-term strategic document, describing the role of the Structural Funds during the period 2007-2013 in support of the wider development strategy of Bulgaria. The NSRF provides the major integrated policy objectives formulated with awareness that the concrete results should be gradually realized further in the implementation process and with the accumulation of financial and non-financial resources.

The document is based on a thorough socio-economic analysis and key aspects of national strategies adopted and implemented in Bulgaria. The NSRF strategy objectives closely fit within the framework of the Community Strategic Guidelines on Cohesion, the Lisbon agenda and the sustainability principles expressed in the Göteborg Council Conclusions. The main purpose of the strategic interventions to be funded by the EU in Bulgaria is to support the investments necessary for the economic development, by investing in the necessary infrastructures, human potential and supporting favourable business environment and social inclusion. It puts a strong emphasis on the need to prioritise investments directed towards the development of a knowledge based economy to sustain Europe's growth in a more competitive world market.

The NSRF describes Bulgaria's strategy to support actions in the following thematic areas for increasing competitiveness: human resources, infrastructure, governance and effective state administration and services and territorial cohesion, their inter-linkages, and the contribution of the Structural and Cohesion Funds will play within this strategy. The national strategy is in line with Community Strategic Guidelines of the European Union and contributes to achieving their objectives. Each strategic priority will be supported in an integrated manner by actions of one or more Operational Programmes. The NSRF also includes description of the administrative structures and mechanisms for the successful implementation of the Cohesion policy of the EU in Bulgaria.

The NSRF is divided into the following main parts: Analysis of development disparities, weaknesses and potential, Strategy of interventions covered by NSRF, List of OPs, and mechanisms for coordination and complementarity of all EU financial instruments. Indicative annual allocations, ex-ante verification of additionality principle and annexes (Additionality tables) are also integral parts of the NSRF.

The Partnership Principle in the Preparation of the NSRF Document

The preparation of NSRF 2007-2013 started in September 2005. An early draft was published on the web-site of the Agency for Economic Analysis and Forecasting (AEAF) for public consultation. Subsequently, the draft document was further elaborated jointly by MEUF Directorate in the Ministry of Finance and AEAF and was distributed to OP MAs for comments. In December 2005, following the established coordination mechanism, the Council of Ministers approved draft National Development Plan of Bulgaria for the period 2007-2013 and the draft Operational Programmes. The National Development Plan (NDP) served as a basis for the elaboration of the NSRF. The preliminary NDP ex-ante evaluation has been performed and the recommendations provided have been integrated into the document. A Working Group on the NDP/NSRF was established and met regularly to review the progress of the Bulgarian programming documents with respect to the Structural and Cohesion Funds preparation.

The Bulgarian Authorities are strictly following the partnership principle in the preparation of the strategic documents (NDP, NSRF and OPs). The relevant socio-economic and other partners following Article 11 of the General Regulation, such as nationally representative workers and employers associations, non-governmental organisations, and consultative bodies, are participating in the NDP/NSRF and OP Working Groups are being actively involved in the elaboration of the documents.

The NDP/NSRF working group is composed by experts, not only of the central administration (Ministries), the Agency for Economic Analysis and Forecasts, the State Agency of Youth and Sports and the National Statistical Institute, but also of the 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 "Vazrajdane", 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.

Public discussions were launched in February 2006 and held continuously since to support all the stages of programming process. NSRF discussions also took place at the Economic and Social Council in February 2006. The ex-ante evaluation of the NSRF was carried out, and the comments received, led to improvements to the draft NSRF during the period May-June 2006 and August-September 2006. A public awareness seminar for NSRF was organised in April 2006, followed by continuous specific training sessions for regional and local authorities and the social-economic partners. The draft NSRF was discussed by the Coordination Council of NDP and NSRF in April 2006 and September 2006 and finally approved in December 2006. The draft NSRF was discussed also by the Council of Ministers in August 2006 and subsequently agreed on 21 December 2006.

2. ANALYSIS OF DEVELOPMENT DISPARITIES, WEAKNESSES AND POTENTIAL

Bulgaria is a small open economy located in South-eastern Europe surrounded by five countries (Romania, Greece, Turkey, Serbia and the former Yugoslav Republic of Macedonia) and the Black Sea. It has an area of 110 910 sq. km and population of 7.7 million. Bulgaria launched a process of economy restructuring in 1989 which was rather slow in the first half of the 90's. During the 90s Bulgaria suffered from the political instability in the Western Balkans region, which resulted in closure of the country's trade routes to Western Europe. These internal and external factors caused severe underinvestment in infrastructures, loss of human potential by emigration or labour market inefficiencies and resulted in one of the lowest GDP per capita in Europe. The transition towards functioning market economy accelerated after 1997 following the introduction of the Currency Board arrangements. Bulgaria is now a stable and rapidly catching-up functioning market economy, but to sustain this growth large investment in infrastructure, human capital and business development are necessary.

2.1. Socio-Economic Development

2.1.1. Macroeconomic Stability and Growth

Economic policy in Bulgaria experienced a structural shift with the introduction of the currency board arrangement in July 1997. The overall economic policy implemented since 1997 is targeted at maintaining macroeconomic stability as a prerequisite for strong economic growth. Macroeconomic stability in Bulgaria is based on: fixed exchange rate safeguarded by the currency board arrangement and the soundness of the banking system; prudent fiscal policy targeted at close to a balance budget; deep restructuring of economic fundamentals based on the sustained efforts to promote structural reforms and the associated efficiency gains. Market liberalisation, privatisation and restructuring of state-owned companies and the process of deregulation of natural monopolies allowed **the country to establish a functioning market economy**[1].

Table: Bulgaria and EU-25, selected economic indicators (2005), in %

	Bulgaria	**EU 25**
GDP per capita (BG/EU)	32.1	100
Real GDP growth rate	5.5	1.6
Gross fixed capital formation (% of GDP)	23.5	19.9
FDI (% of GDP)	8.8	0.6
Inflation	5.0	2.9 [2]
Budget balance (% of GDP)	3.1	- 3.0 [2]
Gross government dept (% of GDP)	32.4	60 [2]
Labour productivity per person (BG/EU)	32.9	100
ICT expenditure (% of GDP, 2004)	8.6	6.4
R&D expenditure (% of GDP)	0.51	1.9
Share of internet users with broadband access	4	10.6
Internet use by households (2004)	10	42
Internet use by enterprises (2004)	61.8	90
Employment rate (15-64)	55.8	63.8
Activity rate (15-64)	62.1	70.2
Unemployment rate	10.1	8.7
Female unemployment rate	9.8	9.8
Youth unemployment rate	22.4	18.5
Long-term unemployment rate	6.0	3.9
Early school leavers[3]	20	14.9

Source: NSI, BNB, MoF, Eurostat

Gross Domestic Product (GDP) registered a steady increasing growth rate since 1997 regaining 6.6 percentage points in per capita GDP compared to the average EU level. The average rate of convergence (the differential to EU-25 growth) for the last eight years has been 2.9% on an annual basis displaying some variability - the growth differential peaked at 5.8% in 2001 and has averaged a 4.2% in 2003-2005. However, the average **GDP per capita in Bulgaria still accounts for only 32.1% of the EU-25**[4].

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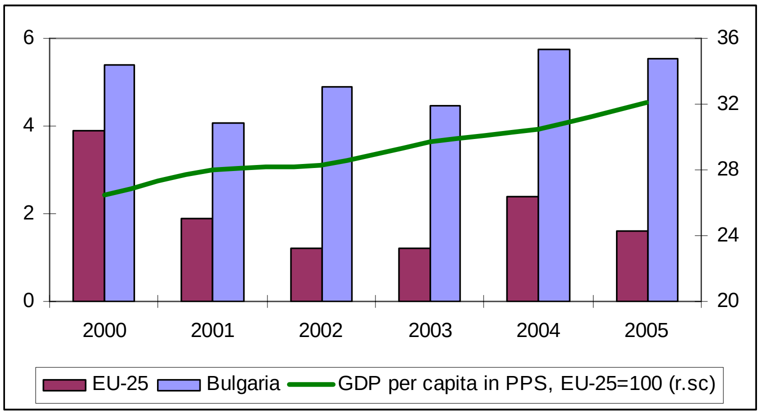
[1] European Commission concluded that Bulgaria has a functioning market economy in its 2002 Regular report on Bulgaria's progress towards accession
[2] Nominal Convergence Threshold
[3] Percentage of the population aged 18-24 with at only lower than secondary education and not in further education or training
[4] GDP per capita in Purchasing Power Standards (PPS), (EU-25 = 100), EUROSTAT

Figure: GDP growth rates in Bulgaria and EU-25, GDP per capita in PPS (EU-25=100)



Source: NSI, Eurostat, AEAF estimations

Domestic demand is the major contributor to GDP growth in the last five years with fixed capital formation being its most dynamic component. The share of investments to GDP increased from 15.7% in 2000 to 23.8% in 2005, compared to 19.9% in EU-25. Capital inflows (greenfield investment, retained profits and new private debt) play important roles in the formation of Bulgaria's capital stock in the period 2000-2005. The macroeconomic stability, the progress in structural reforms and the high rate of returns raised the country's attractiveness to foreign investors, and Bulgaria recorded 9.4 bln. euro FDI inflow in 2000-2005, an average of 8.8% to GDP on an annual basis[5].

A tentative growth accounting estimation shows that the leading factor for growth is total factor productivity. Capital formation also plays an important role in sustaining a high growth rate both directly and through its positive impact on total factor productivity. It is expected that the role of the elaborated two factors for growth will be preserved in the future, especially at the background of unfavourable demographic trends (decrease and ageing of the population). The labour contribution to growth in the future will be limited and therefore the policy efforts should accentuate on enhancing the quality characteristics of the labour force, supporting labour productivity developments, and maintaining an attractive environment for investment and business activity.

The deepening of structural reforms has had a positive impact on the overall economic efficiency but in the short-run it was complemented by a higher inflation rate[6] and a deterioration of the trade balance[7]. At the background of the free movement of goods and services and price-setting based on demand and supply considerations, the most prominent factor affecting the domestic price level dynamics has been the adjustment of administered prices (basically these are prices of natural monopolies in the infrastructure sectors) to reach a cost recovery level[8]. Net exports contribute negatively to growth since 2003. Despite the

[5] See Annex 7
[6] The average annual inflation exceeded 5% y/y in 2000-2005 period
[7] The current account deficit expanded to 13.9% of GDP in 2005, as compared with 9.4% in 2000
[8] Two other factors contributed to the inflation rate in Bulgaria – the increase of a number of excise duties targeted at reaching the minimum EU required level and the volatility of international prices of energy resources

strong exports growth at above 10% annually in real terms, imports expanded faster boosted by imports of investment goods. In euro terms, imports of raw materials and energy resources increased at a higher rate due to rising international prices of important commodities.[9]

Still, some structural weaknesses in the economy remain. The low level of productivity, especially in agriculture, textile and wood industries, as well as in trade and hotels and restaurants, hampers the faster economy expansion and convergence with the EU. Moreover, the predominance of low-value added productions and the high share of goods for intermediate consumption and metals within the country's exports indicate the need for restructuring within the industrial sector.

The most rapidly developing sector in Bulgaria is industry growing at real rate of 7.3% in 2005[10]. Its development is driven both by external demand and by enhanced domestic demand, with industrial sales on the home market rising rapidly. On the domestic market along with sectors servicing the construction, a steady increase is recorded by the sales of food and beverages and the manufacture of electrical machines and apparatus. The export industry sales are mainly driven by the increase of manufacture of basic metals. Other sectors with substantial contribution for the industrial export growth are the manufacture of machinery and equipment, manufacture of chemicals and chemical products, the manufacture of food products and beverages and the manufacture of electrical machines and apparatus. Nevertheless, due to the differing demand and supply profiles, import grows fast. Imported raw materials and energy resources covered 31 per cent of intermediate consumption in 2005. Amid enhanced industrial activity, this relatively high share pushed up imports of intermediate products. Energy consumption of industry[11] is twice then EU-25 average placing Bulgaria first in energy intensity (Eurostat). Among the biggest energy consumers are most of the main exporting industries such as the chemical industry, ferrous metallurgy, and production of goods from non-metallic minerals. In addition Bulgaria has no other significant primary energy sources than low quality lignite and imports about 70% of its primary energy resources.

Labour productivity growth is prominent in the industrial sector. The decline of unit labour costs, especially in manufacturing, contributes to the competitiveness of the sector. However, the level of productivity remains quite low compared to EU average which indicates that further efforts to improve efficiency and strengthen competitiveness are necessary.

The services sector has been developing quite dynamically, driven by the private sector expansion in areas like communications, finance, trade and tourism. The sector's development was mainly triggered by the deregulation of the services' market. In the period 2000-2005 tourism underwent a process of fast privatisation leading to high investment rate and growth rates (revenues increased by 65.4% in the period 2000-2005).

The development of agriculture has been volatile. Its share in gross value added has been decreasing from 13.9% in 2000 to 10.8% in 2004. The drop of agriculture's share in the GVA

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[9] See Annex 7

[10] Among the main factors for the recent solid expansion of the sector are the favourable conjuncture on the international markets (the high metal prices) and the increased construction activity on the domestic market.

[11] Defined as primary energy use per unit of GDP (tons of oil equivalent per 1,000 euros)

is explained by the slow and uneven growth of the sector and the faster growth of the national economy. The gross value added/gross output (GVA/GO) ratio in the agricultural sector is 40.7% compared to above 50% in the EU member states.

Bulgaria faces the challenges of achieving sustained real convergence through high economic growth based on investment, substantial productivity gains and improved competitiveness. To address the risks, which may impede the high and sustainable growth rates, economic policy should focus on improving the quality of the basic infrastructure (enhancing connectivity and accessibility), investing in human capital and raising the standards in education and health care to maintain the quality of the labour force, removing administrative and market inefficiencies to promote entrepreneurship and investment, support a balanced territorial development.

2.1.2. Basic Infrastructure

This section of the analysis deals with the main challenges confronting the developments in basic infrastructure and its importance for maintaining the high and sustainable growth. It comprises of (i) transport, (ii) environment, (iii) disasters, accidents and crisis protection, (iv) information and telecommunication technologies (ICT), and (v) energy infrastructure.

In the past 15 years, due to financial constraints, investments in basic infrastructure have been inadequate compared to the needs of the business and the citizens. As a result the firms suffer from the costs imposed on them by the outdated and poor quality basic infrastructure, while the public is deprived from access to a number of fundamental services of adequate quality.

2.1.2.1. Transport

A well developed and high quality transport network represents a vital factor for development and growth of the Bulgarian economy since:

(i) the development of Bulgaria as a small open economy depends to a large extent on the expansion of its international trade;
(ii) EU member states are the main trading partners of Bulgaria. As far as exports comprise predominantly raw materials and semi-processed goods, sensitive to transportation costs, it is of great importance to build up good transport links between Bulgaria and the EU. Given the largely inland location of Bulgaria's economic activities, road and rail transport modes are the most commonly used;
(iii) internally the economic activity is located in a number of fast developing large towns while many small settlements with a potential for growth (where a large proportion of the population lives) are isolated and remain underdeveloped because of a poor transportation network;
(iv) the accessibility of the social and administrative services is highly dependent on transport.

The territory of the Republic of Bulgaria is a crossroad in terms of the geo-strategic position of the country, which imposes additional requirements to the quality of the Bulgarian transport network. Its development will contribute to the functioning of the Common European Market by offering an effective transport links and facilitates the access to other countries and markets. Bulgaria provides efficient connection for trade between North and South of Europe as well as between Western Europe and countries in the Caspian Sea region and the Middle East Asia.

In 2003 The High Level Group I, chaired by Karel Van Miert, defined two major European transport axes to pass through the territory of Republic of Bulgaria: **Vidin – Sofia - Kulata** and **the Danube River**. The Decision 884/2004/EC states the European priority projects for the development of the Trans-European Transport Network. The following projects are identified as priority for development of the Trans-European transport network:

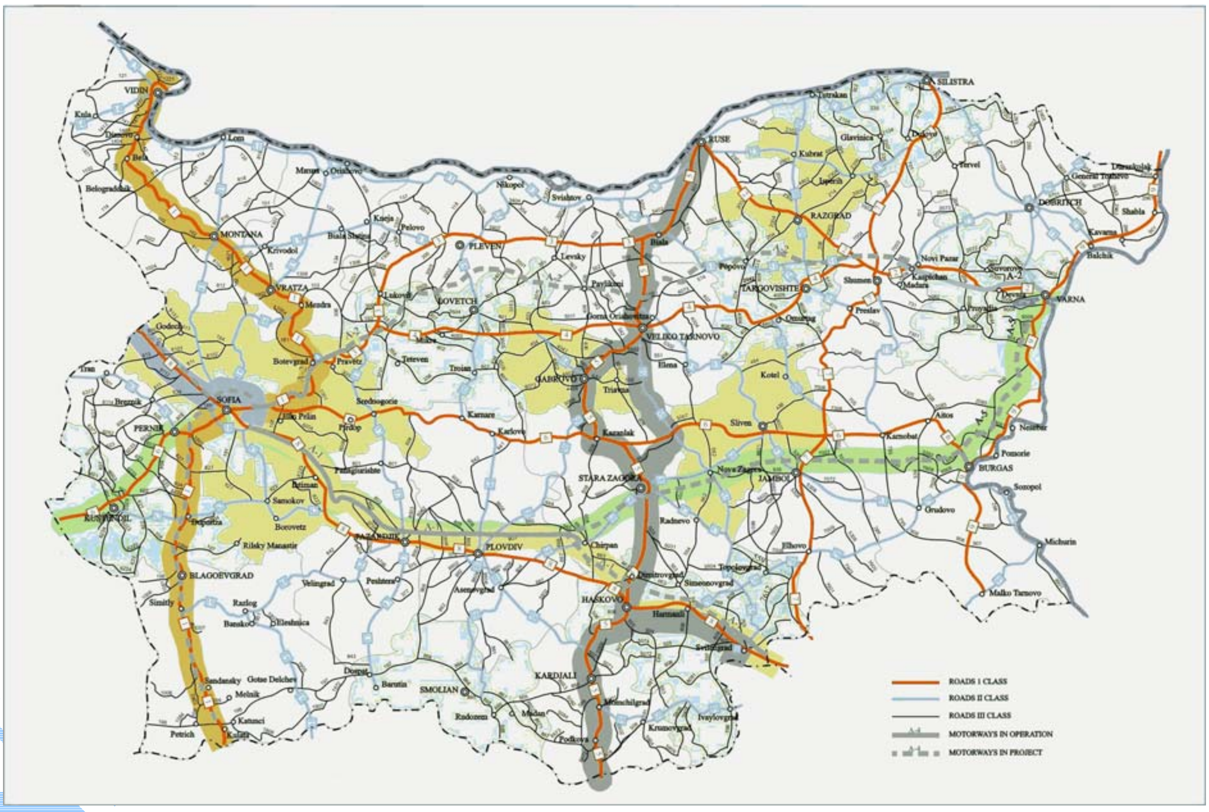
- Modernisation of the railway line Vidin – Sofia – Kulata;
- Improving the navigation along the Danube River;
- Construction of the "Struma" Motorway.

At the end of 2005 the High Level Group II chaired by Ms Loyola de Palacio presented the report on the extension of the major Trans-European transport axes to the neighbouring countries and regions. One of the five transport axes identified in the report passes through the territory of Bulgaria - South Eastern Axis, which links the EU through the Balkans and Turkey to the Caucasus and the Caspian Sea, as well as to Egypt and the Red Sea. Access links to Albania and former Yugoslav Republic of Macedonia, Iran, Iraq and Persian Gulf are also foreseen. The main multimodal connections including important TEN-T projects on the territory of our country are:

- Belgrade – Nis – Sofia, and then via Plovdiv to Istanbul – TRACECA;
- The Italian ports Bari/Brindisi and passing through Durres/Vlora – Tirana – Skopje – Sofia – Bourgas/Varna;
- The Danube River – The Sava River.

The construction of these transport connections will maximise the contribution to the development of Bulgaria. Considering the fact that the EC will focus its funds on the development of the major axes, Bulgaria must focus its investment policy on the preparation and implementation of projects situated along those major axes. Considering the geographical location of Bulgaria, improved transport infrastructure and services will increase its potential for transit passenger and freight transportation. However, if the implementation of the main transport projects is substantially delayed, there is a risk that the main traffic is rerouted through the neighbouring countries with the resulting loss of income, investment opportunities and accessibility.

An improvement and better coordination between different transport modes are needed, in order to provide the efficient internal and external connectivity of the country. In this respect further development of the main transit transport routes, namely Rousse – Svilengrad and Dragoman – Svilengrad, as well as the routes Vidin – Sofia – Kulata and the Danube River is very important. The improvement of the link between Sofia and the main sea ports of the country, Bourgas and Varna, is crucial to meet the expected traffic increase. In addition, the improvement of the connection between Varna and the main inland waterway port, Rouse, will have key regional significance.



Concerning the **road transport** infrastructure, in 2005 the total length of the road network in Bulgaria amounts to 37,300 km[12], including more than 19,275 km of state roads. The road transport services are about 88% of the national cargo. The road system in Bulgaria is not supportive of long distance international traffic and is in poor condition, at the same time it is overloaded compared to other modes of transport. According to a recent World Bank field survey[13], bottlenecks are starting to emerge along road segments which carry international traffic. Furthermore, due to the lack of by-passes, the road system for international traffic passes through many small towns and villages, which raises potential conflicts between long distance international and local traffic. In addition, the country has 23 road cross-border check points, with only 7 of them being on I-class roads, which is not sufficient and impedes foreign trade. However, recent activities to improve CBCP capacity has been done under cross-border cooperation programme “Bulgaria – Greece” and “Bulgaria – Romania” using national and PHARE financing.

In 2005 the road traffic in the country amounts to nearly 493 million passengers per km. The most loaded destinations include Sofia – Bourgas, Sofia – Kulata, Varna - Bourgas, Rouse – Svilengrad, Rouse – Yablanica, Plovdiv – Haskovo – Kyrdzhali, Montana – Botevgrad. In this respect in comparison to 2005 it is expected that traffic on “Trakia” Motorway connecting Sofia and Bourgas will increase with close to 20% in 2010 and with 34% and 44% at the end of the programming period and in 2015 respectively. The traffic on “Struma” Motorway is also expected to rise by 15% in 2010 and 27% in 2013. “Maritza” Motorway will have traffic

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[12] The statistical data in the Transport section is provided by the OP “Transport”.
[13] For more details see World Bank (2005), Country Economic Memorandum “Bulgaria: The Road to Successful EU Integration. The Policy Agenda”

growth of 15% and 32% for 2010 and 2015 respectively. In comparison to 2005 the traffic on "Hemus" Motorway in 2015, when certain parts of it are completed, will increase by some 32% and in 2020 by 55%. In addition, the amount of traffic through E-79 in the segment between Vraca and Botevgrad is expected to increase by some 40% in 2015 when its improvement is completed. The expectation is that in comparison to 2005 the traffic will double by 2025. For the segment between Montana and Vraca as well as for some segments of the direction Rouse – Svilengrad the forecasted traffic rise amounts to 38% and 98% respectively. Also, it is believed that the traffic between Kardjali and Podkova will rise by 15% and 35% in 2010 and 2015 respectively.

The Bulgarian transport network consists mostly of lower class roads. The motorway coverage in Bulgaria is insufficient. Nearly 17% of the existing 383.2 km of motorways and 47% of the existing 2,969 km of I-class roads in the country are not in good condition and need rehabilitations and reconstruction. The need for building and improvement of the existing road network is especially evident for the Trans-European Transport Corridors due to the expectations for traffic increase. Also, in order to correspond to the EU standard requirements, the loading capacity of the road pavement has to be improved.

With regard to the lower class roads, **above 60% of II-class and nearly 72% of III-class roads need reconstruction and rehabilitation**. The connectivity between many small towns and villages with the big cities is hampered by the poor quality of the roads, which cannot serve the traffic demands. As a result, the poorly connected communities will be further isolated and their potential for economic revival will be severely impeded**.** It has to be noted that construction and maintenance of the municipal roads (covering over 55%[14] of the total length of the road network in the country) is obstructed by insufficient financing from the municipalities.

The main reason for unsatisfactory condition of the road system in the country is the constant delay of the necessary repair work and the insufficient financing for maintenance of the road surface. The Bulgarian authorities have stated that the average annual expenditure in the transport sector will increase substantially after the accession of the country in the EU. In order to ensure that new investments are properly maintained in the future responsibility for it is delegated to the recently formed Republican Road Infrastructure Fund towards the Minister of Finance. The control of different projects is exercised by both the Regional Road Administrations and the National Road Infrastructure Fund through experts in charge for the individual contracts.

In relation to the road safety, poor quality of the road infrastructure and outdated motor fleet are among the main problems for the transport authorities. However, according to the number of fatalities per million inhabitants Bulgaria have an index of 127 (2004) and 119 (2005)[15]. This data places the country at the same level as Hungary, Estonia and Portugal[16], and better than most the other new EU member states. Currently the country is significantly behind EU members like Holland, the UK, Sweden, Denmark, Germany and Finland which have much better index for 2004 (in the range 50-72).

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[14] Data from National Association of Bulgarian Municipalities
[15] NSI data
[16] http://ec.europa.eu/transport/roadsafety/road_safety_observatory/profiles_en.htm

Furthermore, **urban transport** needs improvement, particularly in relation to the road pavement, traffic congestions in the big cities, limited number of parking spaces, safety provision and signalling, technical equipment for the execution of effective control, and enforcement of the traffic regulation rules[17]. The intensive internal traffic in the big cities brings the need for developing the ring roads as an important part of the national road network. Meanwhile, the main problems of interurban bus transport include travel safety, lack of fixed arrival times, unsatisfactory passenger services at the bus stations, and insufficient links with other transport modes at the arrival point.

The total **railway line** length is 4,316 km, of which 67% are electrified. Though the density of the existing railway lines is sufficient, the capacity of the railway network is low due to the operational and technical condition of the railway infrastructure. During the last 10 years 806 km of the railway network have been renewed and mid-range repair works of 831 km have been done. However, nearly 60% of the national railway network has not been renovated in that period. Currently, the railway lines in the country are suitable for speed of up to 100 km/h, while the required speed in the EU is 160km/h. In addition, some 80% of the locomotives, 70% of the passenger carriages and the main part of safety, telecommunication, and the electric power supply facilities are older than 20 years.

The railway network in the country is of a "closed" type due to the fact that there are only 6 cross-border check points with the neighbouring countries[18]. The railway connection with Romania along the Trans-European Corridor IV is not completed at the Vidin–Kalafat section. As a result, there are limitations for developing business activities with the neighbouring countries and particularly for cross-border cooperation.

The maintenance of the infrastructure is ensured by restructuring of the railway transport system in compliance with the EU standards. The Bulgarian State Railways National Company was divided into the National Railway Infrastructure Company, which is responsible for the management of the infrastructure, and the Bulgarian State Railways, which is the operator. The privatization of the railway operator and concession of some railway infrastructure elements are priorities aiming at better utilization of the planed investments and repair and maintenance of infrastructure.

Railway transport is one of the most environmentally friendly transport modes however, Bulgarian railways passengers' traffic has decreased nearly 3 times, and the number of passengers' trains has reduced by more than 40%, over the last 15 years. The main reasons for the big decline are the low attractiveness of the railway transport due to the poor condition of the railway infrastructure, the old rolling stock and the increased number of alternative transport opportunities. However, at the end of the programming period increase of 18.5%[19] in the traffic of passengers is expected compared to 2005. As a result of the closure of heavy industry enterprises and the shift of freight from rail to road, the railway freight transport has also registered a significant decline. It is expected that in 2013 the goods carried will increase

[17] The country has adopted all the social and technical requirements of the EU related to safety and security of the road transport.
[18] Recently the cross-border point Kulata – Promahonas between Bulgaria and Greece was upgraded by electrification of the existing tracks. The track Dragoman – Kalotina – Dimitrovgrad Yug (Serbia) – the cross-border point Between Bulgaria and Serbia was also electrified.
[19] Data provided by Bulgarian State Railways EAD.

by 13.3% in comparison to 2005. In addition, the planned amount of passenger traffic for 2008 is 27.7 ml. train-km is expected to increase up to 32.9 ml. train-km in 2013. The planned freight transportation in 2008 and 2013 is 14.4 and 17.1 ml. train-km respectively. In broad terms, the traffic scenario is to achieve the following target: 2008 – 42 ml. train-km and 50 ml. for 2013 in total.

The passenger interurban and international traffic have good potential for development, which to a large extent depends on the improvement of the railway network and the implementation of a renewed strategy to seize the opportunities of the market. The tendency is towards an increase of 15% per year for the international freight transport via the border stations, 2-3% of transportation via ports and retaining of transportation along national destinations. In 2005 the most loaded destinations include Sofia – Dragoman and Sofia – Mezdra – Varna with goods carried of nearly 3.2 and 3.0 billion tons[20] respectively. For the period 2007-2013 the growth of goods carried through the main destinations will amount to 3-4% annually[21]. Bulgarian railways have also the potential for handling the container transportation but, the available infrastructure does not meet the requirements for performing modern freight transportation with only 8 container terminals situated in some of the main railway stations.

The current condition of the railway infrastructure is determined by the inadequate level of financial resources for the accomplishment of the necessary repair work. This resulted in serious speed restriction of nearly ¾ of the rail network in the country, increase of the necessary time for the repair works leading to a decline in its technical conditions, and restriction in the overall capacity of the railway infrastructure. Currently, the government is attempting to reduce the shortage of financing by using national financing as well as sources such as ISPA, EIB, World Bank.

The main tool used by the Bulgarian authorities for the rail transport in order to compete better with the increasing competition of the road transport is to improve its status through improvement in transport services and speed as well as the overall quality and safety standards of travelling in order to attract higher volumes of passengers and goods. The aim is to reach this target with the existing low rail fares.

The **maritime and inland waterway transport** provides opportunity for good quality, cheap and environment friendly transport services, which define the waterborne transport as a serious alternative to road transport. The main seaports of Varna and Bourgas, have sufficient capacity for general cargo, solid and liquid bulk cargo, containers, heavy parcels and RO-RO units handling. They have relatively well-developed transport infrastructure connecting them with the state's road and rail network. There are 3 container terminals at the Black Sea coast.

The biggest Bulgarian river port is the Port of Rousse. It is an important trade, industrial and transport centre. However, **the fundamental and transhipment mechanical facilities are outdated**. Most of the Bulgarian ports are built for multifunctional purposes, which has negative effect on their technical condition. Moreover, the navigational channel on the main inland waterway, the Danube River, does not comply with the internationally accepted design standards as issued by the Danube Commission.

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[20] Data provided by Bulgarian State Railways EAD.
[21] Data provided by Bulgarian State Railways EAD.

At present, the **combined transport** in Bulgaria is underdeveloped. There is a limited flow of road transit containers and also a limited number of containers on rail. The Bulgarian intermodal system needs to be technically improved to take advantage of all the opportunities of the growth of transport demand in Balkan area and participate to the building of a more sustainable transport system.

The following Bulgarian railways lines are included in the European Agreement of Important International Combined Transport Lines and Related installations (AGTC):

- Rousse-Gorna Oriahovitza-Dubovo-Dimitrovgrad (310 km)
- Sofia-Mezdra-Gorna Oriahovitza-Kaspitchan-Varna (543 km)
- Dragoman-Sofia-Plovdiv-Dimitrovgrad-Cvilengrad (382 km)
- Plovdiv-Zimnitza-Karnobat-Bourgas (294 km)
- Vidin-Sofia (279 km)
- Sofia-Kulata (210 km)

The basic facilities for the national and international container freights transport have been established during the 1970's and 1980's. Due to the existing outdated infrastructure the terminals are not maintained and used in a proper way.

Although in general the status of the infrastructure does not meet the requirements for performing of modern freight transportation, in part of the terminals the equipment is good enough to be put into exploitation with a certain investment. There is no direct operational/logistic connection between the railway and maritime transport. The terminals should be provided with specialized equipment (cranes, storehouses, truck freight loading platforms, truck chains, etc).

In relation to **air transport** there are five civil airports that currently operate in the country. **The conditions of the passenger and freight terminals in some of the airports do not correspond to the international standards**. In order to use the opportunity for landing of bigger and heavier airplanes, used by the charter air companies, the Bulgarian airports need extensions of the runways, development of the taxiways and new coverings. Significant investments for the achievement of the required standards of the Sofia Airport are accomplished using financing from ISPA (2000/BG/16/P/PT/002). Although there were significant delays in the terminal's construction, the project has been successfully completed and on 20.11.2006 a Permit for use was issued by the competent Bulgarian Authorities. The newly constructed Airport Terminal will ensure a higher standard of passenger handling and landing of wide-bodied aircrafts. It will contribute to raise the capacity to 2.6 million passengers and 26 000 tonnes cargo freight per annum. The implementation of the project will decrease the harmful effect to the environment and will improve the safety and the security of the flights. Also, the necessary improvements for the airports in Varna and Bourgas will be accomplished via concessions. At present the link between the main airport facilities and the other modes of transport is not developed.

The overall state of the transport infrastructure in the country is in poor condition. The existing roads, railway lines and the navigation channel of the Danube River need significant investment to improve safety and fully comply with the standards of the EU. The transport infrastructure along with the major transport axes of national and EU importance need further investment to become fully compliant with the European standards. The road system in Bulgaria is not supportive of long distance international traffic and is in poor condition. The loading capacity of the road pavement, along the main international transport destinations, has to be improved. The overall state of the railway infrastructure is also in unsatisfactory condition and is constantly worsening. This, along with the "closed" type rail transport network resulted in transfer of the significant amount of traffic to roads. The railway transport network of the country is a "closed" type due to the small number of cross-border check points with the neighbouring countries. The intensive internal traffic in the big cities generates the need for developing ring roads as important parts of the national road network. The greater part of small towns and villages are not well connected with the main transport system and the big cities. The combined transport infrastructure and service delivery are underdeveloped and require modernisation for better interactions between the different modes of transport.

2.1.2.2. Environmental Protection Infrastructure

The environmental infrastructure of the country is essential for both the quality of life and for public health. With strong linkages to the economic resources management, this sector is strategic for the future development of the country. The infrastructure for the protection of the environment and also for the protection of the human health comprises the following components: water management; waste management; ambient air quality management, nature protection; rehabilitation of the inherited contaminated sites; and the reduction of environmental risks.

In general, the **water quality** in the country is at satisfactory level. Bulgaria has a well developed **water supply system** that covers 5031 settlements with 98.8% of the population (2004). However, approximately 21.6% of the population suffers from regimes in the water supply due to internal losses in the distribution networks and a lack of water reservoirs (51.6% in 2004). The overall **water consumption** in the country is comparatively low, but the volume of the extracted water is nearly twice larger in comparison with other countries. To a great extend this is caused by the amortization of the water supply network, which at some places requires complete rehabilitation. With regards to the **sewerage network** and **waste water treatment facilities**, the country is lagging behind in comparison with the EU standards for water supply networks. Approximately 70.5% of the towns in the country have sewerage networks constructed, but with regard to the villages this percentage hardly reaches 2.1%. In 2004 only 69.2% of the population is connected to the sewage system. In the same year only 39.9% of the population is connected to a waste water treatment plants (WWTP). Therefore significant efforts are still needed in order to provide for mitigating and possibly eliminating the discharges of harmful substances in the water as well as decrease possible environmental and public health concerns.

A significant improvement has been achieved in the field of managing the **industrial and household waste streams.** In 2004 the waste collection system covered 84.2% of the population of the country, which included mainly the inhabitants in the big cities. However, in rural areas there are no organised services for waste management. The system for separated waste collection has been introduced in the country mainly with regards to packaging waste, but also for some groups of specific hazardous waste streams such as luminescent tubes, batteries, and small chemical waste. Special attention has been paid to the environmental **damage caused by previous state enterprises** prior to their privatisation, such as the activities on mining research, extraction and primary treatment of ore, coals and raw materials. Sixteen state programmes consisting of 55 individual projects were implemented before the end of 2004. In order to reduce the state budget burden, a number of IFIs have been supporting the state efforts by financing activities carried out in this area. Further efforts are needed with regards to the large number of municipal landfills that still do not comply with the national and EU legislative requirements and represent a threat for the public health and for the environment. The complete development of an adequate system of infrastructure facilities for **municipal waste management,** to comply with EU and national legislative requirements and environmental standards, still remain a challenge. These require the implementation of new solutions with regards to the waste management. The further improvement of the environmental conditions also requires continuing the investments with regards to the industrial and hazardous waste processing.

The emissions of **main pollutants to the atmosphere** covered by Directive 2001/81/EC for national ceilings of the emissions of certain substances (SO_2, NO_x, CO_2, N_2O and NH_3) have decreased as compared to the levels from the beginning and the late nineties. A decrease of 10% is achieved in the SO_2 emissions due to the introduction of facilities for SO_2 removal in some of the thermal power plants. All these achievements enabled a radical improvement of the quality of the atmosphere in the industrial areas. With the current development trends, and launching new environmentally friendly large production facilities and introducing new abatement technologies, Bulgaria is expecting to fulfil its commitments under the Gothenburg Protocol on limitation of the national annual emissions and under the Convention on long-range trans-boundary air pollution by 2010. However, there are still urgent measures to be implemented for reduction of the emissions of certain pollutants in the atmosphere air from large combustion plants and achievement of better environment.

In the area of **emissions of greenhouse gases (GHG)** the country currently complies with the limits set by the Kyoto Protocol. The levels of emissions of GHG show a tendency of decrease. This is due to the reduced emissions of GHG from sectors “Energy”, “Industrial processes” and “Waste”. The forecasts for future GHG emissions (in case of continuing implementation of the Action Plan on Climate Change) show that there is a national capacity reserve to fulfil the country’s commitments. With the accession to the EU, Bulgaria will participate in the European Emissions Trade Scheme.

The unsatisfactory status of the infrastructure sewage, waste water treatment and air pollution abatement, as well as the overall condition of the water supply system does not provide for the necessary quality of the respective services. The same is valid for the existing systems for waste management, which are also with insufficient quality and coverage. This situation needs actions for improvement in order to protect public health and to comply with the national and EU legislation in force. In addition it is also important to secure that investments increase the economic attractiveness to investors and visitors as well as provide adequate quality of life for communities in these areas.

2.1.2.3. Disaster, Accident and Risk Prevention and Protection

The heavy rainfalls and the floods that occurred in Bulgaria between May and August 2005 caused devastating consequences on the infrastructure and on the regional and local economies. Human lives were put in danger, 10 people died, more than 2 000 000 directly suffered from the floods. The rainfalls caused extensive flooding and material damages. The analyses show that most of the affected areas have received over 300 litres/sq.m. of fall. Crisis situation was officially declared by municipal and district authorities in Shoumen, Stara Zagora, Targovishte, Veliko Tarnovo, Lovech, Pleven, Pernik, Vratza, Pazardjik, Plovdiv, Smolian and Sofia districts. As a result of the floods a great majority of the above mentioned municipalities are suffering from difficulties with the electricity and adequate water supply and lack communications.

The analysis carried out shows that more than 10 000 private and public buildings were flooded and partially or completely destroyed, part of the local population have been evacuated and left without proper housing conditions and amenities, 63 river bridges along the roads and 42 railway bridges have been damaged, 5736 km of roads and highways were affected and 124 km of railway tracks have been destroyed, including also several railway stations. 52 km of water protection dykes have been completely destroyed. 42 hospitals and health-care establishments have been flooded and 435 schools, kindergartens and other educational facilities were damaged. Calculations have estimated that the total damages from the floods in 2005 caused to the affected areas amount to 891 786 241 leva (at about 456 mln. euro). The damage from the high water is having and will continue to have a significant impact on the local and regional economy in these areas, especially on agriculture, transport and tourism sectors.

Conclusions of independent experts

In the period 25-29 July 2005 a team of independent experts conducted a mission in Bulgaria for assessment of the damages caused by the floods in a prompt response to the request of the Bulgarian Authorities for launching EU financial support to overcome the consequences from the disaster. The final report from the mission based on the experts' investigations and discussions with representatives of the regional and local authorities recognized a number of key issues that need improvement:

- The provision of a centralised Emergency Fund with procedures in place that would effect a quick release of financial assistance in the event that a flood emergency;
- A lack of resources at the central level has been identified. The provision of resources to improve flood risk management should be improved. A greater emphasis must be placed on creating and maintaining, i.e. Maintenance Management Plans for technical structures (river beds, dikes, dams) and the removal of vegetation (river clearance programs) to ensure that the current flood assets are operating efficiently and effectively prior to and during flood events;
- The significant financial effects on the economy of the losses to private manufacturing and agricultural enterprises (Bulgarian Public Limited Company) should be recognized by the authorities. Damage Inventories should more clearly identify the effects of flood damage to the manufacturing and agricultural industries. A loss compensation program should be developed;
- On this occasion, flood warning seems to have worked remarkably well although there is no centralized flood forecasting infrastructure.

Following the lessons learned from the floods during 2005, Bulgaria has undertaken strong measures on policy and legal level for improving the protection of the population, landscape and wild life from natural disasters and emergency situations like inundation.

The first major step of the Bulgarian Government in terms of improvement of the inter-service coordination and development of efficient national system for crisis prevention and management was **the establishment of Ministry of State Policy for Disasters and Accidents (MSPDA)** headed by a Deputy Prime Minister (MSPDA was established with a

National Assembly decision from August 2005). The second step of the Government included a strong position for conducting concrete policy aiming effective crisis management in **its Governmental Program**, followed by a **Policy Concept paper of the Ministry** was elaborated and adopted by the Council of Ministers.

Moreover, the Organic Rule of the Ministry of State Policy for Disasters and Accidents has been ratified, by means of which **structural changes** have been made and the former State Agency of Civil Protection has been closed as an Agency, passing under the authority of the Ministry, which has become its rights inheritor.

Also, on the basis of lessons learned from the floods during 2005 **two legal bills** were drafted and adopted by the Council of Ministries – one is for drafting an amendment and additions to the Crisis Management Law and the other is a brand new Disaster Protection Law.

2.1.2.4. ICT

The renewed Lisbon strategy stated that it is essential to build a fully inclusive information society, based on the widespread use of information and communication technologies (ICT) in public services, SMEs and households. In June 2005 The European Commission launched the initiative **i2010 – European Information Society 2010** as a key element of the renewed Lisbon partnership for growth and jobs**.** It promotes an open and competitive digital economy and emphasises ICT as a driver of economic growth inclusion and quality of life.

The wide deployment and use of ICTs is essential for enhancing the economic performance of enterprises, developing electronic trade and electronic business, improving transparency and openness of government relations with citizens, and providing more and better services for the society and will contribute to Bulgaria's active participation in the future global digital economy.

The well developed information and communication infrastructure and particularly broadband infrastructure is the most important prerequisite for the provision of access to and use of high-speed Internet, electronic services and rich digital content..

Bulgaria has a high level of fixed telephone density by households (74 % by the end of 2005[22]), but compared to EU – 25 the country is lagging behind on the indicator digitalization of the fixed telephone lines.[23] Considerable intra-regional disparities exist in the digitalization of the fixed telephone network.[24] The density of mobile services penetration is approaching the EU-25 levels[25] largely due to the liberalisation of the fast moving market and the growth in the ICT sector. In 2005 the licensing of a third GSM operator led to substantial drop in the prices of mobile services. However, over 50 % of subscribers consider them as too high[26].

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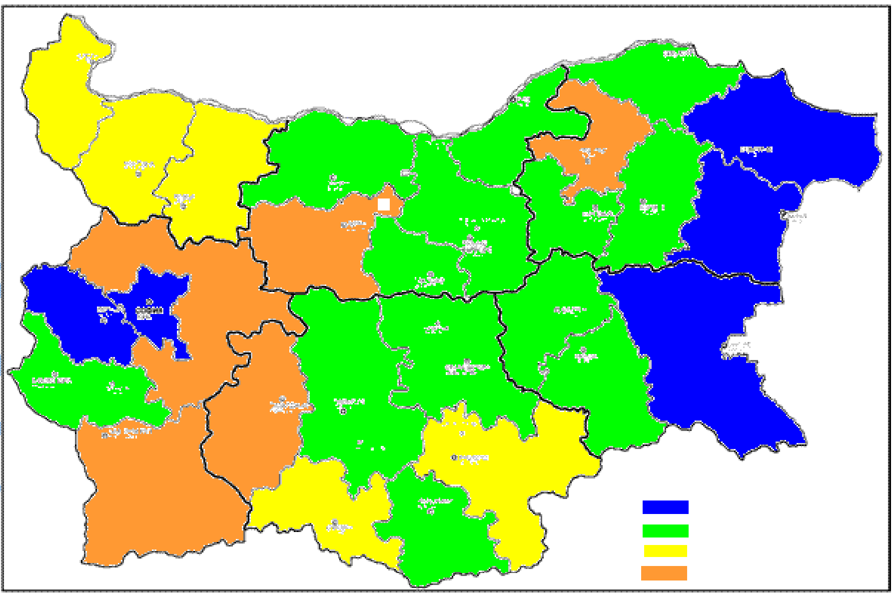
[22] According to the Communications Regulation Commission
[23] According to Bulgarian Telecommunications Company (BTC) the level of digitalization has reach 46% as of April 2006, with the level of digitalization in Sofia and other main town reaching over 80%.
[24]According to to BTC the level of digitalization has reached 46% as of April 2006 with the level of digitalization in Sofia and other main towns reaching over 80%.
[25] 80% as of 31.12.2005 against 91% average mobile penetration in EU-25
[26] According to a survey of the Communications Regulation Commission

The access to Internet is improving continuously, mostly by cable connections (LAN and cable TV). By the end of 2005 about 23%[27] of Bulgarians over 15 years old had an access to Internet (at home, at the work place, at school, at public access points, etc.) compared to 16.3% at the beginning of the year. However, despite that the broadband Internet access has improved after introducing ADSL by BTC in 2004, Bulgaria is lagging behind the EU average. A survey in January 2005 found that 87% of the EU15 population could receive broadband[28]. In Bulgaria there are substantial territorial disparities in broadband access. For example in Sofia region 97 % of the telephone lines allow ADSL, but in Pazardjic region the percentage is 32.

Figure: *Access to broadband of the subscribers of the ADSL service of BTC by regions*



Blue: above 86.12%;
Green: 74.77% to 86.11%;
Yellow: 63.41% to 74.76%;
Red: below 63.41%

Source: *BTC, 2006.*

The physical access to computer and Internet, preferably broadband is essential, but not sufficient prerequisite for the wide penetration of ICTs. The ICTs penetration can be described by more complex indicators as use of computers and Internet that take into account a set of important factors: ICT skills, financial affordability, facilities for disabled, etc.

With regard to financial affordability for example, the average price of about BGN 30-35 for ADSL access is considered high, especially for households and small companies in small towns and economically underdeveloped regions. In Bulgaria there is a lack of municipal and regional broadband networks which provide cheaper alternatives for economically deprived regions and rural areas where market fails.

Despite the positive tendency of the ICT penetration in recent years and the rapid increase of the level of investments, the overall level remains insufficient[29]. In the first half of 2006 31% of population aged over 18 had an access to computer[30].The use of Internet by households in

[27] Vitosha Research, 2006
[28] Information Society Benchmarking Report, 2005
[29] In 2004 the ICT expenditure in Bulgaria accounted to 8.6% of GDP against 6.4% for EU-25, Eurostat
[30] Vitosha Research, 2006

2006 is 19.8%[31], as compared with 42% in EU-25. Considerable intra-regional disparities exist in the digitalisation of the telephone lines, the use of PCs and Internet. Best rates of these indicators are observed in the South-West region[32] where almost half of the subscribers in the country are concentrated. The worst rates are registered in the North-West region[33]. The low penetration rate of these services can be explained by the limited market and respectively low investments.

In 2005 10.6%[34] of the population used broadband Internet compared to 10.8 % for the EU-25. However, broadband users are concentrated predominantly in Sofia region and in the Black Sea coastal regions. There are specific groups which are nearly excluded from the use of computers and Internet, such as ethnic minorities, pensioners, and people living in rural areas[35]. Among the major barriers for the use are the lagging behind in digitalisation of the fixed telecommunications network, the territorial disparities in broadband penetration, the insufficient ICT skills and the still high price of access[36] and low purchasing power of Bulgarian households, the impeded access for the disadvantaged groups and ethnic minorities. For 25.4% of the Internet users there remain language barriers.

Underdeveloped broadband infrastructure, low usage of computers and Internet, low purchasing power of households and digital divide of disadvantaged groups are some of the problems in this area. Assistance from public funds is becoming essential for decreasing territorial imbalances in developing the broadband infrastructure for access to high speed Internet, and respectively to high quality electronic services for the business and citizens. Interventions should be focused predominantly in regions with limited market and even market failure. The communications infrastructure of public administration at regional and municipal level shall be developed as an alternative for provision of cheaper broadband access based on most advanced technologies (DSL, ADSL, wireless). In addition, measures should be taken to boost the use of computers and high speed Internet – building public access points to Internet, ICT training, “digital inclusion” of ethnical minorities, jobless and low income people, people in rural areas, elderly and disabled, helping SMEs to adopt and use ICT.

2.1.2.5. Energy Infrastructure

The key problem facing the Bulgarian energy market remains the considerable import dependency of energy resources – around 70% (given 40% EU average), which also come from one supplier, the Russian Federation. The single significant local energy source is the low-calorific lignite with high sulphur content.

In order to constrain the energy import dependency serious efforts are exerted in the directions:

- reduction of energy intensity (energy consumption per GDP unit) of the economy;
- optimal use of local conventional and renewable energy sources;

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[31] Vitosha Research 2006
[32] With 45% of the home PCs and 45% of the Internet users, NSI
[33] With 3% of the home PCs and 3% of the Internet users, NSI
[34] Vitosha Research,2006
[35] According to Vitosha Research in 2006 only 5% of the Roma people, 7% of Turkish and 1-2% of pensioners used Internet.
[36] According to e-Europe+ 10% of the households do not use Internet because of limited financial resources

- guarantee of the security of energy supplies through diversification of the sources and routes.

The high energy intensity of the economy could present a substantial problem for achieving long-term sustainable development. The Bulgarian economy consumes about 2 times higher energy for production per euro of GDP compared to the EU, taking into account Purchasing power parity (PPP). The greatest share within the gross energy intensity is industry with 39% of the total energy consumption and around 26% of GDP. Above 40% from electricity supplied to industry is consumed by SMEs, which are relatively energy intensive. In addition, the amortized physical environment and housing stock also do not comply with key requirements of energy efficiency.

The construction of appropriate infrastructure for production of energy from renewable energy sources (RES), including integration with the transmission and distribution networks, is directly connected with the pre-accession commitment of Bulgaria to reach an indicative 11% RES electricity share in the gross internal electricity consumption until 2010. Currently, the RES electricity is generated mainly from hydro power stations and relatively lower share of wind generators. The share of hydro electricity in the total electricity generation forecast for the period 2005-2015 (without substantial additional effort) is around 5.5% on average. In 2005 4.6 GWh of energy were produced from wind power, which is under 1% of the total RES electricity generated in the country. Approximately 116 GWh (10 ktoe) electricity is produced by biomass and more precisely by black lye in the cellulose and paper factories.

In order to achieve the indicative target, it is necessary that the electricity production from RES grows up to 4.61 TWh in 2010, which is connected to utilization of biomass in all its forms by constructing capacities for combined electricity and heat generation, utilization of existing possibilities for new hydro powers, as well as use of wind energy in the zones with wind potential.

At the same time, Bulgaria seriously lags behind in terms of gas-distribution network development and in household gasification not only compared to EU, but also to neighbouring South-Eastern European countries. Below 1% of the households are gasified compared to 50% in the EU. The real natural gas supply is conducted on the territory of 35-40 municipalities, which is about 15% of the municipalities in Bulgaria, while in the EU the percentage exceeds 80%. Throughout the country 49% of the municipalities are licensed for gas supply, but the actual gasification has hardly started in most of them. The fact that only market forces did not bring about sufficient investment interest in building gas supply networks in those regions, suggests the existence of a market failure. For overcoming this failure public funds contribution is required to ensure the connections between the national gas network and the regions with under-developed gas supply.

The requirements in the field of reduction of emissions from the large combustion plants (Directive 2001/80/EC) also need effort. The energy industry is the biggest source of sulphur dioxide and one of the main sources of nitrogen oxides, whilst the environmental concerns are priority in the sectoral development.

Detailed information about the energy policy of the country is provided in Annex 11 of the NSRF.

The main problematic areas for energy policy are related to the relatively high energy intensity of the Bulgarian economy, the considerable energy dependency from imported resources, the underutilization of local renewable energy sources, the reduction of the negative impacts of energy production and activities on the environment, as well as the catching up with the development of gas supply networks and household gasification. Support through public funds for investments in these areas constitutes a necessary element in achieving the priorities of improving productivity and competitiveness, increasing environmental protection, guaranteeing security and diversification of energy supplies, contributing to Lisbon and to the NSRF vision for high quality of life in Bulgaria.

2.1.3. Human Resource Development

The development of the human capital has a key role for achieving a competitive economy and modern and inclusive society, based on knowledge. A number of factors determine the quality of the human capital: demographic trends, labour market institutions and developments, education and health status, as well as equal access to services (health and social services, social security and assistance, transport services, housing and etc.).

2.1.3.1. Demographic Development

In the period from 1989 the population of Bulgaria has been continuously decreasing. At the end of year 2005 the number of people permanently living in Bulgaria was 7 718 750. According to forecasts of the Ministry of Labour and Social Policy, in 2013 the population will be around 7 348 077 people, or about 4.8 % less. The main parameters of the demographic crises in Bulgaria are connected with continuous reduction of the birth-rate in the country, demographic ageing of the population, relatively high natural death-rates including infants and children and the high emigration of people in active age. These factors lead to deterioration of the age structure of the population and a decrease in number of the potential labour force.

Special attention should be given to the problems connected to the average duration of life in good health. The index for Bulgaria for year 2000 is 61 years of age for men and 65.8 years of age for women, according to appraisals from the World Health Organization. In the European countries according to the same source, the values of this index are with 5 to 9 years higher.

According to the last official census from 2001 the ethnic structure of the Bulgarian society is as follows: 83.9 % Bulgarians, 9.4 % Turks, and 4.8 % Roma (equal to 370,908). Studies however exist which suggest that the Roma figures might be underestimated with up to 30%.[37]

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[37] The discrepancy in numbers is often explained with self-identification of Roma in Bulgaria as Turks, Bulgarians or Romanians at official census. See e.g. Elena Marushakova and Veselin Popov, *Tziganite v Bulgaria* (Gypsies in Bulgaria) (Sofia, Klub'90, 1993), p.93; Jean-Pierre Liegeois, *Roma, Gypsies, Travellers* (Strasbourg, Council of Europe, 1994), p.32-34; UNDP, *Avoiding the Dependency Trap – a Human Development Report on the Roma Minority in Central and Eastern Europe* (2002), p.24-25; Dena Ringold,

The percentage of the population in active age is growing from 58.3% in year 2000 to 62.4% in year 2005. There is a permanent tendency of a decreasing percentage of the population in under active age from 16.8 % in year 2000 to 14.8 % in year 2005, as well as the population of over active age from 24.9 % in year 2000 to 22.2 % in year 2005.

The dependency ratio (number of retired people / 100 social insured people) is expected to decrease from 97.5 % in the year 2003 to 81.2 % in the year 2020, which will be the result of the introduction of stricter requirements for pension rights and an increase in the number of socially insured people. The level would remain under 90 % until 2038 and after that it is expected to grow by at most one percentage point every year because of the increase of the life expectancy reaching the level of 100% of the above mentioned ratio in 2050[38].

Age dependency ratio (number of people over 65 years old / people between 15 – 64 years old) is growing from 23.8 % in year 2000 to 29 % in year 2015 (Eurostat). The average levels for EU-25 are respectively 23.4 % and 28.9 %. In the framework of the programming period the situation in Bulgaria is not different from the average European level. The expected long term development (till 2050) shows worsening of the factor by 8.1 percentage points compared to the level of EU-25.

The demographic policy of the country is formulated in the National Strategy for Demographic Development 2006-2020, coordinated by the Ministry of Labour and Social Policy and National annual plans for its implementation.

The demographic development of the country is considered by the Bulgarian government as a national and social issue of great importance. It requires maximum efforts, as well as full coordination of the actions of the authorised bodies, institutions and structures of the civil society on central, regional and local level to overcome the negative demographic trends.

The future development of the labour force is affected by the processes of ageing and reduction in absolute terms of the population. The number of people retiring after 2006 will exceed the number of the young people entering the labour force, and expenditures for pensions will grow. The labour force is characterised by low productivity and the rigidity in professional and geographic mobility. The decline of the active population and the process of ageing, as well as the requirements for maintaining the competitiveness of the economy after EU accession, require full inclusion and utilisation of the potential of the available labour resources and improvement of their quality and structure to comply with the needs of the business development.

2.1.3.2. Labour Market

The quality of the labour force is a crucial factor for the economic growth. The basic labour market indicators demonstrate the difference between Bulgaria and the EU and represent one of the main challenges for the economy.

Mitchell A.Orenstein, and Erika Wilkens, *Roma in an Expanding Europe: Breaking the Poverty Cycle* (Washington, D.C, the World Bank, 2005), p.3-4.

[38] NSSI

Table: Employment and unemployment in 2005

		Employment	**Activity rate**	**Unemployment**	**Young unemployment**	**Long term unemployment**
Bulgaria	**%**	**55.8**	**62.1**	**10.1**	**22.4**	**6.0**
EU-25	**%**	**63.8**	**70.2**	**8.7**	**18.5**	**3.9**

Source: Eurostat

The number of employed increased by 6.5% in 2000-2005 due to the higher labour demand by private sector but still, **the employment rate in the country stands at 55.8% in 2005 versus 63.8% in EU-25**. One important factor affecting the low employment level is the low participation rate. It reached 62.1% in 2005, while EU average participation rate was 70.2% in the same year.

In the period of 2000-2005 the level of unemployment dropped by 6.3pps to reach 10.1% in 2005. Among the main factors for the observed improvement was the witnessed "deshadowvisation" of the economy. The decreased tax burden and some changes in the registration of the labour legislation resulted in declining share of the grey economy, which according to NSI assessments is about 12-15% of GDP. Though the overall unemployment is already close to the EU average of 8.7%, the **long term unemployment remains the main problem of the labour market** in the country, as it decreases the quality of human capital in terms of skills, qualification and reduces labour supply. Although long term unemployment has dropped from 8.3% in 2000 to 6% in 2005[39], it accounts for more than a half (55.9%) of the total unemployment. The situation is especially sharp among the low educated and low qualified people, where the indicator reaches values of 70.8% and 72.7% respectively. Due to the inadequate educational and vocational qualification structure of the labour force there is a risk of shortage of labour in high value added branches, and associated with it. The **youth unemployment rate remains high** - 22.4% in 2005, as compared with 18.5% in the EU-25. The share of young unemployed without professional qualification is 73.6%[40] and those with primary education - 65.6%. Meanwhile, the number of unemployed people over 50 years of age is 28.1%. About 60% of these people are long term unemployed. In 2005, five out of 100 registered unemployed are people with disabilities.

The high youth unemployment rate of recent graduates shows that the skills provided at school, especially vocational skills, are inadequate for the needs of the labour market. A World Bank survey indicates that foreign investors are experiencing considerable difficulties in finding workers with the skills they require. The skills gap applies to technical specialists, qualified business managers, and others needed to operate modern competitive businesses[41]. As a result of the skills mismatch, firms must incur high costs to train new recruits, which, in the case of software companies and other high-tech companies, could include three to six months of no productive input from these workers. Improving the quality of education especially in ICT and foreign languages knowledge and introducing modern training systems are prerequisites for labour force able to cope with the challenges on the labour market.

[39] as compared with the 4.1% in the EU-25

[40] official data from the Employment Agency. Non-governmental studies show that the youth unemployment is of serious concern among disadvantaged groups such as the Roma. See e.g. Lilia Dimova et al., *Romite: drugoto izmerenie na promenite* (Roma: the Other Dimension of the Changes), Sofia: Partners Bulgaria Foundation, 2004, p.31-32.

[41] see World Bank (2005), Country Economic Memorandum "Bulgaria: The Road to Successful EU Integration. The Policy Agenda"

The **labour market flexibility is much lower than EU average**. In 2005 only 2.5% were part-time employees while in the EU the share of part-time employees was 18.4%.

Agriculture is the main source of income in many rural areas. T**he agricultural sector accounts for nearly 8.9% of the overall employment**[42]. The huge difference between rural and urban areas in terms of employment and activity rates indicates the need for diversification of income sources in rural areas: tourism, services, etc.

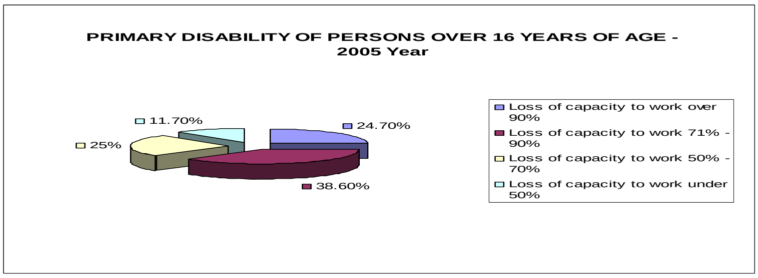
Table: Labour force, Employed and Unemployed by Place or Residence in 2005 (average annual data)

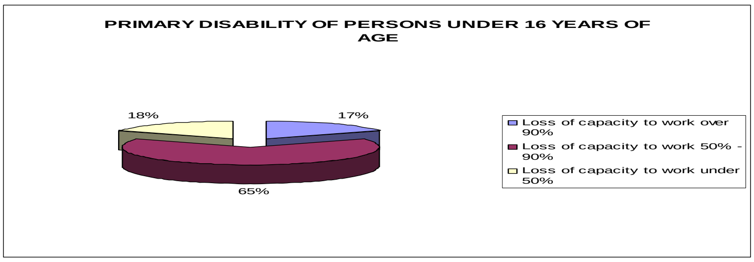
Place of residence	Labour force, thous.			Persons not in labour force, thous.	Activity rate, %	Employment rate, %	Unemployment rate, %
	Total	Employed	Unemployed				
Urban	2,512.3	2,286.4	225.9	1,360.2	64.9	59.0	9.0
Rural	766.7	658.9	107.8	643.7	54.4	46.7	14.1
Total	3,279.0	2,945.3	333.7	2,003.9	62.1	55.8	10.2

Source: NSI Labour Force Survey, AEAF calculations

Meanwhile, one of the main objectives of the Government is to strengthen the capacity of institutions on the labour market. The ongoing reform in the Employment Agency, as a main mediator between the employers and the unemployed people, aims to transform it into a modern public employment service. Currently 28 Labour Offices Directorates (LOD) have introduced the 'one-stop shop' principle.

The **state of the occupational safety and health** is determined to a great extent by the industrial relations dynamics and the resulting investments in labour. The developments of the economy, technologies, the level of education and qualification of the workforce, and the public health, etc. have a significant influence. The safety and health at work and the working organisation are the criteria for quality of labour and for the state of the particular companies.





Data source: Ministry of Health, National Centre of Health Informatics, 2005

[42] In case where data on seasonal employment and self-employed is taken into consideration, the sector accounts for over 24.5% (2005) of the overall employment.

In line with the EU acquis actions for the improvement of the occupational, safety and health within the enterprises have been taken. The number of the enterprises meeting the occupational safety and health legislative requirements in 2005 has increased with about 24 % compared with the ones in 2003. Nevertheless, working conditions in Bulgaria still do not correspond to the EU average.

The share of the fatal work related accidents and of the work related accidents, leading to permanent disability is relatively high. According to latest data there has been a decrease in the total number of work related accidents in the country – from 6391 in 2000 to 4405 in 2004.

Table: Accidents at work *(Source: Eurostat)*

	Serious accidents at work		Fatal accidents at work	
	1998	2003	1998	2003
Bulgaria	100	83	100	83
EU-25	100	83	100	77

Serious accidents at work - The index shows the evolution of the incidence rate of serious accidents at work in comparison to 1998 (= 100). The indices in Bulgaria and EU 25 show similar developments.

Fatal accidents at work - The index shows the evolution of the incidence rate of fatal accidents at work in comparison to 1998 (= 100). Although there is a decrease in both indices, the situation in Bulgaria is worse by 6 points in comparison to EU 25.

Table: Lost of working days due to sickness 1995-2005 *(Source: Ministry of Health)*

	1995	**2000**	**2005**
Number of days off work due to sickness	**21,450,927**	**10,616,357**	**15,533,356**
Number of days in sickness leave to an employee	**6.93**	**4.94**	**6.70**

Long-term unemployment and low activity rate are the challenges for the economy for the period 2007-2013. There is a discrepancy between the skills acquired in schools, technical institutes and universities and the skills required by business, particularly by those that need to compete on the external markets. Moreover, the youth unemployment rate remains high as compared with the EU-25. The labour market flexibility is much lower than EU average. Sustaining and increasing the level of investments by business operators to improve occupational safety and health and to reduce the number of accidents remain a challenge.

2.1.3.4. Education

The overall picture of Bulgarian education does not show great differences from that in the EU countries. Bulgaria spends around 4.2 % of GDP on education. The educational structure of population is close to the EU 25 average - 50 % of population has secondary education, 22

% have higher education and another 5 % acquire college degree[43]. However several facts indicate the need for a reform in the educational sector.

In regard to the primary and secondary education, the National programme on primary and secondary education (2006-2015) identifies the following main problematic issues:

- the educational system is more oriented towards memorising and reproduction instead of development of analytical thinking, self-dependence, enterprise and practical skills;
- there is no national system for external assessment of education quality, while the internal one is of low quality;
- the high share of the early school leavers;
- the teacher's profession is with low social statute and insufficient authority;
- the schools network is un-optimised, which is illustrated by the low (in comparison with the average values for EU) students to teacher ratio[44]
- the public expenditures on education are ineffective with about two-thirds of total public expenditures on education going to relatively low wages and salaries for staff, which do not motivate the teachers to enhance their qualification;

The results of several international studies (TIMMS; PISA) clearly demonstrate a decrease in the quality of educational results of Bulgarian school children and the quality of education in Bulgaria[45].

The **vocational education** in Bulgaria is also a very important factor for ensuring capable experts for the labour market. Nearly half of Bulgaria's secondary students[46] have a degree from a vocational school. These schools (designed under the planned economy times) are not providing students with the skills needed in today's dynamic economy. The system of vocational schools currently under MES' needs actions directed at revising curricula, restructuring and the introduction of external quality assessment.

Net enrolment rates in **higher education** are constantly increasing during recent years - from 23 % (2000-2001) to 25.8 % (2004-2005). People with higher education find jobs easier – the unemployment rate among them is the lowest, but 42 % of the young people with higher education do not work in the field they have specialised in the university and they often work in a position that requires a lower education level.[47]

The participation in **lifelong learning** of the active population as a whole is significantly lower compared to the average for the EU Member States. According to the Eurostat data in 2005 the share of people aged 25-64, participating in at least one form of training (formal, informal and non-formal) is only 1.1 %, which is four times below the EU average. It

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[43] "Education in the Republic of Bulgaria", NSI, 2005

[44] on average 2.9 % less children per year are born, while the number of teachers remains almost the same

[45] The general educational situation in Bulgaria is affected by the high drop-out rate, especially among minority children. the Roma children in the first grade are 20.6 %, in the fifth grade – 12.5 %, in the ninth grade – 2.6 %, and in the 13th grade – 1%. , according to data Plamen Makariev (ed.), Strategii na obrazovatelnata i nauchnata politika: Obrazovatelna politika i kulturni razlichia (Strategies for Policies in Science and Education: Educational Policy and Cultural Differences), special issue, vol. 10, Sofia, Ministry of Education and Science, 2002, p.143

[46] NSI data.

[47] "Young people and labour market". 2003, Alpha research Ltd.

questions the adaptability of the human potential in Bulgaria and its ability to face the challenges of changing economic and social environment.

The introduction of the ICTs in the education system is ongoing. In 2006 all Bulgarian schools are equipped with computers and related software, but the development of digital content is still in initial stage. Bulgarian universities are practically on-line. Many of them offer e-learning courses. In 2006 the national research and education network was upgraded. Now it provides connectivity of 50 Mb/s for the 20 biggest universities and all research institutes of the Bulgarian Academy of Sciences, while for smaller universities the connectivity is still 10 Mb/s.

The demographic situation challenges the development of education in the country. The educational sector in Bulgaria faces the challenges of ensuring equal access to education for all, improving teachers' qualification, quality and relevance of skills, participation rates in upper secondary education and optimal resource use. The higher education system needs establishment of proper financial management system to stimulate competition, effectiveness and development. The participation in lifelong learning of the active population as a whole is significantly lower compared to the EU average.

2.1.3.5. Health

The demographic situation and socio-economic development of Bulgaria influence the trends in healthcare. A mortality rate (14.6 ‰), high child mortality (10.4 ‰ – almost twice higher than EU average), lower life expectancy (72.6 years as compared with 79 years for the EU countries)[48] and ageing population, are some of the problems of Bulgaria's society.

Bulgaria spends 4.3 % of GDP on health – significantly lower than EU average (8.8 %). The country has the lowest year budget spent for health in respect to the other EU member states – only 146 euro per capita per year.[49] The National Health Insurance Fund (NHIF) is the main collector of funds and payer in the system. Its stability depends upon the correct fulfilment of the responsibilities on behalf of the insurees, the NHIF and the providers of healthcare services. It is considered as necessary to improve the control mechanisms over the expenditures and the provision of health services. It is necessary, as well to improve the control over the quality of the healthcare services.

The **access to health services** is guaranteed by law. Mechanisms for ensuring access to quality healthcare for low income-individuals and members of vulnerable groups have been developed in legislative terms and practical implementation follows[50]. However, there are rural-urban differences in access to health services. There is a need for implementation of more focused measures for health education, promotion of healthy lifestyles and behaviour and prevention of diseases.

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[48] Data taken form National Statistical Institute "Population", 2005.

[49] To compare Holland is spending 2600 euro per person per year, Malta – 1300 euro per person per year and Slovakia – 700 euro per person per year - "Hospitals in the 25 countries of the European Union", Dexia, 2005.

[50] Access to health care is still problematic for certain groups in Bulgarian society, such as the persons below the poverty line, and other disadvantaged persons not covered by the health insurance system. That is why for example in 2005 National Health Strategy for Vulnerable People Belonging to Ethnic Minorities and its Action Plan 2005-2007, developed by the Ministry of Health, were approved by the Council of Ministers.

Poor **management**[51] and governance of the healthcare system are the other weak points in the effective use of resources in the sector. Additional capacity building in this field will be needed for improving the effective performance of the system. The patients' participation in the process of decision making, financial expenditure and quality control is guaranteed by law. However, the negotiations on the National Framework Contract for provision of healthcare services conducted between NHIF and the professional organisation of the doctors on Bulgaria, the Bulgarian Medical Union, leaves the patient a outside of the decision-making process. The Ministry of Health and the NHIF have the responsibility for guarding patients' rights, but this mixes control, administration and financing functions in the system. The balance is shifted from ensuring quality care for patients to merely financing health expenses.

Health promotion, in accordance with the EU strategy for development of health care in the EU, is a priority. There are two main targets in the area of health promotion and disease prevention activities:

- to provide to all Bulgarian people the necessary support for choices of healthy lifestyles and behaviours, development of the system for dissemination of health knowledge and health education, acquiring healthy behaviour and habits, creating real conditions for a better health;
- to eliminate, manage and control the factors causing diseases, complications and reduced working ability and social activity of the population, increasing the effectiveness of the State Health Control, prevention of epidemic diseases, implementation of national, regional (and inter-regional) and municipal disease prevention programmes.

It should be pointed out that health promotion and disease prevention activities are a target on a national scale, vitally important to the nation. An important role in the attainment of this target is attributed to state bodies and municipal authorities, the educational system, the labour safety and social policy bodies, the employers, the trade union, as well as the professional associations of physicians, dentists and nurses.

As investing in health is expected to improve the quality of labour force and by that to boost the economy of the country, investments are needed to enhance the healthcare system in Bulgaria. Improvement of the existing health infrastructure, modernising the outdated technical facilities, the development of modern medical information systems, the introduction of electronic health services, and the development of higher level of both preventive activities and post-treatment services or rehabilitation are needed.[52]

The main challenges for the Bulgarian healthcare system are to increase the financial stability, efficiency and effectiveness of health expenditure as well as improve access to healthcare, the governance of the system and management of the processes. Healthcare services cover mainly treatment activities, while the promotion, prevention, and rehabilitation are underdeveloped. Modernisation of the facilities and information services are open issues.

[51] "Financing and management of healthcare", 2005, MoF

[52] According to data from Ministry of Health 77% of the GPs in Bulgaria and 35% of the specialized medical staff reports electronically to the National Health Insurance Institute. Internet access if relatively low and the information system for documenting activity has only partially been implemented.

2.1.3.6. Vulnerable Groups, Social Exclusion and Poverty

The vulnerable groups in the Bulgarian society include people with disabilities, ethnic minorities, and especially Roma minority group, children and families at risk, people dependent on social assistance benefits, people living in specialised institutions, elderly people, long-term unemployed, victims of trafficking, drug addicts, homeless people. The main obstacles for them are related to the limited access to education and health, the labour market and the basic services.

Though, there is a decreasing trend of poverty rate among the population, the risk of poverty remains high for some of the vulnerable groups (especially the persons outside the labour market – the economically inactive people and the unemployed). The average poverty rate for the country is 14.2% in 2005, while the poverty risk for children up to 15 years is 17.8%, for youths (15-24) is 16.4%, and for elderly people above 65 years is 17.5%[53]. The persons from these categories amount to 55% of the poor in the country. The poverty risk among unemployed is even higher (34.7% in 2005) and they represented 27% of the poor population in the year.

The structure and the size of the household are of particular importance on the poverty risk. In 2005 the poverty among the alone parents with one child was by 11pps higher than the average rate for the country. Moreover, the families with three or more children were characterised with much higher poverty risk (31.5%) as compared with those with 1 (9.8%) or 2 (16.7%) children.

Among the most vulnerable groups are the people with disabilities and vulnerable ethnic minorities. They are facing multidimensional problems and obstacles for their social inclusion. Despite all the measures taken for the integration of people with disabilities in the resent years, and the progress of the established programmes under the National Strategy on Equal Opportunities for People with Disabilities, problems in this area are still remaining. People with disabilities in Bulgaria are subject to attitudes and practices inherited from the past when most of them were isolated, protected and taken care of by their families or the state. The result from the last census in 2001 reveal that people with acknowledged disability (over 50%) in the country numbered 265 353 in the official data of the NSI. According to the NSSI, the number of people receiving social pension for invalidity (with rate of disability between 71 and 100%) is 244 929 and the number receiving pensions for invalidity (with rate of disability between 50 and 71%) - 84 756, that is to say the total number of people with disabilities is at least 400 000.

On 30 December 2005, according to the NSSI, the number of people receiving social pension for invalidity on degree of decreased capacity to work is 852 370. 730 000 of them are people with more than 71% of decreased capacity to work. For 2005, according to the Agency for Social Assistance, a social assessment was made for 487 283 people with permanent disabilities.

[53] NSI data

Despite all the measures and programmes initiated by the Government in recent years, Bulgaria is still at the beginning of process for a long term approach to addressing the issues of vulnerable ethnic minority groups, especially the Roma. The ethnic composition of the population in Bulgaria is as follows: Bulgarians – 83.9%, Turkish – 9.4%, Roma ethnic group – 4.8%.

The biggest problems faced by minority groups are those of poverty and unemployment. According to the World Bank Poverty Assessment for 2001 the poverty level for ethnic Bulgarians is 5.6% while for the Roma it is 61.8%. Another survey undertaken by the Agency for Social Analyses entitled "Roma on the labour market and in the social assistance system: The New Challenges 2003", indicates that currently 42.8% of Bulgarians have regular paid employment but only 19.5% of Roma do. Unemployment levels are 17.3% of Bulgarians and 52.9% of Roma (the reminder up to 100% for each group are retired, students, people with disabilities and not responding (less than 1%). The inequality of Roma on the labour market is related mainly to their comparatively lower level of education and qualifications. The last census data show that among the population aged 25-64 in the large ethnic groups, Bulgarians received the best education; 23.5% have tertiary education, 53.0% – secondary, 20.75 – basic and 0.45 are illiterate. Among Roma only 7.2% attended tertiary or secondary education, 44.9% – have basic, 27.4% – primary, 7.8% are without any educational degree, and 12.7% are illiterate. The share of illiterate Roma adults in the period between the last two censuses (1992-2001) has grown by approximately 50%.

Further problems include the housing conditions of Roma which are considerably worse than for the rest of the population. Inadequate dwellings – without sanitary facilities, electricity, water supply, sewage system and waste removal – still exist. The lack of infrastructure in Roma neighbourhoods poses serious problems and there are many illegal constructions with illegal connections to water, electrical and sewage installations.

All these issues lead to health problems among vulnerable groups – children and mother mortality rates, the spread of tuberculosis, low life expectancy, and increased levels of sexually transmitted diseases. The situation goes worse because many of the vulnerable groups, especially Roma have problems paying their health insurance contributions; they either do not evaluate the need, or do not have a clear idea of the health insurance procedures.

On 8 April 2005 the Decade of Roma Inclusion 2005-2015 was nationally started. In the National Action Plan for the Decade of Roma Inclusion measures have been envisaged in for meeting the four basic priorities of the decade: education, healthcare, employment, and better housing conditions. The following specific priorities for Bulgaria included: culture, protection against discrimination and ensuring of equal opportunities.

The challenges for the effective implementation of policy on Roma inclusion are as follows:

- better coordination and cooperation between the engaged institutions and the civil society,
- strengthening the administrative capacity of the authorities implementing the policy on Roma,
- active involvement of Roma community in policy implementation aimed at their social integration,
- increasing the sensitivity of the Bulgarian society with regard to Roma's problems,
- use of all possible sources for funding Roma inclusion, etc.

Despite the progress of the conducted programmes, vulnerable groups in Bulgaria continue to face obstacles for benefiting from basic services such as education and health, limited access to the labour market and the recourses of the society, difficulties in overcoming poverty, social isolation and attitudes inherited from the past. Inadequate social infrastructure and severe housing problem in Roma neighbourhoods lead to health problems among Roma population and low life expectancy.
Policy coordination, monitoring, evaluation as well as further involvement of all stakeholders need to be improved.

2.1.4. Entrepreneurship and Good Governance

2.1.4.1. Business Environment

The favourable business environment is a prerequisite for the expansion of the entrepreneurs' activity and thus for economic growth. Although the government has made considerable progress in recent years in the area of simplifying the institutional environment in which the enterprises operate, the various studies in this area show that **there is still an overregulation in the country** in comparison to the EU-25 member states. A number of regulatory and legal reforms have been implemented in this area since 2002, but challenges still remain in improving the quality of the provided administrative services, as well as in the introduction of a contemporary legislation regarding the simplifying of bankruptcy procedures and the procedures for contract reinforcing. Strengthening the capacity for implementation of the legislative basis and improving the efficiency of court also remains a challenge.

Progress in improving the **investment climate** in the country has already been made by the introduction of the one-stop-shop service. At the end of 2005 71% of the central administration, 100% of the district and 68% of the municipal administration were providing services in one place. However, the state administration is not using all possibilities and mechanisms for services delivery optimisation, including quality assessment and feedback systems.

Bulgarian enterprises still face considerable obstacles for doing business in the country. According to the World Bank, Bulgaria ranks on 62nd place on the "ease of doing business" indicator among 155 countries (followed by only 3 EU countries). The companies face predominantly problems by starting business (80th place) and dealing with licences (118th place). Bulgarian legislation poses the highest minimum capital requirements for starting a business (5000 lv.) as a share of per capita income compared to the EU-25 preventing poorer entrepreneurs from creating a new firm. The number of procedures and the duration to open a business (11) also needs to be optimised.

Significant challenges remain also in the conditions for exit of firms from the market. The process is still far more time consuming than in other EU countries (3.3 years on average). The new amendments to the commercial law aim at simplifying the bankruptcy procedures. Nevertheless, the progress of the legislative reform in the area of closing business may still be considered as confined. The process of enforcing a contract is complex compared to other EU countries (34 procedures required) and presents a considerable obstacle for the entrepreneurs. In addition, the inefficiencies of court functioning multiply the difficulties of enforcing contracts.

The condition of the sector for consultancy and information services is of essential importance for the competitiveness of the existing and the start-up of new, viable enterprises. The **access to knowledge, information and expert assistance** is impeded significantly for the SMEs which puts them in a disadvantageous position compared to big companies. The sector of information and consultancy business services is overall fragmented and uncoordinated which leads to the ineffective use of resources, expert potential as well as existing material and technological base. The consultancy sector is considerably lagging behind in terms of development of business services, which comes as a result of the limited access, poor dissemination and poor quality of this type of services. At the present moment, business centres of the different NGOs act without good coordination, which very often lead to duplication of the efforts in big cities, weak or missing representation in the small towns, weak connection between real needs of enterprises and offered services and limit the possibilities for quick reaction an introduction of new services.

The major efforts for improving the sector are directed to introducing the European practices in Bulgaria. Eight centres, six of which in the frame of the BCCI, have been integrated in the network of the European Information Centres for business support - part of B2Europe Initiative. The biggest coordinated state initiative in the field of business services is the JOBS Project with the Ministry of Labour and Social Policy, supported by UNDP. Since 2000 the network of 39 business centres, including 10 incubators takes care for the development and stabilization of micro and small business in the regions of country with high level of unemployment.

Despite these and other state funded projects, the capacity of existing number and type of organisations and their territorial coverage is insufficient to serve the needs of business. Their actions are also poorly coordinated which leads to inefficiencies in provision of services which often do not correspond to the specific needs of the beneficiaries. Nevertheless, the capacity of such type of organisations and their territorial coverage is insufficient to cover the needs of the business. Their actions are also poorly coordinated which leads to inefficiencies in provision of services which often do not correspond to the specific needs of the beneficiaries.

The main obstacles that hamper improvement of business environment are:

- overregulation in comparison to the EU-25 member states;
- time-consuming and costly procedures for starting business and obtaining licenses;
- difficult exit from the market.
- underdeveloped system for business information and consultancy services for enterprises.

2.1.4.2. Reforming the Administration of Bodies of the Executive Power

Efficient and accountable state administration is a fundamental factor for socio-economic growth. As per the Bulgarian legislation the "**state administration"** consists of:

- the administration of bodies of the executive power:
  - central administration (Council of Ministers; ministries; state agencies; state commissions; executive agencies; administrative structures, created by a legislative act, which have functions in connection with the implementation of the executive power)
  - regional administration

- local administration

- the administration of the other bodies of state power envisaged in the Constitution: the bodies of the judiciary and legislative powers.

The administrative reform initiatives are targeted at all these levels of the state administration. The reform gained momentum in the last years as efficient and transparent administration was set as a government priority. The latest EC Monitoring Report from autumn 2006 has acknowledged the progress achieved in this field. The initiatives should be moved forward in order to keep the momentum.

Major legislative changes have been launched in the last years with notable move forward in the last year[54]. The amendments were related to the priorities of the Government with respect to the administrative reform and with the recommendations made in 2005 Comprehensive Monitoring Report. With the new amendments to the Law on administration a clear distinction between the political and administrative level is made, the policy making process is regulated. An effective internal control on the performance of the administration was set up by strengthening the role of the Inspectorates as internal administrative units for control and prevention of corruption and other legislative violations.

The key issues in the adopted amendments in the Civil Servants' Act (CSA) are:

- Achievement of economic effectiveness in conducting of competitions for civil servants, including centralised competitions for junior experts
- Improvement of the training system as a key factor for improvement of the administrative capacity
- Introduction of options for mobility of the civil servants
- Assuring overall and specialised control for compliance with the CSA. The control is carried out by the Minister of State Administration and Administrative Reform supported by the Inspectorate of the State Administration Directorate in MSAAR.

With the latest amendments to the Law on Administration the Administrative Registry was created as one of the forms for ensuring transparency of the administration through informing the citizens and business. The Law for Access to Public Information settles the delivery of information thus opening the administration to the citizens and business. Nevertheless, still the implementation of the legislation in that filed needs to be speeded up.

One of the key issues in the process of social and economic growth of Bulgaria, which needs more attention, is the fight against corruption. According to Transparency International, Bulgaria is ranked on 55th place – behind all EU-25 member states, but Poland (at 70th place). A Program for transparency in the activity of the state administration and the persons, occupying senior state positions was endorsed. The program proposes concrete measures, which will help overcoming the bad practices and strengthening the partnership between the state institutions, the civil society and the media.

An **anticorruption** campaign has also started. It involves activities, such as: introduction of mailboxes and "hot" fixed lines for corruption cases signals in the state administration, large-

[54] The Laws on the Supplement and Amendment (LSA) of the Law on Administration and of the Civil Servants Act (CSA) were adopted by the National Assembly on 08/03/2006 (State Gazette no. 30/11.04.2006).

scale anticorruption training for all civil servants. More efforts are still needed for the implementation of the Programme.

Progress in improving the investment climate in the country is linked directly to administrative service delivery and satisfaction of citizens and business from the administration. The one-stop-shop principle was already introduced in most of the administrative bodies. At the end of 2005, 71% of the central administration, 100% of the district and 68% of the municipal administration were providing services in one place. However, the services delivery optimisation is needed. The concept of quality management systems is not enough explored. The feedback systems are considered as formal source of information without going further in analyzing them and taking actions accordingly.

The introduction of **e-government** is part of the administrative reform for greater transparency and anticorruption. It calls for less administrative burden, better service delivery and sustainable development – main goals of the Lisbon and Gothenburg Agendas. At the end of 2005 the realisation of the 20 e-services envisaged for introduction was implemented at 56.8% in comparison to 84% for EU-25.

In 2005 the Action plan for the introduction of complex e-services, based on the E-Government Strategy from 2002, has been launched. A considerably high increase of the total amount of documents signed electronically by the administration is accounted – more than 330 500 by the end of December 2005. However, there are still no unified rules among the Bulgarian administration for the provision of e-services. A national model for the e-document flow is also lacking.

The implementation of the policy making process is a key area in the administrative reform. Although there is a good framework for it, a large part of the administrative structures have weak mechanisms for internal and interdepartmental coordination. This leads to duplication of efforts and low efficiency.

Social and economic partners and NGOs are also involved in the administrative reform initiatives. However, their representatives are not always effectively included in the elaboration and adoption of policies. Improvement of their skills for policy making and implementation, acquis enforcement, dialogue and effective partnership is needed to enable these organisations to benefit at the utmost from their interaction with the administration.

An efficient state administration is linked and dependent on the **human resources quality** and competences. According to the latest Report on the Status of the Administration for 2005 the total number of the civil servants is 92 837. The civil servants with university degree represent 64.6% and 85.3% out of that having master degree. However, according to a research by the "Institute for marketing and social studies MBMD", 79% of the civil servants state they need additional improvement of their skills. Only a part of municipal civil servants have received training. Less than half of the employees in the regional administrations have had specialized training. There is a major need for training in European policy and legislation, EU funds project management and implementation. Similar interest is shown toward IT skills, language skills, financial management, legal framework and organisation of the administration. The ***Strategy for Training the State Administration Employees*** adopted with CoM Decision from 2002 and updated with CoM Decision from March 16th 2006 is directed at the enhancement of the professional skills and qualification development of the employees in the administration at all levels.

The establishment of the *Institute of Public Administration and European Integration (IPAEI)* as an executive agency within the Minister of State Administration.[55] It is the biggest organisation for qualification and prequalification of civil servants that offers training for professional and career development and provides compulsory and specialised training. From its start in 2000 until now, 25,000 persons had passed through training prepared by the Institute. Its tasks grew up and new aims have been given such as increase in the education on information technologies and language skills. It is an increasing challenge for IPAEI to ensure that the different types of training are delivered in a standard and qualitative way in line with the modern teaching methods.

A Human Resources Management in the State Administration Strategy was approved by the Council of Ministers in July 2006. This Strategy is a long-term and comprehensive programme, which sets out the scope of activities in the field of human resources management in the state administration in the Republic of Bulgaria.

The administrative reform has main focus on regional and local level administration. A Strategy for Decentralisation 2006-2015 and an Action Plan for its implementation, 2006-2009 was adopted in June 2006 by the Council of Ministers. The Strategy gives the ground of the national policy toward improvement of the territorial governance. It determines the guidelines for responsibilities distribution and financial resources allocation between the central, regional and municipal level with the aim of more efficient and high quality service delivery to the citizens. The National Association of the Municipalities in Republic of Bulgaria is a main partner in the administrative reform at local level.

The launched administrative reform is a step forward contributing to the improvement of the investment climate, social and economic growth. Despite the undertaken initiatives, more efforts are needed for achieving a streamlined, transparent, competent and customer-orientated state administration. Strengthened capacity of the social and economic partners for better cooperation with the administration will lead to improved policy formulation process.

2.1.4.3. Reforming the Judiciary System

The judiciary defends the rights and the legal interests of the people, the legal entities and the state, and is the main jurisdiction authority in the Republic of Bulgaria. The judiciary system comprises of the Court, the Prosecutor's Office and the crime investigation departments. The bodies of the judiciary power according to the Law for Judicial System are the Supreme Judiciary Council, The Supreme Court of Cassation, the Supreme Administrative Court, the Prosecutor General, the Supreme Prosecutor's Office of Cassation, the Supreme Administrative Prosecutor's Office, the National Investigation Office, the courts, the prosecutors' offices, and the crime investigation departments.

[55] stipulated in the Civil Servants' Act

Despite the progress achieved by the **judiciary reform** and the adoption of the Law for the Trade Registry[56], the Law for the Mediation[57], the Law for Amendment and Supplement to the Trade Law[58], and the amendments of the Law for Judicial System, yet certain issues remain to be addressed: the random distribution of cases and the installation of the necessary IT system need to be effectively implemented in national scale; a unified mechanism with well defined criteria for assessing the quality of the magistrates needs to be applied; the practice of out-of-court settlements is not used, there is a lack of specialized trade courts and accelerated procedures for automatically putting into effect; the administrative courts are not established; the statistical system of the courts does not provide objective and transparent assessment of the judges' work.

The judiciary reforms, the large scope of the specialised legal framework, as well as the *acquis communaitaire* require enhancement of the professional qualification of the judges, as well as continuous training in newly adopted legislation. The administrative staff in the courts, as well as experts and assessors, should be given the opportunity to attend specialised training courses. Such topics include cooperation between the national courts and the Court of Justice of the EC, fight against fraud affecting the European Community financial interests, and fight against organised crime.

Following the amendments to the Law for Judicial System (July 2003), the Magistrate Training Centre was transformed into a National Institute for Justice (NIJ), under the financial and organisational management of the SJC. The NIJ organises and carries out trainings for Bulgarian magistrates and court officials. The Institute is involved in the preparation and distribution of educational materials, documentation and literature amongst a large part of the magistrates and court officials.

The judiciary reform requires active policy and practical steps in order to provide two fundamental elements:

- effective and timely functioning of the judiciary system;
- motivated, independent and competent judges, magistrates and other court officials.

2.1.4.4. SME[59]

During the transition period the SMEs have gradually established themselves as an important factor in the Bulgarian economy. In 2003 they generate 79% of the employment provided by the private non-financial enterprises in sectors from C to K of the National Classification of Economic Activities, compared to 76% in 2002. The contribution of SMEs to the gross value added (61.3% of the GVA, created by the private non-financial enterprises in sectors from C to K in 2003) is also steadily increasing. According to estimations the real input of private SMEs is about 43% of GVA of the economy and about 34% of GDP. The sectors where SMEs operate predominantly are the processing industry and trade.

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[56] The Law for the Trade Registry (State Gazette no. 34, 25.04.2006).
[57] The Law for Mediation (State Gazette no. 110, 17.12.2004).
[58] The Trade Law (State Gazette no. 59, 21.07.2006).
[59] SMEs are private non-financial enterprises in specialized sectors from C to K of the National Classifier of Economic Activities (NACE.BG 2003): micro enterprises (1-9 employees), small enterprises (10-49 employees) and medium-sized enterprises (50-249 employees).

Despite the positive development in last years **domestic SMEs are still lagging behind the EU-25 SMEs in terms of labour productivity**.[60] On the one side this is a result of the use of outdated technologies in production, leading also to high energy intensity of the produced output. 45%of the companies work with equipment more than ten years old and close to three-fourths (72.8%) have equipment that is more than 5 years old. SMEs declare that they need serious investment funding, but the allocations for investments in new technologies are insufficient - the average annual share (in total company revenues) of the funds allocated by the SMEs for technological renovation in the past three years amounts to 18.04%[61].

On the other hand the low quality of management strategies and the low level of introduction of innovations in the production process also influence negatively this indicator - only 18.5% of the managers believe their competitive advantage comes from technological innovation. To 60% of small businesses competition is essentially price-related.

In 2006[62] practically all enterprises in Bulgaria are computerised; 75-80% have access to internet allowing around 27% of employed to have access to internet at their workplaces and 24% of the enterprises have web-pages[63]. In 60% of enterprises computers are used mainly to facilitate office and accounting activities. Only 10% of enterprises use management information systems, production automation systems or client relation management systems. Only 6.6% of the enterprises use electronic resource planning systems. This is due to the domination of traditional industries and the specialization in low technology segments of the technology sectors in Bulgaria[64].

Currently 1.2% of the enterprises use Internet for electronic trade (2.1% for EU-25). However, the development of electronic trade and electronic business in the country is growing, and the framework for e-trade development has been improved by the adoption of the Law on e-Trade. It settled the information society service providers' obligations and the rules of the e-trade announcements via Internet.

The participation of Bulgarian SMEs in the international trade is also relatively low, which is an indication of their low labour productivity. In 2003 only 20% of the revenues of the medium enterprises and respectively 7.8% and 5.8% of the revenues of the small and micro enterprises come from an export activity. A major barrier for the SMEs intending to enter the external markets is **the lack of certification of the production**. Until 2003 only 842 enterprises have received ISO 9001:2000 quality management systems certificates and only 17 enterprises ISO 14001 environment management systems certificates.

The major source of financing for the SMEs is the banking sector as **the alternative forms of financing are still underdeveloped**. During the last few years the conditions for receiving credit for well established on the market SME have improved with both interest rates and

[60] Bulgarian SMEs produced in 2003 18.3 times less value added per one employee compared to Europe – 19. Europe 19 includes EU-15 + *Norway, Lichtenstein, Island and Switzerland.*
[61] National survey of the Ministry of Economy and Energy "Bulgarian SMEs and their preparedness to participate in EU Structural Funds' absorption" – June-July 2006, conducted by "Vitosha Research".
[62] Vitosha research, 2006
[63] In comparison 90% of the enterprises in EU-25 were connected to the Internet and 58% had websites in 2004, The 2005 Information society benchmarking report, European Commission, 2006
[64]Bulgaria 2010: Economic Challenges. Report of the President of the Repubic of Bulgaria, C., 2005.

collateral requirements having decreased. Still, **the start-ups face considerable problems in obtaining the resources necessary to launch businesses**. The underdeveloped market for alternative forms of financing is one of the main reasons for the difficulties of the newly created enterprises. Most of the banks require a history of at least 3 months of economic activity from the firm in order to grant credit. On the other side, according to a survey of the World Bank, Bulgaria is ranking just at 80th place in the world on the indicator for starting businesses. The major difficulty presents the required minimum initial capital for starting business amounting to 104.2% of the per capita income in the country (49.1% in Europe and Central Asia).

The SMEs in Bulgaria are still characterised by low labour productivity and are considerably lagging behind EU-25 in this respect. Their development is mainly hindered by:

- Outdated technologies in production, leading also to high share of energy in the production costs;
- Low introduction and use of ICT;
- Low level of certification of SMEs production, which impedes their exports capability;
- Difficult access to finance for start-ups; underdeveloped alternative forms of financing;
- Insufficient coverage and quality of consultancy and information services, as a characteristic of the overall business environment.

2.1.4.5. Innovation

The low level of enterprises' innovation activity is among the main reasons for their low labour productivity. The Bulgarian companies participate far less in the financing of research and development activities (their share accounts for 20.4% of the total expenditures for research and development for 2003), while the EU-25 average is 64.6%. The low innovation activity is especially acute among the SMEs. 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. The share of SMEs carrying out R&D activities and working in the field of computer science, architecture and engineering sciences represents 30.1% of the total number of innovative enterprises or 3.4% of the total number of enterprises, which is considerably lower than in the EU-25 countries. The investments in new products, technologies and their implementation, associated with a higher risk and **the lack of financial instruments like guarantee and venture capital funds for innovation activities, are considerable barriers for the enterprises**. Most of the entrepreneurs do not regard the introduction of innovations as a source of increased competitiveness.

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. Bulgarian innovative SMEs also rarely cooperate with other SMEs for implementation of R&D projects.

Furthermore, the **available pro-innovative infrastructure in the country is insufficient**. There are a few structures supporting the link between the business and research entities. The

National Science Fund operated by the MES allocates funds to scientific institutions, academia representatives, or consortiums of those with business representatives on competitive basis. The funds are granted for various research projects and case studies, designed to add value to the existing studies or solve problems of competitiveness in Bulgarian enterprises. The National Innovation Fund operated by the Ministry of Economy and Energy and the BSMEPA finances research and development activities with the ultimate goal of introduction of innovations in the economy and thus it further develops the achievements of the National Science Fund.

The non-government sector is also involved in innovation-related activities. The European Innovative Centre, created with the support of EU and Foundation “GIS Transfer Centre” provides information, skills and various resources to SMEs during EU accession process. The Foundation “GIS Transfer Centre” works on projects with the Bulgarian Academy of Science (BAS) and the SMEs. Currently it has experimentally introduced 18 technological centres (6 of them within BAS and 12 outside the structures of BAS (2 of them outside Sofia).

The Innovation Relay Centre enhances technology and know-how transfer for Bulgarian enterprises, as well as information on European R&D programs. The Applied Research and Communication Fund is a very well established organization in the field of preparing and disseminating analyses related to numerous innovation, technology transfer and administrative simplification matters.

The solution to the above stated problems is the task of the Innovation Strategy developed by the Ministry of Economy. The Strategy outlines the frames for future actions in the process of strengthening the links between science and business with the aim to achieve wider application of modern scientific solutions in the real economy. The most important measures which should be undertaken in Bulgaria are systematised in 4 directions:
1. Strengthening the institutions, companies and organisations operating in the field of development, transfer and application of new technologies (know-how) which form the national innovation system;
2. Encouraging the cooperation between the R&D sector and the real business and their cooperation with the Ministry of Economy and Ministry of Education and Science;
3. Establishing a well-functioning mechanism to coordinate the implementation of the Innovation Strategy;
4. Ensuring the financing for executing the measures from the Innovation Strategy.

The low labour productivity of the Bulgarian enterprises is among other factors influenced by the low innovation activity, which is a result of:

- Poor cooperation between business, science and other institutions in innovative projects;
- Insufficient pro-innovative infrastructure in the country;
- Lack of financial instruments for innovation activities.

2.1.5. Territorial Development

2.1.5.1 Inter-regional Disparities

The Bulgarian Government established six planning regions in 2004 to conform to EU regional policy requirements, modified in 2006 to reflect country developments and in accordance with the provisions of EC Regulation No. 1059/2003. The six planning regions are the basis of planning, programming, implementation, and monitoring of the Structural Funds:

Figure: Eligible statistical regions (NUTS II)

1. North-western planning region;
2. North-central planning region;
3. North-eastern planning region;
4. South-western planning region;
5. South-central planning region;
6. South-eastern planning region.

All Bulgarian NUTS II regions have a per capita Gross Domestic Product ("GDP") of less than 75% of the Community average. Therefore, they are all eligible for funding from the Structural Funds, under the "Convergence" objective, as specified in Council Regulation 1083/2006.

The statistics indicate that Bulgaria has relatively low regional disparities as compared to the other EU member-states and the other candidate states. Despite the different dynamics in the development of the regions during the individual years of that period one can clearly distinguish the higher growth rate of the South Western Planning Region (including the capital, the city of Sofia), as well as that the disparities among the rest of the regions are considerably smaller (Table 1). Interregional disparities in absolute terms are relatively small compared to the EU average. In relative terms however, they are at levels comparable with those in Czech Republic, Slovakia, Belgium and France.

Table: Key regional development indicators in Bulgaria

NUTS 2 regions	Area 2005 thous. km^2	Population 2005		Arable land 2005 (dca / capita)	GDP 2004		GDP per capita 2004		Unemployment rate 2005	FDI per capita USD	Number of districts	Number of munici-palities
		persons	% of the national total		mln. lv.	% of the national total	lv.	% of the national average				
Bulgaria	**111.0**	**7718750**	**100.0%**	**6.45**	**38275**	**100%**	**4959**	**100.0%**	**11.46%**	**905**	**28**	**264**
North Western	19.1	957947	12.4%	11.38	3729	9.7%	3893	78.5%	17.65%	250	5	51
North Central	14.8	949401	12.3%	8.98	3772	9.9%	3973	80.1%	13.70%	357	5	36
North Eastern	14.6	996831	12.9%	8.58	4360	11.4%	4374	88.2%	13.71%	669	4	35
South Eastern	19.8	1134741	14.7%	8.06	5061	13.2%	4460	89.9%	10.87%	647	4	33

South Central	22.4	1560975	20.2%	4.73	5986	15.6%	3835	77.3%	12.25%	320	5	57
South Western	20.3	2118855	27.5%	2.49	15367	40.1%	7252	146.3%	6.34%	2125	5	52

The major growth-carrier therefore is the South Western Planning Region, which runs ahead of the national average growth rates. The main factor for the higher GDP level of the region is the capital city Sofia, in which a significant part of the national economy is concentrated. The rest of the planning regions demonstrate approximately equal growth rates, which are about 1% below the national average.

The processes of population ageing and population drop continue and aggravate in all the planning regions. The most unfavourable development of the demographic processes has been noted for the North Western Region and the North Central Region. Only in the South Western Region a certain increase by an average of 0.17% has been noted during the period 2001-2005, due mainly to the increase of the population of the capital city. The natural population growth since 1990 has been negative in all the planning regions. The highest negative values has been sustained in the North Western Region (-11.1‰ – 2005), which is almost two times higher than the national average (-5.4‰), followed by the North Central Region (-7.7‰). As compared to the EU member-states, Bulgaria manifests definitely negative values in terms of the indicator population growth, matching those of Lithuania, Latvia, Estonia and Hungary.

Significant disparities in the employment and unemployment rate have been noted at regional level, especially at the lower territorial levels. As regards employment, a trend of smooth increase has been observed in recent years. The employment level is the lowest in the North Western Region and the highest in the South Western Region. In all the regions, with the exception of the South Western Region, the share of employment in agriculture is the highest which is typical for the still underdeveloped regional economies. The employment level in Bulgaria ranks among the lowest as compared to the rest of the EU member-states despite the increase in the employment rates in the recent 2-3 years. The processes of social development and cohesion demonstrate the strongest disparities in terms of unemployment rates. Comparisons with the European regions will identify Bulgarian regions, with the exception of the South Western Region, as having the most unfavourable indicators for total, long-term, women's and youth unemployment. The North Western Planning Region has the worst deteriorated indicators in this respect with unemployment level that is 1.5 times above the national average (2005).

Dispersion of investments in fixed assets by regions is extremely uneven. The South Western region can be distinguished with the highest investment expenditures – almost half of the national total, which to a certain extent is because of the fact that a large number of companies operating in the industrial and services sectors are clustered within the capital area. Investments in the rest of the regions are relatively low and do not create conditions necessary for economic growth and employment. About 60% of the foreign investments in the country are concentrated in the South Western planning region, including about 50% in the capital city, which demonstrates the tendency of foreign investors' preferences for areas, which were been strongly urbanized, with well-developed infrastructure, qualified human resources and easy access to services and manufacturing facilities.

There are significant regional disparities in terms of road infrastructure development. According to the National regional development strategy North-West and South-Central planning regions are below national average in terms of quality and quantity of roads. As a result of the uneven distribution of roads the East-West direction is much better developed than South-North which makes mobility from East to West easier. Uneven road distribution undermines transport accessibility of the population to services, provided by centres (health care, education, culture, etc.). In the Southern part of Bulgaria more than 80% of the population has access to these services within 90 minutes while this indicator for the Northern part of the country is 60%.

The water supply infrastructure is of low quality and needs high levels of investment to reduce leakage that amounts to more than 60%. 21.6% of the population is subject to water rationing. The situation is critical in the North-West region where 45.5% of population do not have regular water supply.

The North-West planning region is lagging behind the other five planning regions in terms of economic activity and quality of infrastructure. The South-West region ranks first. The leading position is mainly due to the capital city of Sofia, concentrating the main part of economic activity, schools and universities, and government administration. Excluding Sofia from South-West region leads to relatively small inter-regional disparities. The intra-regional disparities in Bulgaria remain much more definitive of economic development.

2.1.5.2 Urban and Rural Territorial Dimensions

Urban development and economic growth are sustainable when they go hand in hand with efforts to reduce poverty, overcome social exclusion and tackle environmental problems. In Bulgaria cities encompass significant disparities in economic and social opportunities between different groups of citizens. This situation damages the attractiveness, competitiveness, social inclusiveness and safety of cities.

With some minor exceptions the population in almost all settlements in the country is diminishing and not only in the villages, but also in the cities, including the large cities. This is an indication for a general drop in urbanisation in both quantitative and qualitative respect. The few exceptions deserve a more detailed analysis and additional support through the instruments of targeted state policy.

The existence of large cities in certain areas is an opportunity to make use of their potential and to spread their positive impact over their hinterlands. In the peripheral areas, in the absence of large cities, promotion of the existing medium-size and small cities is necessary through a targeted state policy in order to help them compensate the absence of large cities through their own accelerated development.

The state of repair of the networks of technical infrastructure and public works does not meet adequately the urban requirements and obstructs the functioning of the cities. The physical environment and residential buildings are heavily depreciated. Concerted efforts on a large scale in this field are urgently needed by Bulgarian cities in general. At the same time sub-urban areas and inner-city neighbourhoods with poor quality of community housing need up to date cadastre mapping with accurate property registration and targeted policies for improving the living conditions of the residing population[65].

Industrial locations in the cities occupy huge areas. However, they often lack public works and feature obsolete and unattractive buildings, which would be difficult to upgrade and be re-used. Unless they are made more attractive, the potential localisation of future production facilities with improved technologies will be sought somewhere else, which will not only leave large areas in a depraved state, but also would negatively affect the growth of areas in the proximity. The problems can be resolved by either restructuring and renewing the manufacturing areas in the cities to provide space for up-to-date production facilities, or cleaning up these spaces to allow far neglected urban needs, such as green areas and public services, on which the policy of urban development should focus.

The state of repair of the public buildings for culture, education, health care is lamentable. Unfinished construction of cultural facilities (museums, libraries, scientific centres) in the cities is a grave problem for municipalities who fail to expose and present the cultural assets properly. Possibilities should be sought for completion of unfinished municipal sites in line with the current needs of the cities. In addition, deprived and isolated neighbourhoods, especially these populated with Roma minorities, appear as obstacle for urban development and generate problems related with the housing policy and the urban safety. The multi-family buildings constructed in 70s and 80s of the last century are obsolete and need sanitation. These are important issues to be tackled in order to sustain development and promote social inclusion.

Development of the transport system is essential for generating sustainability conditions and linkages between cities and transformation into regional crossroad centres. Mobility within and between urban centres is of vital significance for life and work and its quality, accessibility, and efficiency is a determinant of economic competitiveness. In particular, the connectivity between urban centres and their hinterlands remains one of the most practical ways in which to offer opportunities to these areas.

Although the interregional disparities in the country are not that pronounced, there are **significant intraregional disparities especially with regard to urban-rural dimension**.
According to the OECD definition, there are 20 predominantly rural NUTS 3 regions, seven - intermediary rural regions and only one predominantly urban region - the capital Sofia[66]. Thus, predominantly and intermediary rural regions cover 98.8% of the territory and account for 84.3% of the population of Bulgaria[67].
The national definition for rural areas, used under SAPARD plan and to be used in the next planning period for the NSPRD and OP "Regional development", defines rural areas as municipalities, in which no settlement has a population over 30 thousand people. According

[65] In this area, for example, with respect to minority integration in March 2006 the Bulgarian government adopted a National Program for Improving the Living Conditions of Roma in the Republic of Bulgaria (2005 – 2015).
[66] In order to achieve compatibility with the CMEF data, the population density in 2000 is used for the designation of the NUTS 3 regions. If 2004 data is used, the number of predominantly rural NUTS 3 regions is 21.
[67] The analysis below is based on 2004 NSI regional statistical data (MAF calculations), unless stated differently.

to this definition, 231 municipalities in Bulgaria are classified as rural. The rural areas represent 81% of the Bulgarian territory and 42% of the population.

GDP per capita in the predominately and intermediate rural areas is 2.2 times lower than in the predominantly urban areas. At the same time, 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.

Development of the rural areas is hindered by the negative demographic tendencies which are much sharper as compared with the urban areas. In 2004, the registered rate of rural population decline was -10.4‰ compared to -1.5‰ of urban. The major contributor of population decline in rural areas is the negative natural growth (-7.5‰ in 2004) caused by the significantly higher death rate of rural population, while the birth rates are similar. It should be noted that the registered rate of infant mortality in rural areas is 14.6% versus to 8.9% in urban caused by the low living conditions and limited access to specialised health care services in rural areas. The migration from rural to urban areas contributed to 2.9‰ decrease of the rural population in 2004. Moreover, only 57% of the population in the rural areas is in working age, while in urban areas the indicator reaches value of 65%.

Indicators	**2001**			**2005**		
	Total	**Urban**	**Rural**	**Total**	**Urban**	**Rural**
Age dependecy ratio - %	**46.8**	**39.8**	**65.8**	**44.5**	**37.5**	**64.0**
Crude birth rate - ‰	**8.6**	**8.9**	**8.1**	**9.2**	**9.6**	**8.1**
Total fertility rate	**1.24**	**1.15**	**1.55**	**1.31**	**1.24**	**1.56**
Crude death rate - ‰	**14.2**	**11.5**	**20.4**	**14.6**	**12.0**	**20.8**
Infant mortality - ‰	**14.4**	**12.9**	**18.2**	**10.4**	**8.9**	**14.6**
Life expectancy (years)	**71.8**[68]	**72.1**	**70.8**	**72.6**[69]	**72.9**	**71.6**

Source: NSI-Population statistics 2005

The educational status of rural population is significantly lower than that of urban, which impedes faster development of the rural regions. The illiteracy rate in rural municipalities is two times higher than in urban areas and stands at 1.7% of the population between 25 and 64 years of age. Almost half of the population in rural areas have no secondary education, compared to 20% in urban areas. Only 5.5% of the inhabitants of the rural areas have university education, while some 20.6% of the population in urban areas have such.

The lower educational status of the rural population, along with the limited alternative forms of economic activity, predetermines the higher unemployment rate and lesser activity rate. In 2004, the jobless rate in the rural areas reached 19% as compared with almost 10% in the urban areas, while the activity rate stood at 42%, i.e. far below the national average.

The poor condition of the basic infrastructure in the country is especially pronounced in the rural areas, thus also limiting the development possibilities in them. A special problem is the poor quality of third- and fourth-class roads, and inner roads. The Rural Development Needs Survey, conducted by the World Bank in 2004, indicates that nearly two-thirds of the rural

[68] Data are for the period 1999 - 2001
[69] Data are for the period 2003 - 2005

residents express discontent with the quality of inter- and intra-municipal settlements roads and half of them are not satisfied with the quality of roads to agricultural fields. Moreover, some of the main problems of the settlements in rural areas are associated with the systems for sewerage treatment and waste collection, which are missing in 70% of the settlements.

According to the first specialised statistical survey on using of ICT in Bulgarian households, conducted in July 2003, the Internet access and usage in Bulgaria is still very low. The relative share of the Bulgarian households which have access to Internet is 5.2%. There is a significant intraregional disparity in terms of the Internet access in urban and rural areas - 7.2 % of the households in urban areas compared to 0.8% in rural areas.

This brings the need for assisting the development of IT communications through public financing in order to decrease the territorial differences in respect to access of e-services.

Households' answers	Total Structure (%)	Urban residence Structure (%)	Rural residence Structure (%)
Yes	5.2	7.2	0.8
No	92.2	90.6	95.7
I don't know	2.6	2.2	3.5
Total	100.0	100.0	100.0

Source: NSI-Use of Information and Communication Technologies in Bulgarian Households, 2003

There is well developed network of kindergartens and schools in rural areas. The main problems are related to the lack of financial sources for rehabilitation and maintenance of buildings of rural kindergartens and schools. In addition, equipments and facilities especially in general schools and secondary vocational schools in rural areas are poor/outdated and significant investments are needed to establish modern teaching methods and technologies which will allow improving the quality of education in rural areas. The access to health care services in rural areas is good. However, the majority of population living in rural areas has a limited access to specialised health care services which are available in municipal towns. The problem is significant especially for the chronically ill patients and for older people. The opportunities for leisure, recreation, culture and sports in rural areas are significantly limited, which also impede development of human capital and retention of young population in rural areas.

In almost all regions and districts in the country the typical "centre-periphery" contrasts are observed. Border territories are most seriously affected as well as the disconnected rural areas. The public utilities, housing and technical infrastructure does not meet adequately urban requirements and obstructs the functioning of the cities, while significant disparities in economic and social opportunities between different groups of citizens, especially minority groups, additionally damages the attractiveness of urban and suburban areas. Industrial locations in the cities occupy huge areas, although they often lack public works and feature obsolete and unattractive buildings, which would be difficult to upgrade and be re-used. The condition of public buildings for education, healthcare and culture is lamentable.
GDP per capita in the rural areas is much lower than in the urban areas. There are significant disparities between rural and urban areas in terms of demographic trends, economic activity, access to healthcare and education.

2.1.5.3 Local Growth Potentials

Bulgaria is one of the richest countries in Europe with regards to the biodiversity consisting of about 3600 varieties of higher plants, more than 3660 varieties of lower plants, 3500 varieties of mushrooms, 709 varieties of lichens, 700 types of spinal animals, more than 400 types of birds, 94 types of mammals, about 27 000 types of invertebrates. The endemic species consist 5% of the plants represented, 8.8% of the invertebrates, and 4.3% of the insects.

The rich biodiversity is a result of both favourable natural conditions and different, in comparison with other EU countries, impact of the human management (imbalanced industrialization and urbanization of the country, preservation of traditional extensive farming in many areas, large and historically permanent forests). At present the number of protected areas in Bulgaria is 858 by the end of 2004, with a total surface of 544 394.9 ha. With nine sites of World Heritage importance – seven cultural (included in the UNESCO world culture heritage list) and two natural; thousands of local cultural and traditional attractions, and more than 5% of the national territory in protected area status, Bulgaria has an attractive network of natural and cultural resources. Moreover this resources diversity is concentrated making many areas accessible within short periods of time. There are over 30,000 historic monuments in Bulgaria, 36 culture reserves, 160 monasteries, 330 museums and galleries.

In 2003 Bulgaria started the development of the NATURA 2000 network and the designation of the sites. This process is almost finalised at present. For both special protected areas (SPA – Birds directive) and for the sites of Community importance (SCI – Habitat directive) the necessary inventarization process is completed and the necessary maps and standard descriptions are prepared. With regards to the SPA initial proposal was already subject of discussion within the National Council on Biodiversity, on the basis of which it was proposed to the Minister of Environment and Water to present for approval (by the Council of Ministers) a total of 121 SPA covering about 21% of the country's territory, out of which 109 SPA, covering 16% of the state territory, are not subject to further discussions. With regards to the SCI, the initial proposal includes 281 SCI (36% of the country). It is expected that the National Council on Biodiversity shall optimise the spread of the SCI through bringing the total area of about 25% of the country's territory.

Bulgaria has underdeveloped eco-tourism infrastructure in the nature areas specially protected to preserve biodiversity. In order to protect this heritage, actions are needed for preservation of the natural habitats of rare species in the long-term perspective; increase of the protected areas and establishment of mechanisms for their management (Management Plans); formulation, approval, and implementation of Action Plans in order to protect certain species that are extremely endangered from extinction, especially endangered species of European/global significance; establishment and development of protected zones NATURA 2000 network and environmental public awareness campaigns.

Bulgaria has rich cultural, historic heritage and biodiversity which allow developing alternative forums of tourism based on the local regional potentials and strengthens. Development of alternative forms of tourism such as rural, cultural, spa and eco could diversify regions economy and provide additional sources of income especially in rural areas which are characterised with lower quality of living\living conditions compared to urban areas due to lack of alternative sources of income outside of agriculture, poor quality of basic infrastructure and public services. In addition, development of alternative forms of tourism should allow utilising the rich biodiversity, historical, and cultural heritage and should ensure sustainable growth and development of the regions.

Bulgaria has a rich cultural heritage and biodiversity. The biodiversity needs to be preserved and protected as it represents a valuable asset that can be adapted and utilized to increase the economic potential of the country and its specific areas. Bulgaria has a good potential to develop alternative forms of tourism (rural, cultural, etc.). Alternative tourism could diversify regions' economics and provide additional sources of income for many rural areas.

2.1.6. Lessons Learned from the Pre-Accession Period

Bulgaria has been a beneficiary of three major pre-accession instruments – Phare, ISPA and SAPARD, as well as of most Community Programmes and Initiatives.

The process of utilisation of funds under the pre-accession instruments has outlined few main conclusions:

- Need for legal changes to guarantee: - better internal coordination; - clear separation of responsibilities; - clearer, faster and undisputable process of land acquisition for construction of big infrastructure projects; - stability of qualified staff;
- Need for administrative changes - setting up new administrative structures at central, regional and local level, entirely involved in the management of EU funds;
- Need for strengthening institutional and administrative capacity – develop human resource management policies and provide relevant training for civil servants and judges through the Institute for public administration and European Integration and the School for magistrates; - organise and conduct wide public information campaigns both about the possibilities and about the outcome of EU funded projects.

The Ministry of Finance has been assigned to act as a coordinator for the overall management of EU pre-accession funds and will continue to play this role. The National fund within the Ministry of Finance has gained experience with the management of the SAPARD programme as the Certifying authority and will continue to implement these functions for the SCFs as well.

Project design and tender documentation preparation have been a major challenge in the pre-accession period. Timely planning and quality tender documentation are vital for the successful implementation of projects at all levels. This implies qualified and trained staff familiar with the specific EU funds requirements to be available in the respective ministries and agencies. Monitoring and control mechanisms have been introduced and broad representation of socio economic partners has been involved in the process so far. Additional efforts for training municipal and regional authorities as well as civil society representatives on project cycle management will be made in the next programming period.

2.2. SWOT Analysis

Strengths	Weaknesses
<u>General macroeconomic environment</u> • Stable macroeconomic environment • Reliable banking system and access to banking credit • High real investments growth rate	**<u>General macroeconomic environment</u>** • Low GDP per capita • Low level of labour productivity • High energy intensity of the economy • Limited local primary energy resources and import dependency • Underinvestment in infrastructure
<u>Basic infrastructure</u> • High density of transport network • Relatively high degree of compliance of Bulgarian transport regulations with those of the European Union • Low level of water pollution, good territorial coverage of water supply infrastructure • Emissions of greenhouse gases are lower than the allowance of the Kyoto Protocol • Advanced stage of energy sector reform and restructuring	**<u>Basic infrastructure</u>** • Poor condition of the transport infrastructure • Relatively closed transport system with insufficient transport links with neighbouring countries • An important share of environmental infrastructure is incompliant with EU requirements (waste management, sewage and waste water treatment) • High level of leakage in water supply networks • Inadequate systems for waste management and large number of polluted terrains • Low level of digitalisation of the fixed telephone lines • Low share of use renewable energy resources in gross energy consumption • Insufficient coverage of gas supply network and household gasification
<u>Human resources</u> • Steady growth of employment ratio • Ongoing reform of the social protection system (including increasing the retirement ages) and improved coordination of the employment and social protection policies • Good territorial coverage of the social infrastructure • Good level of educational background	**<u>Human resources</u>** • Unfavourable demographic tendencies (ageing, depopulation) • Discrepancy between qualifications of the labour force and labour market needs • High long-term unemployment rate; low economic activity rate • Low level of participation in life long learning • High unemployment among vulnerable groups • Outdated and obsolete technical equipment of educational, health, and other social infrastructure • High dropout rate from educational system, especially among vulnerable groups • Underdeveloped structures for preventive treatments and rehabilitation in the health sector • Low level of investments for ensuring occupational safety and health • Insufficient level of access to health and long-term care services • Inadequacy of the infrastructure for the needs of disabled people

Entrepreneurship and good governance • Increasing contribution of SMEs to GDP growth and employment • Ongoing reform of the state administration and judiciary system • Advanced establishment of central and regional structures for the EU funds management • Good level of educational background within the state administration	**Entrepreneurship and good governance** • Existence of administrative procedures impeding the possibilities for doing business • Underdeveloped mechanisms for support of the SMEs • Use of outdated technologies and low adoption of ICT by the SMEs • Weak intra- and inter-departmental coordination in the administration • Lack of standards and performance control in delivering services in the administration and in the judiciary system • Weak enforcement of the legislation • Underdeveloped e-government • Low efficiency in the human resources management in the state administration
Regional development • Preserved natural environment with rich biodiversity, cultural and historical heritage • Relatively balanced network/ spatial distribution of urban and rural areas	**Regional development** • Significant intra-regional disparities • Underdeveloped regional and local infrastructure networks • Low quality of working and living conditions, basic infrastructure and public services • High dependency on agriculture in rural areas and lack of alternative sources of income • Deteriorated state of residential buildings in big cities • Obsolete educational, healthcare, social and cultural facilities • Partially developed national environment network of protected areas

Opportunities	Threats
General macroeconomic environment • Modernization of the production technologies based on steady growth of investments • Increased investments in high value added productions • Increase of trade with the EU • Decreasing of energy intensity of the economy, improvement of the energy effectiveness and use of alternative sources	**General macroeconomic environment** • Exporters will face increased external competition • Low absorption of EU Funds
Basic infrastructure • Efficient participation in the Common European Market for transport services • Efficient use of support from the EU for modernisation and construction of the transport and environment infrastructure after the EU accession • Accelerated economic growth based on well developed transport system • Increased transit transport flows utilising favourable geographical location • Improved efficiency and management of the water sector • Excellent natural gas transit location in SEE • Effective participation in the common energy	**Basic infrastructure** • Delay in the implementation of big transport, energy and environment projects • Local resistance to the building of equipment for waste treatment • Deterioration of basic infrastructure due to floods and natural disasters

market and the Energy Community • Potential growth of renewable energy resources leading to reduced energy dependency and environmental protection	
Human resources • Better qualification of the human resources through development of life-long learning and vocational training • Matching skills and demand on the labour market • Improvement of human resource mobility and adaptability • Strengthening the link between education and business • Introduction of modern HR management practices	**Human resources** • Emigration of young and highly qualified working force • Marginalisation of vulnerable groups • Underinvestment in human resource development as well as in development of inclusive society
Entrepreneurship and good governance • Increase of SMEs' efficiency • Building a strong link between the business, science, education and the non-governmental sector to boost the R&D and innovation activity • Application of good European practices in the process of policy-making and evaluation of existing policies and legislation • Better administrative services • Development of public-private partnerships • Improving the cooperation between state administration and socio-economic partners	**Entrepreneurship and good governance** • Inability of large number of enterprises to meet the EU Common market obligatory requirements • Inability of Bulgarian enterprises to integrate in global e-business networks • Weakening of the state administration due to "brain drain" and high turnover • Delay in the judicial and administrative reform, including e-government
Regional development • Boosting regional development by European cross-border, trans-national, and trans-regional cooperation • Utilisation of natural, historical, and cultural heritage for stable growth and development of the regions • Creation of employment outside the agricultural sector in the rural areas	**Regional development** • Delay in the process of decentralisation at district and municipal levels. • Underdeveloped institutional partnership and inter-municipal cooperation • Inadequate capacity (institutional, financial and technical) of district and municipal administration and local actors to prepare and implement development projects

3. STRATEGY OF OPERATIONS AND NATIONAL PRIORITIES

VISION

The strategy of the Bulgarian NSRF sets the major policy objectives and priorities of development during the programming period 2007-2013. The vision of the strategy is based on an extensive analysis of the country's development disparities, as identified in the National Development Plan 2007-2013 and in the National Reform Programme. The Bulgarian vision for development as an EU member state is:

BY 2015 BULGARIA TO BECOME A COMPETITIVE EU COUNTRY WITH HIGH QUALITY OF LIFE, INCOMES AND SOCIAL AWARENESS

The principles of sustainable development and the key EU objectives for development and cohesion as defined in the EU Council Conclusions of March 2005 form the basis and focus the intervention activities of Bulgaria in 2007-2013 planning period:

"Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital.

To achieve these objectives, the Union must mobilise all appropriate national and Community resources – including the cohesion policy – in the Strategy's three dimensions (economic, social and environmental) so as better to tap into their synergies in a general context of sustainable development"[70]

The long term vision for Bulgaria combines two specific medium-term **goals** for the duration of the 2007-2013 programming period. These have been developed, based on the EU priorities and are in line with the Community Strategic Guidelines (CSG)[71]:

- Strengthen the competitiveness of the economy to achieve high and sustainable growth;
- Develop human capital to ensure higher employment, income and social integration.

The **first goal** targets successful real convergence by reducing the gap between the level of GDP per capita in the EU and Bulgaria. At the same time it aims at ensuring that the benefits of growth are spread across the whole territory and all the regions of Bulgaria and that income growth is not at the expense of the environment and social conditions. The focus is to enhance the necessary base for the development of a competitive economy, increasing the capacity both to innovate and to use new technology. The Bulgarian policy emphasises as key factors for sustainable development the need to develop the necessary basic infrastructure, to modernise and restructure the industrial and public services sectors not only in terms of technology, but also in terms of quality and efficient management of resources. Special attention will be given to ICT, such as the broadband based communication technologies, which will help stimulate growth within the more detached communities and reduce the

[70] Presidency conclusions, European Council, March 2005.
[71] COM(2005) 299, published on 15 July 2005.

population drift towards the major cities, as well as investment in environmentally friendly technologies. Innovation is an important factor for improving competitiveness on the foreign goods, service, and capital markets as well as a way to improve the environment in the country. In addition, creating a "smart" administration is a fundamental requirement for economic growth and better jobs. This calls for further improvements in legislation enforcement, policy design and implementation with all relevant stakeholders, increased transparency, simplified regulatory environment for businesses and efficient public services delivery.

The delivery of the first goal requires the improvement of the image of the country and its regions as an attractive place to invest and work, ensuring the accessibility of an efficient and safe transport infrastructure and targeting the funds at the environmental infrastructure in order to enhance the synergies between the environmental protection and the economic growth.

The **second goal** aims at increasing employment and productivity, quality and competitiveness of the labour force, raising the employment rate, reducing unemployment levels, increasing living and health standards, improving the social inclusion of the disadvantaged, minorities and vulnerable groups. In addition, the growth strategy implies the need for investment in education, training, acceleration the transfer of new technologies and building links between the scientific, educational and productive sectors. The country's policy will be orientated towards guaranteeing the adaptability and mobility of the work force.

Achieving the policy objectives that are defined in the Integrated Guidelines for Growth and Jobs (2005-2008) as well as the sustainability principles requires continuous commitment to human capital development, including science and innovation, as well as to social inclusion and equal access to and quality of social infrastructure, as it complements the single market and improves the standard of living.

The combined actions by the Government, with the assistance of the EU Cohesion Policy, should translate into the following aggregate target levels by 2013.

Objective-level indicators:

Annual average GDP growth rate for the period	5.73%
GDP per capita as per EU average	51.2%
Employment rate (% population aged 15-64)	64%
Unemployment rate (% labour force 15+)	7%

THE TWO GOALS: AN INTEGRATED APPROACH TO GROWTH AND EMPLOYMENT

The Structural Funds can provide a significant contribution to growth and thus to the rate of convergence of the Bulgarian economy to the EU average in GDP per capita, but are not a sufficient prerequisite to the achievement of the vision of Bulgaria as a more attractive place to live, work and invest. The EU investments have to be coordinated, targeted and concentrated on the main bottlenecks identified in the field of infrastructure, business, human capital and territorial development. The combined national reforms (as developed in the

National Reform Programme), national investments and actions of the Structural Funds and IFIs have to be designed to maximise the national development potential.

Increasing the speed of convergence to the EU average GDP per capita level requires improving Bulgaria's present growth performance – an average rate for the period 2000-2005 at the level of 5%). The objective for the programming period is to achieve an average real growth rate of 5.8%. The design of the actions should nevertheless take into account the regional and environmental disparities of the country and ensure the socio-economic sustainability of this growth process.

Bulgaria is a small open economy directly exposed to competitive pressures at international level. This implies as a highest priority to work for increasing the competitiveness of the economy through targeted public investments and structural changes. To this end, the NSRF strategy has a strong **Lisbon agenda** component aimed at increasing the productivity levels and value added of Bulgarian goods and services. The improved competitiveness of the economy is in turn expected to increase the average annual export of goods from 9,451 billion € in 2005 to over 19 billion € in 2007-2013.[72] The competitive position of any member state strongly relies on the skills, flexibility and the productivity levels of its labour force.

NATIONAL STRATEGIC PRIORITIES

Bulgaria undertakes an integrated approach to sustainable growth and development. Investments are concentrated in the two factors of growth – physical and human capital. Nevertheless, in order for these investments to bring about the expected impacts, the rule of law and efficiently functioning judicial and administrative systems are overarching basic preconditions. There is a need to improve the overall business environment, as described in the analysis, as well as in the Commission's Monitoring Reports and in the Pre-accession Economic Programme. Simultaneously, the growth requires accompanying territorial policies to achieve both territorial cohesion and equal treatment of citizens irrespective of location.

To achieve the overall medium term goals Bulgaria needs to focus on **four strategic priorities** – three thematic and one territorial:

- Improving basic infrastructure;
- Increasing quality of human capital with a focus on employment;
- Fostering entrepreneurship, favourable business environment and good governance;
- Supporting balanced territorial development

Insufficient investment in basic infrastructure in the last 15 years has resulted in its current poor condition. The *first priority* foresees support for better quality transport infrastructures, ICT infrastructure and links, and investments in environmental protection infrastructure. Taking into account the limited EU and national resources, the investments will be prioritised and coordinated. This will be the main contributor to the attractiveness of the country to invest and work, in line with the first objective of the CSG and the National Strategy for

[72] AEAF forecast

Integrated Development of the Infrastructure in Bulgaria and Action Plan for the period 2006-2015.

The *second priority* supports adequate human resources in both the public and private sectors. Investment in modern education, training and lifelong learning as well as good health is expected to increase the level and quality of employment and support reintegration and inclusion into the labour market.

The *third priority* is focused on setting up an effective business support framework by improving the regulatory environment, encouraging entrepreneurship, innovation and developing efficient and transparent state administration. The partnership between Government at all levels and the civil society will be strengthened by supporting effective policy design and implementation. The aim will be at increasing transparency in the public sector and public control on policy implementation. Additionally, the state administration reform should ensure stable systems for interdepartmental coordination and dialogue between public and private bodies. Main focus will be enhancement of capacity with regard to legislation enforcement.

The *fourth priority* has territorial dimension and targets balanced growth through assisting the regions of Bulgaria to develop their growth potential. Bulgaria also strives to provide its citizens, regardless of location, with equal access to public services basic infrastructures and employment opportunities. Preserving the environment and biodiversity, conservation of natural and cultural heritage, adequate spatial and urban planning are integral parts of the Bulgarian national strategy for the period.

The following sections describe actions by strategic priority to address the problems pinpointed by the socio-economic analysis of Bulgaria the actions and objectives envisaged, the synergy between those actions under different priorities and the role of the Structural Funds within them and how they relate to and comply with the Community Strategic Guidelines for Cohesion.

3.1. Priority 1 "Improving Basic Infrastructure"

Infrastructures for a Growing Economy

Investments in infrastructure are one of the most critical areas that facilitate the reduction of disparities between the regions lagging behind in terms of socio-economic development. The infrastructure is the backbone of the economy and the society, and the strength of this foundation determines the opportunities to ensure rapid, sustainable and balanced development. This is fully recognized by the government of Bulgaria as a national priority and is reflected in the National Strategy for Integrated Development of the Infrastructure in Bulgaria and Action Plan for the period 2006-2015, approved in 2006 by the Council for coordination, control and implementation of infrastructure projects of national importance, which is at ministerial level and chaired by the Prime Minister.

Transport not only provides access to places which concentrate income-generating activities, or key public goods and services (including education and health care), but also supports the growth of production of goods and services, especially by decreasing costs. In addition, the growth of the transport-related construction sector contributes to the total growth of the economy. The **investments in transport** focus on the improvement of the infrastructure along the major European transport axes crossing the territory of Bulgaria. In order to overcome the main bottlenecks in the whole national transport system, public-private schemes will be used in regards to ports, airports and some motorways. The strategy follows the principles and findings of the Mid-Term Review of the European Commission's 2001 Transport White Paper. It is based on connection of the development of the transport sector to the European sustainable growth and competitiveness and recognises anticipated faster growth of international transport demand. In this respect the basic target for the Bulgarian Strategy in the transport sector is the development of the European Transport Corridors in the territory of the country. More precisely, it relies on the most appropriate development of all modes of transport in order to accommodate the constantly growing demand most efficiently, and at the same time aiming at the removal of infrastructural bottlenecks, encouraging technological development, and removing barriers between modes, locations, and markets.

As the analysis of the country's development disparities, weaknesses and potentials reveal, the existing transport links cannot cope with the present and expected demand. This results in reduced opportunities for growth, especially of business activities and tourism. Transport investments focus on connecting the country at three basic levels – **external** (whereby EU connections determine the major investments), **national** (which supports the major economic growth), and **regional** (contributing to the balanced territorial approach of the economic development). The foreseen interventions are prioritised in order to maximise the combined effect on growth and employment opportunities a transport network can provide, taking into account also the level of resources available: improvement of the major links between urban centres, creating efficient transport axes, and subsequently the links of those to smaller but important settlements with economic potential, because of their cultural or environmental endowments.

In relation to rail transport the priority is given to projects with bigger traffic prospects, along the Trans-European Transport Corridors, or with cross border importance. The following directions are defined as priority railway infrastructure projects:

- Vidin – Sofia - Kulata;
- Cross border point Bulgaria/Serbia – Sofia – Plovdiv – Cross border point Bulgaria/Greece, Bulgaria/Turkey;
- Sofia – Plovdiv – Burgas/Varna;
- Sofia – Gorna Oryahovitsa – Varna;
- Sofia – Karlovo – Burgas/Varna.

The main priorities of the strategy for development of the national railways transport system remains the rehabilitation (adjustment to the design parameters) and modernization of the railway infrastructure which shall contribute to the quality improvement of offered services and decrease of transport costs. Higher speed shall contribute to increased competitiveness of the railways compared to the other modes of transport. The proper use of the planned investments in the railway transport will be ensured by the management of the National Railway Infrastructure Company and the Bulgarian State Railways (railway infrastructure operator). In relation to the road transport the responsibility of maintenance of the road infrastructure is delegated to the recently formed Republican Road Infrastructure Fund towards the Minister of Finance.

With regard to the key links in road and rail transport along national and European priority axes, Bulgaria plans several major projects. In rail those include modernisation of the railway line Vidin – Sofia (on the axis Vidin – Kulata); Sofia – Plovdiv; Plovdiv – Bourgas; Sofia – Pernik – Radomir; Sofia – Dragoman and Mezdra – Gorna Oriahoviza, in addition to the lines Svilengrad – Turkish border and Parvomai – Yabalkovo. In road transport those include construction of a key road section along the axis Vidin – Kulata, i.e. Vratza – Botevgrad, Vidin – Montana, Struma motorway, and ring-roads of Montana, Vratza and Gabrovo as TEN-T cities, as well as rehabilitation and modernization of more than 300 km roads along TEN-T /transit roads IV/, Kurdjali – Podkova in the direction of the Greek border.

Bulgaria aims at reducing the environmental and traffic congestion and safety risks of the expected increase in transport needs by an economically efficient balance of investment in road quality and in modernisation of the major rail links for passenger and freight, including the investments in safety measures, logistics, and signalling in line with the EU Directives.

In addition to the major links, regional and rural road improvements will focus on linking cities and major municipalities between them and the main transport axes. This is crucial to avoid a loss in growth potential due to weak transport connectivity. The location of businesses and economic activities are strongly influenced by accessibility, while labour mobility and the provision of labour opportunities across the country will increasingly be dependent on the ability to commute from peripheral to economic centres.

The investments in key rail and road linkages will be combined with investments in transport intermodality and improved conditions for navigation along inland water-ways, including the efficient functioning of Vessel Traffic Management and Information System on the River Danube.

ICT Provision

ICT coverage is crucial, not only for the development of a knowledge-based economy, but to foster balanced growth. Transport improvements, together with ICT provision have already contributed to a shift in economic activities form urban to peripheral and rural areas in a number of member states. To broaden the base of development of the regions, increase employment opportunities across the country, and attract investment in non urban centres, transport and broadband coverage are essential. The Structural Funds are going to play an important role in co-financing the Government's efforts to manage this essential infrastructure coverage for business. The foreseen actions in this field include building of broadband connections to urban surroundings and poorly urbanised territories (e.g. ADSL, cable, satellite, wireless communications networks); establishing digital connections and capacity, building public internet access points, development of public information systems.

Bulgaria will continue its efforts in acceleration of information society development in line with the launched by the EC initiative i2010 – European Information Society 2010 as a key element of the renewed Lisbon partnership for growth and jobs. The foreseen measures in this field are summarised in the State Policy for Accelerated Information Society Development and the National Programme for Accelerated Information Society Development.

Environmental Protection Infrastructures for a Growing Economy and Better Quality of Life

Improved growth conditions require integrated policy in the field of environment in order to ensure the positive effect on the quality of life. The National Strategy for Environment, approved by the Council of Ministers in 2005, and its Action Plan cover the period 2005 - 2014. According to the strategy, the long-term general strategic objective of the country in the sector of environment is: "Improving the quality of life of the country's population by ensuring healthy and favourable environment and by preserving the rich natural heritage based on sustainable management of the environment". In this programming period, Bulgaria will concentrate its limited resources into those pressing areas because waste collection and treatment problems increase in intensity as the economy grows. As identified in the socio-economic analysis, existing problems include the underdeveloped networks for **solid waste collection and treatment** and the insufficient and depreciated infrastructure for the **collection and treatment of waste water**.

The National Strategy for Integrated Development of the Infrastructure in Bulgaria and the Action Plan for the period 2006-2015 defines the priority operations in the waste and water sectors of the environment. The measures include improvement of the water quality and water supply in considerable number of settlements in order to reach compliance with the Water Framework Directive (WFD) and Directive 91/271/EC on urban waste water treatment. Furthermore, investments in waste treatment facilities are envisaged in order to establish the system that will be in compliance with the national and EU legislation in the waste sector, primarily Directive 75/442/EEC on waste and Directive 1999/31/EC on landfilling of waste.

In order to improve **waste water infrastructure,** efforts will be targeted at extension, reconstruction and modernisation of existing, as well as construction of new sewerage systems including urban waste water treatment plants in the settlements. Whenever justified and proven as necessary these interventions shall also be complemented with measures for improving the water supply system. Therefore the implementation of integrated projects in the water sector will be supported (as single projects or applying the phased approach projects covered by one OP). Other activities, which will be supported are those related to the supply of equipment for the detection and measurement of leakages, the development and updating of river basins management plans, and the development of investment projects for subsequent financing. The logic of OP Environment thus supports the implementation of integrated water projects.

With regard to the **waste management**, the planned interventions will follow the integrated waste management approach for the establishment of a sustainable waste management policy in line with the Community Strategy for Waste Management. The hierarchy of waste management shall be implemented, i.e. prevention, reuse, recycling, recovery and final disposal by means of landfilling or incineration of residual waste. The main issues identified are related to building up the needed waste treatment infrastructure, reduction of the municipal waste generation, the introduction of the separate collection and implementation of activities directed to reuse of the generated waste. Interventions in this area will support activities such as: construction of waste recycling centres, installations for the recovery of the emitted gas emissions (methane) from the municipal waste landfills for the production of electricity, completion of the construction of regional landfills, facilities for pre-treatment including composting, sorting, and separation of waste[73]. Further actions will be taken with regards to consequent closure of existing municipal landfills that do not comply with the requirements of the legislation and the modern technical standards. Support will be also provided for the preparation or update of regional waste management plans and for the development of investment projects for subsequent financing.

Disaster Management

The basic goal of the Ministry of State Policy for Disasters and Accidents is the creation of an effective, efficient, technically adequate and materially integrated system for prevention, preparation, facing, management and recovery in case of crises and disasters. The mechanisms for attaining this main goal are incorporated in the above mentioned political documents and legal acts.

For achieving its goal the Ministry of State Policy for Disasters and Accidents gives central attention to the formulation and implementation of the following strategic prevention related policies:
1) Development of administrative capacity on central, regional and local level for prevention, management, reaction and recovery from disasters and accidents;
2) Establishment of a Forecasting and Early Warning System, including Space Monitoring Centre;
3) Establishment of Crises Management Centres comprised within an Integrated National System;
4) Establishment of modern fully equipped information and communication systems in compliance with contemporary EU requirements;
5) Provision of the necessary supply component to the special equipment for search and rescue operations;
6) Improvement of the National, Regional and Municipality plans for protection of the population;
7) Risk assessment and development of mechanisms for critical infrastructure rehabilitation and renovation;
8) Establishment of a system of volunteers;
9) Development of standards, methodologies, guidelines, instructions and others for every step of the prevention, preparedness, management, reaction and recovery from disasters and accidents aiming at different target groups;
10) Public awareness campaigns and elaboration of a national training program for different target groups.

The Ministry is currently working on the implementation of its prevention policies. These policies are realized both by means of using sources from the national budget as well as by international support. The Ministry of State Policy for Disasters and Accidents carries out the following projects related to the prevention:
1) “Response to sudden crises”, financed by UNDP (already finished);
2) Project “Post-Flood Reconstruction of the Social Infrastructure” amounting to 2.2.mln. euro grants per year in 2005 and in 2006, of which specific component is dedicated to increasing the capacity of the authorities and administration at local and regional level to plan

[73] See Annex 10

for, react, manage and recover from crisis. The project is funded through the MFA in the Netherlands and the Ministry of Finance in Bulgaria;

3) Phare Project BG 2005/017-684-02 "Support to Sustainable Crisis Management at Central and local Level";

4) "Prevention of natural disasters and accidents through the secondary education system in Bulgaria", co-financed by UNDP;

5) A four-stage campaign "Four calamities – water, air, fire, earth", financed according to the Working Program for 2006 of the Communication Strategy of Bulgaria;

6) A pilot project for the building of a National System 112;

7) Feasibility Study for Integrated National System for Crises Management, financed by USTDA.

The Ministry realizes its prevention policy also on an international level through active participation in the international organizations e.g. Europe Union (EU) – Civil Protection Mechanism Community; NATO – Civil Protection Committee (CPC), Senior Civil Emergency Planning Committee (SCEPS); Black Sea Economic Cooperation (BSEC); Civil-Military Emergency Planning (CMEP); Disaster Preparedness Prevention Initiative (DPPI); EUR-OPA Major Hazards Agreement (EUR-OPA); United Nations – Office for the Coordination of Humanitarian Affairs (UN-OCHA).

Investments in the Energy Sector for Sustainable Development

The main priorities of the Bulgarian energy policy are fully in line with the EU energy policy for development of competitive energy markets protecting the environment and guaranteeing the security of energy supplies, and encompass the six priority areas of the new Green Book of the European Commission of 08 March 2006 – effective functioning of the competitive energy markets, diversification of energy resources, solidarity among member-states for achieving secure energy supplies, sustainable development, innovation and overall coordinated energy policy.

Supporting the energy production from Renewable energy sources (RES), including the integration to transmission and distribution networks, follows the objective to achieve up to 11% RES electricity share in gross internal electricity consumption by 2010. The technical-economic analyses show that this production can be reached by construction of new power plants using hydro resources water, wind power, and biomass. In addition, the implementation of the envisaged measures to increase the energy efficiency will contribute to the decrease of the high energy intensity of the Bulgarian economy and will create better conditions to attain long-term sustainable development.

Using RES and increasing the energy efficiency will have a positive impact on the reduction of the dependency on import of energy resources as well as on the environment protection.

The general support to gasification and construction of gas-distribution networks (for gasification of municipalities which don't have issued licenses and are not included in the gas-distribution regions) will contribute to overcoming the Bulgarian lagging behind in the development of gas-distribution network and domestic gasification not only in comparison to the EU countries but also to neighbouring countries, and on the other hand support municipalities development, will increase quality of life and competitiveness of the local economy, while at the same time create conditions to attract more investments.

3.2. Priority 2 "Increasing the Quality of Human Capital with a Focus on Employment"

The main challenges concerning the human capital which Bulgaria faces are related to the negative demographic tendencies, the low economic participation, the persisting unemployment, the low employment rate, the high unemployment among the youth and low-educated people and the low adaptability of the labour force as a whole. The insufficient integration of the vulnerable groups and the unsatisfactory quality of the education and vocational training systems could impede the unfolding of full country's potential in achieving and maintaining high rates of growth and employment, which are required in the convergence process.

This priority aims at developing the human capital of Bulgaria for realising the growth potential and increasing the competitive of economy as well as to increase employment and thereby promote social inclusion. Developing a skilled and adaptable labour force will support a sustainable increase in labour productivity and incomes. In view of demographic trends and aging labour force developing the employability and skills of unemployed and economically inactive people will be supported.

NSRF's priority 2 "Increasing the Quality of Human Capital with a Focus on Employment" is elaborated fully in line with the Community Strategic Guidelines 2007-2013 and the Integrated Guidelines for Growth and Jobs (2005-2008). The sustainability principles expressed in the Gothenburg European Council agreement are addressed, as well as the main problems in the human resources area identified in the Joint Assessment of Employment Priorities in Bulgaria.

Development of Inclusive Labour Market and Employment Promotion

A special focus will be given on strengthening of **active and preventive labour market measures** to overcome obstacles to entering or remaining in the labour market and to promote mobility for job seekers, the unemployed and inactive, older workers as well as those at risk of becoming unemployed. Action will stress on the provision of individualised services, including job search assistance, training and job placement. The potential for self-employment and business creation, ICT skills and digital literacy will be fully taken into account. Special attention will be paid to access to employment for young people, by facilitating the transition from education to work, including through assistance in completing education, access to appropriate training and apprenticeships, career guidance, entrepreneurship development. Among the measures which will also support the Youth Pact are programmes for early vocational guidance in school as well as centres for career development in universities will be created. It should be created favourable conditions for young people to set up their own businesses and get engaged in entrepreneurship. This could be achieved trough special grants that will increase incentives for young entrepreneurs.

Another important priority is to ensure **inclusive labour markets for people at disadvantage or at risk of social exclusion**, such as early school-leavers, the long-term unemployed and people with disabilities. The aim is to improve their employability by enhancing their participation in vocational education and training, rehabilitation and appropriate human resources management. Implementation of a multi-faceted approach for promotion of employment of the vulnerable groups on the labour market and inactive people, according to their specifics and needs will be supported including employment incentives measures, direct job creation start-up incentives, etc.

Capacity development of **labour market institutions** will be supported, notably delivery of effective public employment services to job seekers, unemployed and disadvantaged people. These institutions have a pivotal role to play in implementing Active Labour Market Policy and providing services on individual basis with a view to promoting occupational and geographical mobility and matching labour supply and demand, including at local level. Labour market institution will support the anticipation of shortages and bottlenecks in the labour market and occupational and skills requirements.

Developing Skilled and Adaptable Labour Force

This priority will stress on the adaptability and mobility of workers and the flexibility of the labour market. The main focus will be on actions to promote **investment in human capital** both from enterprises, and workers through the provision of lifelong learning strategies as well as systems which equip employees, in particular low-skilled and older workers, with the necessary skills to adapt to the knowledge-based economy and to prolong their working life.

In order to increase **labour market flexibility** attention should be paid to development and dissemination of knowledge on innovative and adaptable forms of work organization to take advantage of new technologies – including teleworking, improving health and safety at work, increasing productivity and promoting better reconciliation of work and family life. The encouragement of professional and geographical mobility, along with the intended actions for combining the professional with the private life, will result in ensuring smooth transition between the different stages of the working life as well as between different working places.

Support for development of the social dialogue and strengthening of the socio-economic partners capabilities will be provided, especially at regional and local level, aiming at effective planning, implementation and monitoring of the actions, to be financed under the Structural funds.

Occupational Safety and Health

The policy in the field of occupational safety and health is fulfilled according to the Guidelines for occupational safety and health activity development in the period up to 2006, approved by the Council of Ministers of the Republic of Bulgaria in 2002. Simultaneous actions are envisaged in all directions: employers' competitiveness, good quality of the living and working conditions, training and prevention culture.

Following the guidelines and the principles of the European Commission on the occupational safety and health provision, the Government of the Republic of Bulgaria will approve a new Strategy and will continue its work on providing "well-being at work", considering the changes in the world of work and the emerging new risks. A combination of legislative, organizational, economic, social, technical and healthcare activities are to be accomplished and these measures are going to be oriented towards ensuring the average physical, moral and social well-being of the workers. Furthermore, measures focused on building a preventive culture of the workers and measures aimed at further development of the system for prevention of professional and health risks at the workplace, as well as measures aimed at setting conditions for effective, safe and healthy work, are to be created.

An element of the policy providing occupational safety and health is also the improvement of the training system, consultations and giving information to all participants in labour, as well as development of the forms of the fulfilled social dialogue. One of the conditions necessary for carrying out an active policy on the permanent improvement of the working conditions and guaranteeing a long and productive life of the working people is also the implementation of measures for increasing the quality and the scope of the monitoring made in terms of observing the labour legislation.

Education

The Government's strategy for reforming primary and secondary education ("National Program for the Development of School Education (2006-2015)" sets two main strategic goals:

- **Equal access to education** by: ensuring access to all children to qualitative education, especially for those who do not have equal starting positions (children with special educational needs); laying special attention for their adequate participation in the education process.
- **Qualitative education**, which assumes continuous building of knowledge and skills for full development of every child's potential and possibility for social realisation.

The achievement of these objectives is ensured by system of measures, with the each measure effectiveness determined by the child's interests and its contribution to the two national goals.

The main priorities in the area of **school education** are as follows:

- Pre-orientation towards provocation of thinking and self-dependence, formation of practical skills and personality development, among others by modernisation of the school programmes, intensifying the usage of ICTs and foreign language education, introduction of new teaching methods and techniques.
- Elaboration of effective system for evaluation (both external and internal), which to measure objectively the students' achievements and teachers' performance.
- Increasing the teachers' prestige and social status by establishing a dynamic model for carrier development, introduction of a system for differentiated payments, based on achieved results and active measures for increasing the teachers' qualification.
- Decreasing the number of the early school leavers by broadening the system of social services, supporting the vulnerable groups inclusion, creation of a proper environment and methodical support for the children with special educational needs, active measures for aiding the education of children from the ethnic minorities.
- Optimisation of the school network for ensuring qualitative education and cost efficiency, while guarantying the equal access.

In the area of the **higher education**, the main challenges will be the response to the global tendencies, namely: popularisation of the higher education (i.e. broadening the access to higher education and decreasing the average schooling period), life-long learning, strengthening of the links between the universities and the business. The efforts are targeted at creating proper model for financing the higher education system, to stimulate its development and internal competition; to enforce the responsibilities in universities management and create conditions for external control; to optimise the universities structure; to be introduced hopeful systems for assessment of the higher education quality; to be increased lectors motivation; the universities to strengthen their positions as main science centre; to be raised the mobility of teachers and students.

Regarding the area of scientific research, special accent will be put on stimulating the applied-oriented research, while the project financing approach will be used.

Persons with Specific Educational Needs

Special attention will be paid to ensure equal access to quality education for persons with special educational needs in order to contribute to a modern and fair educational system, to achieve higher educational results, to acquire higher education levels and professional qualifications for the labour force.

Contribution to the achievement of a better integration and social integration of persons and pupils with special educational needs, and of persons belonging to ethnic minorities, will be targeted with financing from ESF respecting cultural and ethnic diversity. The actions are in compliance with the Joint Inclusion Memorandum, signed between the Government of Bulgaria and EC.

Training

Based on the current state of the labour market as outlined in the analysis and the need to increase the growth potential, the National Strategy for Employment 2004-2010 puts a strong emphasis on the longer term needs, i.e. training and life-long learning. It is in line with the needs of building a knowledge-based economy. A main emphasis is put on the provision of skill-oriented training, 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 upon it, through ensuring adequate training.

The investments in training and in consultancy for SMEs managerial and skill development will be an important element in ensuring increasing productivity to overcome the presently large gap with the average performance of EU members. These actions complement the investment aid provided for setting up SMEs, improve research and development activities and the innovative performance of businesses. This is in line with the Lisbon strategy and the CSG emphasis on increasing productivity and competitiveness, but it will also complement the establishment of an education and training system in Bulgaria that would best meet the new requirements of the dynamic global economy and of the challenges of the highly competitive EU labour market.

Policy in the Field of Social Protection and Social Inclusion

In the recent years Bulgaria has achieved some progress in poverty and social exclusion reduction through pursuing a new approach – linkage of social policy with the all other state policies which contributed to transition from passive to active social protection. It is targeted on creation of human, physical and social capital, including active involving of vulnerable groups in increasing their own social welfare. The focus is not exclusively on the consequences, but mainly on the causes for the negative trends in the society, and in particular for poverty and social exclusion.

The fight against social exclusion is considered in the context of the Lisbon strategic goals for growth and jobs, and greater social cohesion. Equal opportunities for all and non-discrimination principles are the main pillars of the social inclusion activities. The main challenges identified in the Joint Memorandum on Social Inclusion and the National Report on Strategies for Social Protection and Social Inclusion of the Republic of Bulgaria 2006 – 2008 are sufficiently addressed. Social inclusion dimension in the NSRF covers the following aspects: active labour market participation, qualification and training in the context of life long learning, equal access to education and reducing the dropout from schools rates, increasing the life standard, equal access to services notably to social and healthcare services, promotion of social entrepreneurship, strengthening the capacity of the professionals and etc.

The policy priorities in relation to tackling poverty and social exclusion will continue to be:

- to promote a wide range of active labour market policy programmes, to improve the level of qualifications of those excluded from the labour market, to ensure that the social protection system and labour market policies are closely linked, and to remove disincentives to taking up jobs and ensure that taking up work pays and lifts people out of poverty and social exclusion;
- to overcome educational disadvantage by bringing education and lifelong learning in line with the needs of the labour market, promoting equal access to mainstream education for everyone, preventing early school leaving, paying special attention to children with special educational needs;
- to implement measures aimed at providing high quality social services for the most disadvantaged groups, improving the health status of the population and facilitating the access of the poor and vulnerable population to healthcare services;
- to reduce poverty and social exclusion of vulnerable ethnic minorities, especially the Roma community, and to promote their inclusion in mainstream society, by way of programmes designed to tackle their problems regarding housing and infrastructure development, education, retraining and employment.

Most of the areas where measures targeted at social inclusion of vulnerable groups are to be implemented are already mentioned above in the framework of employment, education and training policies. Two aspects of the social inclusion policy however need to be stressed here – access to social and health services and their efficient provision. The access to social and health services is linked with prevention of the risk of poverty and social exclusion.

Social Services

Legislative amendments have been introduced in Bulgaria to offer possibilities for: decentralised management of the social services, fostering of private entrepreneurships, introduction of a registration regime for the providers of social services instead of licensing; introduction of criteria and standards for provision of social services, and a more effective and more efficient control in the field of social services, widening of the sources of financing, strengthening of the civil control. The responsibilities are divided into activities under state responsibility and activities under municipal responsibility. The activities under state responsibility are financed entirely from the state budget, but are only managed by municipalities. These are the specialised institutions for provision of social services, the day-care centres, the centres for social rehabilitation and integration, sheltered homes.

The insufficient network of social services providers hampers the access to quality care for most of the vulnerable groups. Moreover, the available services are of poor quality and the personnel is unskilled. The deinstitutionalisation of people with disabilities and children needs particular attention.

Healthcare

The goal and strategic priorities of the health reform in Bulgaria are oriented at improving the health of the nation. This aim will be achieved through:

- increasing the effectiveness of the health system through institutional and structural changes in the delivery of health care services;
- strengthening the functions and structures of public health care;
- raising the quality of medical care; changing finance of the national health system;
- adapting human resources in the health sector to the new economic conditions;
- institutional and structural changes in health care.

The priority, aimed at improving health status, includes health programmes, projects and interventions for key target groups:

- health of pregnant women,
- newborn infants, children, adolescents and young people;
- rehabilitation of those with physical disabilities;
- restriction of habits hazardous to health;
- reduction of premature mortality;
- reduction of incidence and severity of diabetes mellitus,
- bronchial obstructive conditions and mental disorders;
- reduction of incidence and mortality from infectious diseases,
- guarantee of safe blood and blood products.

Over the next years, the health policy actions will be orientated mainly towards health promotion and disease prevention. Efforts are focused on combating cardio-vascular diseases, introducing regular cancer screening, preventive care, early diagnostic and treatment of tuberculosis, prevention of hereditary diseases, diathesis and inborn abnormalities, prevention of infectious diseases, immunisations and preventive vaccinations.

Health reforms are heavily dependent upon investment in the health and medical establishment's network and the upgrade of their diagnostic and therapeutic equipment. That process requires financing of activities for restructuring and equipping of emergency, out-patient and inpatient healthcare establishments in accordance with the National Health Map, as well as in improvement of the conditions in the facilities for long term care of the elderly people and children.

Strengthening the social protection system will be achieved through:

- bringing closer the social services to the users;
- individual approach in the provision of social and health services,
- opening of social services to the NGO sector, and the presence of criteria and standards for provision of social services.

Special emphasis will be placed on the difficult access of groups at risk to health services and also on the activities aiming at health promotion, prevention, rehabilitation, etc. Additional actions will be taken to improve preventive culture of the employees as well as public health protection services dealing with occupational and health hazard on the workplace.

The successful implementation of these measures seriously depends upon the improved condition of social, health and educational infrastructure, especially at local level. The human development policy will be implemented by establishing successful partnership with the stakeholders.

In addition to measures foreseen under NSRF, investments under priority axis 3 of Rural Development Programme will focus on the special needs in rural areas where specialized healthcare services are limited. The problem is significant especially for the chronically ill patients and for older people. In order to address these problems the interventions under EAFRD will support the access to healthcare prevention activities, promotion of health information in rural areas.

3.3. Priority 3 "Fostering Entrepreneurship, Favourable Business Environment and Good Governance"

Bulgaria will apply specific efforts to foster entrepreneurship and support the competitiveness of enterprises, including stimulating companies to introduce new technologies and to improve their innovation activity. The development of more efficient and transparent administration will not only raise productivity levels, but also stimulate favourable business and investment climate. Policies at all levels will target effective administrative framework for business development and entrepreneurship, good policy design and implementation, better lawmaking, impact assessment of policy proposals and transparent public procurement system. These actions will be complementary to the investment interventions envisaged under Priority 1 and Priority 2 and based upon the main conclusions of the socio-economic analysis and the disparities identified.

Business, Innovation and SMEs

In line with the Lisbon strategy and CSG, Bulgaria aims to reduce its dependence on the traditional lower value added sectors. National policies and the programmes for the Structural Funds focus on improving the productivity and value of the Bulgarian enterprises through a combined approach of targeted support for investments in the introduction of innovation and ICTs, improving management systems, lifelong training and also in improving production processes through modernisation of technologies, including energy-saving and environment-friendly investments.

In order to establish a knowledge-based economy and to expand the competitiveness of the regions, it is necessary to extend the innovation capacity organisationally and spatially, to make innovation wide-spread, to channel the information, technologies and other innovative market knowledge directly to the players of the economy.

Newly established, highly innovative micro enterprises, as well as SMEs have the biggest development potential in the area of knowledge-based economy due to their flexibility. In this respect, SMEs will be specially targeted and relied upon for the transition to a knowledge-based economy. According to the National Innovation Strategy Bulgaria will:

- stimulate the RTD&I for the industry and the cooperation between the R&D departments, universities and companies;
- increase the financing for innovation through establishing mechanisms for attracting private investments;
- encourage companies to introduce new technologies and to improve their innovation activity; will encourage the establishment of clusters in traditional sectors;
- support start-ups and well-functioning companies with the aim to increase their innovative potential.

The Innovation Strategy is mainly implemented by the activities of the National Innovation fund, which finances research and development activities with the ultimate goal of introduction of innovations in the economy and thus it further develops the achievements of the National Science Fund.

Bulgaria aims to diversify its economy and broaden its capacity to produce higher value products. The strategy seeks reinforcement of the innovative capacity of universities and research institutes and increase in the level of applied research, as well as linking business and research centres and universities. This will result in:

- sustaining the supply of research and technology development for the companies;
- developing of new competencies for SMEs, including absorption of innovation
- increasing awareness of enterprises of RTD&I needs through mediators;
- increasing networking, transfer of scientific research into marketable products, technology transfer, diffusion of new advanced services and best practices;
- increasing investments in RTD&I through innovative and diverse financial instruments (seed capital for innovative firms, risk capital);
- increasing the level of competencies and IT knowledge in businesses.

Efforts will need to be directed towards interventions inducing long-term effects on the enterprises and their capability to compete in fast changing competitive environment. The strategy aims at increasing the potential of the SMEs for managing projects involving the introduction of new technologies, and in developing and marketing of new products. This will be achieved through direct investment support, and the provision of tailor-made training of the personnel related to the specific needs of the business and consultations. Such interventions are recognised as best practices in the area. The ultimate aim is to increase the productivity and efficiency of the SME sector. The expected effect is in increasing the production volume and in finding new export markets as a result of the increased competitiveness.

The analysis pinpoints that, while credit provision is expanding, it is weak for start-ups and smaller enterprises which will be overcome by a mechanism of new guarantee, venture capital and micro credit funds provision and grant schemes for SMEs start ups for modernisation of their production and management systems.

Special emphasis will be put on projects aiming at achieving conformity with EU requirements and where the investments aim at adaptation of the technologies and products to the requirements of the EU Directives and especially to harmonised standards. Priority will also be given to projects aiming to achieve compliance with internationally recognised market standards for SMEs – introduction of management systems (including IT based management systems), quality management systems etc. All these interventions aim at increasing the export activity of Bulgarian enterprises. In seeking to achieve a maximum positive effect it will be accompanied by actions for international trade promotion. Beneficiary will be the Bulgarian SME Agency, which is the institution for providing the policy for support of SMEs and international trade encouragement.

Business cooperation and development of the public-private partnership will be fostered through the creation of business networks and support for cluster initiatives. The National Cluster Strategy attempts to place a systematic approach to industry modernisation, SME intervention and market development for sectors, sub-sectors and clusters within both an EU and global context. The aim of the strategy was also to identify prospective sectors, and particularly sub-sectors for their cluster potential. The strategy recognizes the enhanced cooperation between the large enterprises, SMEs, the research entities and universities and other key players in the enterprises' development as successful approach for better management, increased innovation activity and the qualification of the labour force. As a result this will lead to improved competitiveness and international trade orientation of the production.

Finally, the competitiveness of enterprises is also strongly related to costs. Costs, such as energy consumption are very important as Bulgaria is very energy inefficient. Not only this is environmentally damaging, but it erodes the comparative advantages of Bulgarian economy. In order to overcome these disparities, the introduction of energy saving technologies and increasing the use of renewable energy sources will be supported.

Enterprise development will depend highly upon the available quality of human capital and the quality of basic infrastructures, such as transport and ICTs. Policies aimed at market relevant education and training will be crucial, and this is a national concern expressed in the second Priority of the NSRF.

As part of creating business friendly environment, in order to become successful on the single market, it is of primary importance to improve the general operating conditions of enterprises, and their knowledge through provision of high quality and comprehensive consultancy and other business services.

The strategy recognizes large enterprises as an important factor for economic growth and innovations, generating employment and accelerating the development processes not only in separate SMEs and large enterprises in both productive and service sector, but also on the regional level.

Efficient State Administration and Services

In line with the Community Strategic Guidelines, strengthening administrative and institutional capacity and good governance are defined as a priority for the new programming period. These are key elements for the economic development and creation of new jobs. The acceleration of the reforms in the state administration through increased transparency will lead also to improved confidence of citizens and business. Bulgaria will realise a number of activities for promoting an efficient state administration such as: streamlining of administrative structures, better coordination between and within the administrative bodies, involvement of all stakeholders in the process of policy formulation, better regulation, increased transparency in the administration activities, improved human resources development and effective service delivery for citizens and business.

Effectiveness and efficiency in state administration are related to the establishment of adequate and stable structures. Actions will be taken for improvement of the administration organizational development such as optimization of administrative structures and constant performance assessment. Partnership and coordination are key issues for effective policy formulation and decision making. Capacity for effective policy implementation will be reinforced through: implementation of impact assessment on newly proposed laws and rules, systems for monitoring over the implementation of policies and strategies, involvement of stakeholders in the policy formulation, consultative mechanisms for coordination between the central, regional and local administration. Further to this, the capacity of the socio-economic partners and NGOs for effective contribution in the policy formulation and implementation will be improved through trainings according to their specific needs.

The improved transparency and less corruption would generate better investment climate, higher labour input and quality services. The following activities are envisaged: updating and improvement of the Administrative Registry; continuation of the anticorruption initiatives with all the administrations involvement; regulation of mechanisms of civil control, strengthening the inspectorates' role; enforcement of the civil servants Code of Conduct.

Administrative service delivery will be further improved by the integration of services taking into account the customers' needs. The "one stop shop" model will be promoted at all levels of the administration. The government will promote the systems for quality management in the state administration, standardization of the appeal and feedback systems. New approaches for servicing as call-centres for providing information to the citizens and business, self-service points will be launched. An important step towards the increase of the citizens' and business' satisfaction is the introduction of a service delivery policy in the administration. Civil servants need to be trained in the customer relationship practices.

The development of efficient administration is related to the introduction of modern information technologies. The intensive introduction of ICT and e-government in the administration contributes to significant anti-corruption effect, cutting the red tape and streamlining the procedures. Unified system for electronic data exchange within the state administration will be set-up and will allow e-document flow. The provision of electronic services will be compatible with the European framework. Training of staff on e-government principles and policy and on the use of the e-government services and centralized system will be provided.

The awareness on available services will be improved. Printed and on-line information about services will be delivered and regularly updated. Information materials in foreign languages, as well as in suitable format for disadvantage groups will be available ensuring wider access to administrative services.

Human Resources in the State Administration

The enhancement of **human resources management (HRM)** is an important part of the implementation of the administrative reform and ensuring sustainable development of the country in the political, economic and social life. Human resources management in the state administration consists in finding, providing opportunities for development and keeping the most appropriate people to work in the state administration in favour of the public interest and to promote the prestige of the civil service. Activities that will contribute to achievement of this goal will be: introduction of performance-based payment schemes; enhancement of the efficiency and effectiveness of the systems for recruitment, selection, appointment and dismissal of employees; creation of possibilities for centralized recruitment of various positions in the administration; development of employees' mobility; setting up an efficient and transparent system for career management; improvement of the evaluation system; introduction of standards related to the HRM units within the state administration.

Differentiated training approach based on specific training needs will be applied for improvement of civil servants competences. Multi-annual training plans will be elaborated applying modern techniques for training. Life-long learning will be linked to career development. Interventions will support the human resource skills development, especially by training in efficient financial management, project management, EU regulations and policies, foreign languages, computer fluency and negotiation skills. The trainings will be driven by the needs and specifics of each administration level: central, regional and local.

Senior civil servants will be main focus group in specialized training programme according to their needs. Training in foreign language and IT training, use of modern management tools and models, assessment process will be provided. A standard competence framework and "fast track" have to be introduced in the process of senior civil servants' selection and career development. The quality of training will be guaranteed by coordination of activities among different training institutions. The capacity of the Institute for Public Administration and European Integration (IPAEI) for ensuring standard and high quality trainings will be strengthened. Universities will be involved in the process of civil servants competences improvement.

Judiciary System Reform

Bulgaria has to make still significant efforts in the field of judiciary system reform which seriously affects the investment climate. The insufficient transparency in the functioning of the judiciary system leads to a low level of confidence of the citizens and business. The slow output delivery creates conditions for corruption practices. Therefore, it is essential to strengthen the capacity of the judiciary system for applying the good governance principles.

Main activities will target at improvement of the existing legal acts and their implementation; anti-corruption campaigns; improvement of the court organization. The speeding up of the case completion process will improve the quality of justice administration. This will be done through analysis and proposals for changes in the legal framework of disciplinary proceedings, case-law, and adoption of practices for determining the disciplinary responsibility of magistrates; elaboration of an integrated system for implementation and accountability in the functioning of the magistrates; strengthening the administrative capacity of the SJC; development of new ethical standards and establishing European rules in the functioning of the magistrates. A progress must be made in the neutral distribution of cases and introducing a system to monitor the work of judges. The National Institute of Justice will play major role for relevant and standard trainings thus ensuring competent judiciary system able to meet the EU membership requirements. ICT introduction in the judiciary system will aim at improving efficiency through the interoperability of the different institutions' systems.

The Structural Funds resources will contribute mainly toward improvement of the judiciary administration capacity and delivery of standard and relevant trainings. Resources from Transition facility will be also allocated for continuation and successful implementation of the judiciary system reform.

Local Level Public Services

Interventions should be focused on activities such as: promotion of environmental management systems (ISO 1400, EMAS), development of innovative methodologies and tools (such as comparative risk assessment), training in sustainable development and utility management regarding water supply, risk prevention programmes and plans. Local administration will be key focus of the administrative reform initiatives. Municipalities will be supported in their public resources management, service delivery and quality management systems introduction, partnership with the local civil society, coordination with regional and central administration.

Other types of activities which will contribute to the improvement of the quality of the public goods and services are: provision of internet access in educational institutions, improvement of facilities for accommodation of elderly people and relating to childcare, providing accommodation for homeless children and other disadvantaged groups, improvement of access to public buildings and outdoor street mobility for disabled and disadvantaged people. Another significant development disparity, indicated in the analysis, is the underdeveloped broadband infrastructure and as a result, difficult access to public electronic services, especially in some economically underdeveloped and sparsely populated regions. In order to manage this shortcoming and to provide broadband access to on-line services in the context of transition to information society, developments of public information systems are necessary. This is considered a prerequisite for the development of e-government services. Activities in this area include free connection and establishment of public information access points to electronic services for social and economic needs, including services for disabled people; provision of on-line services for public sector institutions.

A further weakness identified in the analysis, is the significant disparities at district and municipal level. A crucial step in overcoming this problem is to improve the institutional and technical capacity to support regional and local investment planning and programming, based on partnership between municipalities and districts. Such activities include exchange of experience and good practices, networking, provision of technical support, consultancies.

3.4. Priority 4 "Supporting Balanced Territorial Development"

The territorial dimension of regional policy needs to focus on removing the structural barriers to development and mobilising endogenous growth potential across the country territory. All big cities are contributing to economic growth and competitiveness by playing the role of growth poles. The Regional Development Plans 2007-2013 are strategic documents at NUTS II level, which describe the specific investment needs as well as the chosen development strategy at regional level. They were prepared in accordance with Article 11 of the Law on Regional Development and adopted at regional level by the Regional Development Councils of the six planning regions.

Though the socio-economic analysis reveals that the inter-regional disparities in Bulgaria are not significant, it clearly shows that considerable intra-regional differences among the districts, municipalities and localities exist. In almost all regions and districts in the country the typical "centre-periphery" contrasts are observed. Specially affected in this regard are the border territories, many of the rural areas, as well as places with high concentration of minorities.

The Role of Cities

The urbanisation issues are of increasing importance for the next programming period both from European and national perspective – Cohesion Policy and Cities: the Urban Contribution to Growth and Jobs in the Regions[74] and the National Regional Development Strategy of Bulgaria for the period 2005-2015.

Development of major cities will contribute and advance their capacity to foster development across the regions integrating the surrounding territories and less urbanised areas and accelerating their economic, social, spatial and environmental potential. Processes of urban concentration are to be managed with a view to ensure satisfactory territorial outcomes, overall regional competitiveness and cohesion. Urban centres are to be enhanced, rendered more cohesive, offering opportunities to those who inhabit them, those who inhabit near to them and, where possible, to those more distant. They are to be places where people want to live, work, invest and visit. They are to be connected to each other, the bigger of them to the wider European Union and territory, to surrounding areas so that the advantages given to those who inhabit urban centres are also open to those who do not.

Urban development and economic growth are sustainable when they go hand in hand with efforts to reduce poverty, overcome social exclusion, fight marginalization in big cities and tackle environmental problems. In Bulgaria cities encompass significant disparities in economic and social opportunities between different groups of citizens. This situation damages the attractiveness, competitiveness, social inclusiveness and safety of cities.

The existence of large cities in certain areas is an opportunity to make use of their potential and to spread their positive impact over their hinterlands. In the peripheral areas in the absence of large cities promotion of the existing medium-size and small cities is necessary

[74] Brussels, 13.7.2006, COM(2006) 385 final.

through a targeted state policy in order to help them compensate the absence of large cities through their own accelerated development.

The state of repair of the networks of technical infrastructure and public works does not meet adequately urban requirements and obstructs the functioning of the cities. The physical environment and the building stock are heavily depreciated. Concerted efforts on a large scale in this field are urgently needed by Bulgarian cities in general.

Industrial locations in the cities occupy huge areas. However, they often lack public works and feature obsolete and unattractive buildings, which can hardly be upgraded and re-used. Most probably, the potential localization of future production facilities with improved technologies will be sought somewhere beyond the boundaries of these areas, on a "green field". This, however, does not resolve the problem of restructuring and renewal of the manufacturing areas in the cities, including evacuation of some of the production facilities to provide space for other, so far neglected urban needs, such are green areas and public services, on which the policy of urban development should focus.

The state of repair of the public buildings for culture, education, health care is lamentable. Unfinished construction of cultural facilities (museums, libraries, scientific centres) in the cities is a grave problem for municipalities for exposing and presenting the cultural assets properly. Possibilities should be sought for completion of unfinished municipal sites in line with the current needs of the cities. In addition, measures should be undertaken to improve the quality of life, including housing and safety, in deprived and isolated neighbourhoods, such as those populated with Roma minority. These are important issues to be tackled in order to support sustainable development and promote social inclusion.

The urban systems of transport will need particular attention in order to encourage a fully integrated and multi-modal approach as appropriate particularly in larger towns. It should also make particular provision for groups with particular mobility problems, which reinforce their disadvantage or exclusion.

Connectivity

As identified in the socio-economic analysis, the basic infrastructure and services are underdeveloped and in an inadequate state for access, use, support and provision of linkages. The interventions will focus on support for the 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 the promotion of business and economic convergence and is therefore eligible for financing under ERDF in Bulgaria. The regional and local authorities focus their development plans on the 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 at national level will be made for the development of a broadband infrastructure for access to public e-services, as a key factor for competitive economy development.

In a perspective of a sustainable environment, the mobility issue needs to be tackled in an integrated manner. Mobility needs to be promoted through a judicious balance between the use of private and public transport, and between road transport and other more environmentally friendly modes. Three are the key factors: well-designed basic infrastructure network, proper management of the traffic system and public transportation.

Development of the transport system is essential for generating sustainability conditions and linkages between cities and transformation into regional crossroad centres. Mobility within and between urban centres is of vital significance for life and work and its quality, accessibility, and efficiency is a determinant of economic competitiveness. In particular, the connectivity between urban centres and their hinterlands remains one of the most practical ways in which to offer opportunities to these areas.

Interregional and inter-city cooperation allows non-contiguous regions to enter into contact and to build up relationships, leading to exchanges of experience and networking which will assist the balanced, harmonious and sustainable development of the European Union and of third countries. The participation of regional, city and other public authorities in this way will create a more stable structure for cooperation, leading to more and higher quality joint projects, synergies, exchange of best practices and experience actions in the mainstream structural funds programmes to an integrated and coherent approach to urban development will promote cohesion and strengthen regional competitiveness.

Stimulating inter-municipal cooperation and project development is a key issue of high priority and a catalyst for regional development processes. Therefore, appropriate methodological approach combined with related investments is needed for activation of development processes and exchange of best practices and experience with European regions.
With some minor exceptions the population in almost all settlements in the country is diminishing and that not only in the villages, but also in the cities, and even in the large cities. This is an indication for a general drop in urbanization in both quantitative and qualitative respect. The few exceptions deserve a more detailed analysis and additional support through the instruments of targeted state policy.

Rural Areas

The government policy for rural development, as defined in the National Strategic Plan for Rural Development (NSPRD), is an integral part of the national strategy for fostering country's and regional development. The main interventions foreseen tackle the issues of the low competitiveness in the agriculture and forestry, the unfavourable business environment, and the absence of alternative sources of income. In their integrity, the planned measures and actions within the Programme for Rural Development under NSPRD aim at increasing the quality of life and working conditions in rural areas and overcoming the negative demographic tendencies. In addition, the cohesion policy will promote sustainable rural development by investments in human and physical capital, as well as basic infrastructure in rural areas, thus complementing the NSPRD interventions.

Engines of Regional and Local Development

The specific objectives of the regional development policy complement and expand the actions to be undertaken in the framework of the other policies, and above all in the field of education and labour market in conformity with the specific local demands. Structural Funds interventions in the country, in order to increase the leverage effect of direct regional investments, will address promotion of foreign language learning and the acquisition of skills for work in foreign language and the information environment. This will be done through:

- organising and conducting qualification courses for teachers and lecturers;
- elaboration and implementation of innovative forms of foreign languages and ICT training in all education grades;
- development of a modern information and communication education environment.

As part of the labour force adaptability and mobility, interventions will promote the participation of the employed persons in all forms of life-long learning, introducing new measures and incentives to encourage every individual to participate in continuous vocational training, intensive foreign language and ICT training. Large numbers of these activities are incorporated in NSRF Priority 2.

Territorial development is highly dependent upon the regional and local business development, especially the entrepreneurship, the number and quality of start-ups, the efficiency of enterprises and the favourable business environment. These are all key aspects of the interventions envisaged under Priority 3 of the NSRF. Territorial development is inter-linked with the administrative capacity at regional and local level, especially with respect to service delivery to business and citizens, as well as to the partnership.

Tourism is perceived as one of the priority sectors of the Bulgarian economy and its potential is demonstrated by its contribution to GDP, export and revenues in foreign currency as well as job creation. For the period 2004-2008 Bulgaria has a National Strategy for Ecotourism. The new State Agency for Tourism along with the Ministry of Regional Development and Public Works have initiated the process of preparing an integrated long-term National Tourism Strategy to be developed by mid-2007. The basis of the Strategy is a draft document prepared under Phare BG2003/004-937.02.02 "Institution Building of the Executive Agency for National Tourism Promotion and Information".

The stimulation of individual initiative of the local population for building, reconstruction and improvement of guest houses, family hotels, larger-capacity hotels, food and entertainment establishments, appears as a catalyst also for other economic activities within these areas. Infrastructure investments improve the quality of urban environment and expand the spectrum of services offered, whilst creating prerequisites for more intensified exchange. Opening of unique settlements as tourist attractions stimulate the local population to a greater attention and care in preservation and development of crafts and folklore traditions. Encouraging the regional dimension for developing the tourist product appears as one of the most important factors for diversification of the complex tourist services offered.

Regional development is dependent upon the preservation of natural and cultural heritage, and these are values with their own merit and are subject of the Bulgarian Law on the Protection and Development of Culture. 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, closely related to the need to combine the environmental and cultural value of the regions, which is part of the CSG.

Interventions need to focus 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 development and attractiveness of the regions. The cultural heritage is one of few authentic resources and has considerable 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 utilisation would lead to enterprise creation and 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 tool for diversification of the economic activities and surmounting the intraregional and urban-rural disparities.

With regard to regional development the strategy envisages actions for the revival of natural attractions of tourists' interest. Activities related to the construction and reconstruction of the infrastructure in the areas of tourists' attractions, not included in the National Environmental Network NATURA 2000, will be also implemented.

Finally, territoriality and regional development contains the logical requirement of territorial cooperation. Out of 28 NUTS III regions in Bulgaria 18 are border regions having the specific needs in order to avoid isolation, prevent and reduce unemployment and stop depopulation. The aim therefore of the Cross-Border Programmes, financed under Objective 3, is to make the border regions more accessible, thus contributing to give a new impulse to the economy of the area. Besides strengthening social and cultural ties and improving the quality of life, upgrading public utilities and local infrastructure can favour the establishment of closer business relations and the expansion of trade and investments to the region. The programmes should also endeavour to make the most of the rich cultural and historical heritage of the border regions. Tourism is seen as a sector with good potential for growth and for cross-border co-operation.

3.5. Horizontal Policies

The compliance with the EU policies of sustainable development and equal opportunities and non-discrimination is ensured at all stages of Structural Funds programming – planning, implementation, financing, monitoring and evaluation of the financial aid. Sustainable development is explicitly a part of the NSRF vision and objectives.

The four priorities, as outlined above, therefore already contain the horizontal issues within their planning and implementation schemes. However, the issues deserve the all-encompassing approach to be briefly described:

Equal Opportunities and Non-Discrimination

In the area of protection against discrimination a law has been adopted, which is compliant to the *acquis 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.

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 Programmes.

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, which will deal with the following issues – ethnic and racial equality, equal opportunities for men and women and prevention of discrimination on other grounds such as religion, age or disability.

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 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. 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 organisations by the elaboration and implementation of the national policy regarding the gender equality.

The equal opportunities and non-discrimination issue will be ensured at all stages of programming and implementation of the National Strategic Reference Framework. It is included in the criteria for project selection. In all project implementation reports information for the participation of men and women and socially-disadvantaged groups has to be included. The various organisations 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.

Sustainable Development

Sustainable development is a fundamental goal of the EU, which requires interrelated and coherent economic, social and environmental policies. The NSRF presents the entire strategy for developing sustainable territorial communities, which is to be realised through the Operational Programmes. Sustainable development of territorial communities presumes the achievement of stable economic growth, in conjunction with social welfare and full possibilities for social inclusion.

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 that plans and programmes, which are in the process of elaboration and/or approval from the central and regional authorities, the local authorities and the National Assembly, undergo environmental assessment in accordance with national law and EU Directives.

The Law on Biodiversity 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.

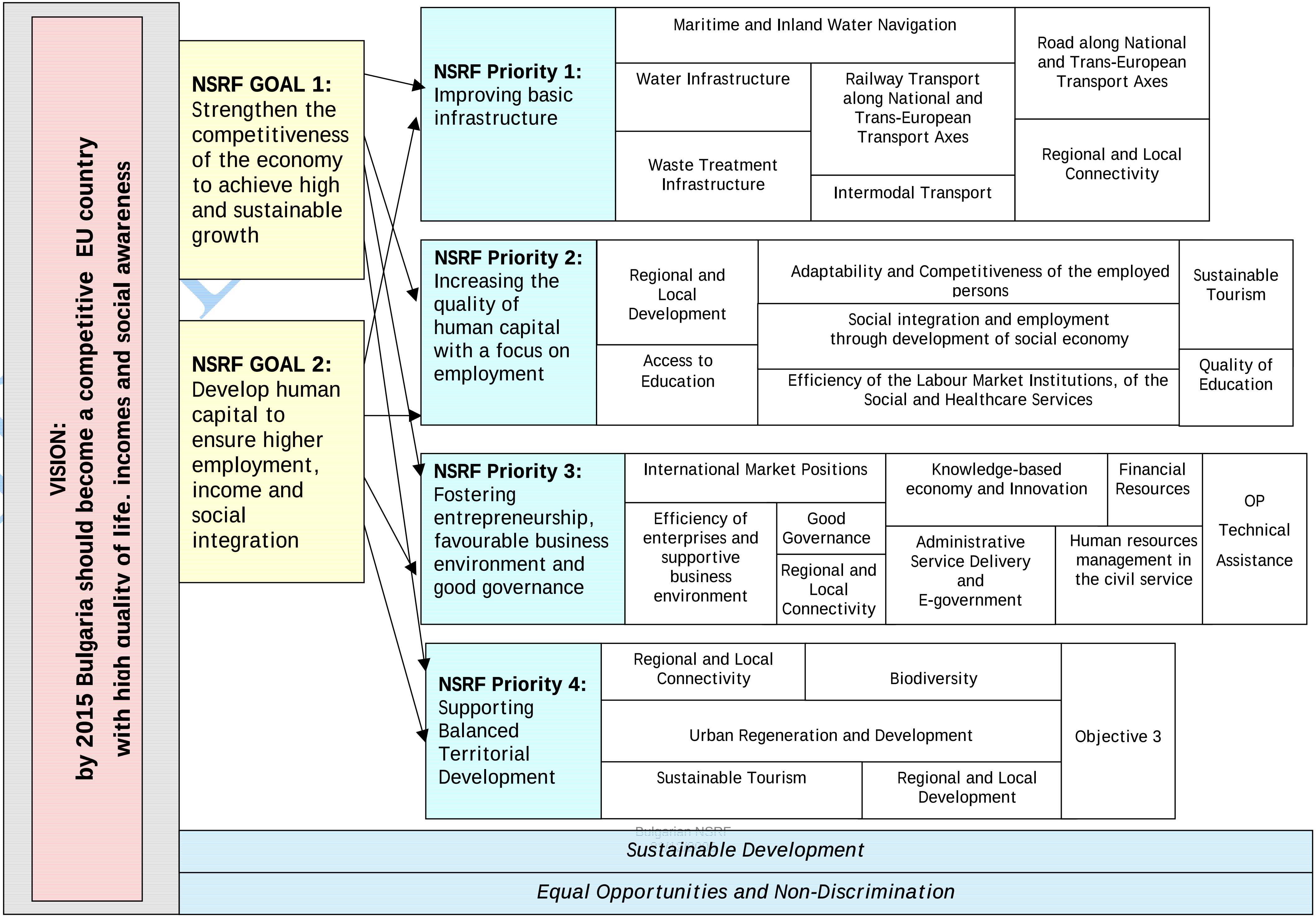
4. OPERATIONAL PROGRAMMES

The interventions in the above mentioned three sectoral and one territorial priorities are envisaged under the financial assistance of Structural and Cohesion Funds (SCF), European Agricultural Fund for Rural Development /EAFRD/ and European Fisheries Fund /EFF/ in order to achieve the goals identified. These interventions are organised, presented, and formulated in **7 Operational Programmes and 2 National Strategic Plans and Programmes**:

1. Transport
2. Environment
3. Human Resources Development
4. Development of the Competitiveness of the Bulgarian Economy
5. Administrative capacity
6. Regional Development
7. Technical Assistance
8. National Strategic Plan for Rural Development and Rural Development Programme
9. National Strategic Plan for Fisheries and OP Fishery

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. The structure of the OPs has been organised internally in accordance with the institutions in Bulgaria, who are responsible also for the national policies in the relevant areas in order to provide adequate sectoral coordination. OP Regional Development and the Objective 3 "European Territorial Cooperation" programming documents are managed by the Ministry of Regional Development and Public Works to ensure a synchronised approach and complementarity.

The following diagram presents the contribution of the Structural and Cohesion Funds (as per OP priorities) to the realisation of the three thematic and one territorial priorities as identified in the country's vision for development for the period 2007-2013 in accordance with the horizontal policies:


VISION:
by 2015 Bulgaria should become a competitive EU country
with high quality of life, incomes and social awareness
NSRF GOAL 1: Strengthen the competitiveness of the economy to achieve high and sustainable growth
NSRF GOAL 2: Develop human capital to ensure higher employment, income and social integration
NSRF Priority 1: Improving basic infrastructure
Maritime and Inland Water Navigation
Road along National and Trans-European Transport Axes
Water Infrastructure
Railway Transport along National and Trans-European Transport Axes
Waste Treatment Infrastructure
Intermodal Transport
Regional and Local Connectivity
NSRF Priority 2: Increasing the quality of human capital with a focus on employment
Regional and Local Development
Adaptability and Competitiveness of the employed persons
Sustainable Tourism
Social integration and employment through development of social economy
Access to Education
Efficiency of the Labour Market Institutions, of the Social and Healthcare Services
Quality of Education
NSRF Priority 3: Fostering entrepreneurship, favourable business environment and good governance
International Market Positions
Knowledge-based economy and Innovation
Financial Resources
OP Technical Assistance
Efficiency of enterprises and supportive business environment
Good Governance
Regional and Local Connectivity
Administrative Service Delivery and E-government
Human resources management in the civil service
NSRF Priority 4: Supporting Balanced Territorial Development
Regional and Local Connectivity
Biodiversity
Objective 3
Urban Regeneration and Development
Sustainable Tourism
Regional and Local Development
Sustainable Development
Equal Opportunities and Non-Discrimination

4.1. Operational Programme “Transport”

The Operational Programme “Transport” includes interventions as required under Priority 1 of the NSRF “Improving Basic Infrastructure”. It aims at ensuring a balanced and sustainable national transport system through the development and modernisation 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 transport services. The completion of the trans-European transport network is essential to improve territorial cohesion and boost the competitiveness and growth potential of Bulgaria and of the enlarged European Union.

The Operational Programme “Transport” concentrates the allocated funding along four priorities aside technical assistance. More than 80% cover the key needs of development of road and railway infrastructure along the major national and Trans-European transport axes, as shown in the above diagram. The third OP priority refers to the improvement of inter-modality for passengers and freight. The fourth OP priority complements the sectoral development by providing support to the improvement of the maritime and inland-waterway navigation.

4.2. Operational Programme “Environment”

The contribution of the OP Environment to the NSRF is two-fold: the development of the environmental infrastructure in support of NSRF Priority 1 “Improving Basic Infrastructure”; and the improvement, preservation and recovery of the natural environment and biodiversity to contribute to NSRF Priority 4 “Balanced Territorial Development”. In formulating the specific objectives of the programme, the Community Strategic Guidelines for Cohesion policy have been considered as well as the main EU priorities concerning employment, growth and sustainability (Lisbon, Gothenburg). In order to ensure complementarily with the other EU policies and based on the analysis of the sector, the policy is focused on the preservation and improvement of the state of water resources; enhancement of the waste management and protection of soils; preservation and restoration of biodiversity, including selected activities for nature protection.

4.3. Operational Programme “Human resource development”

The overall goal of HRD OP is to improve the quality of life through employment promotion, access to high quality education and health, as well as lifelong learning and social inclusion. This goal is corresponding to the NSRF Priority 2. The OP priorities are in conformity with the priorities of the European Employment Strategy, Joint Assessment of Employment Priorities in Bulgaria (JAP), Joint Inclusion Memorandum (JIM) and Community Strategic Guidelines for 2007-2013 programming period allowing for a strong competitive, adaptable and increasingly mobile labour force.

The HRD OP includes health, education and social services as elements of the social policy in Bulgaria, but complements them with active labour market development and activities oriented towards competitiveness, flexibility and adaptability. The HRD OP thus concentrates on the following seven priority areas:

- Promoting of sustainable employment and development of inclusive labour market;
- Raising adaptability and competitiveness of the employed persons;
- Improving the quality of education and training;
- Improving the conditions for access to education;
- Intensifying social integration and employment through development of the social economy;

- Improving the efficiency of the labour market institutions, of the social and health services;
- Promoting transnational cooperation in the field of labour.

During its implementation the programme shall take advantage of the good practices and leading principles of EQUAL Community Initiative – gender equality, innovations, mainstreaming, partnership and cooperation among member-states of the EU.

4.4. Operational Programme "Development of the Competitiveness of the Bulgarian Economy"

The general purpose of the Operational Programme "Development of the Competitiveness of the Bulgarian Economy" is the development of a dynamic economy, competitive at the European and world markets, in fulfilment of the activities required by NSRF Priority 3 "Fostering Entrepreneurship, favourable business environment and good governance", jointly with OP "Administrative Capacity". The two specific purposes of the OP – encouraging innovations and increasing the effectiveness of enterprises, as well as improving business environment, in which they operate, shall contribute to the improved overall competitiveness of the economy.

The encouragement of a knowledge-based economy and the innovation activities is a separate priority in the OP which will strengthen the relationship between science and business and will increase the enterprise's expenditures on research and development and the value added of the produced services and goods. Decreasing the consumption of energy and resources, modernising the equipment, the technologies and the production processes, will contribute to increasing the productivity of labour and the efficiency of production as a whole.

Increasing efficiency of enterprises and promoting a supportive business environment is the OP priority which concentrates the highest share of the funding and encompasses the activities expected to bring about the leverage effect required to fulfil the general and specific purposes of the OP "Development of the Competitiveness of the Bulgarian Economy". The other two priorities of the Operational Programme are organized around providing financial resources for developing enterprises and overall strengthening of the international market positions of Bulgarian economy.

4.5. Operational Programme "Administrative capacity"

The Operational Programme "Administrative capacity" contains interventions as envisaged under Priority 3 of the NSRF "Fostering Entrepreneurship, favourable business environment and good governance". The OP thus aims primarily at the development of efficient, streamlined, competent and customer-orientated state administration. The specific goals of the Programme are: introduction of good governance principle and enhancing the confidence of the Bulgarian citizens and the business sector in the administration; modern human resources management in the state administration; enhancing the quality of service delivery and using information technologies opportunities. The Operational Programme "Administrative Capacity" also includes a component pertaining to the human capital in civil society, especially in building partnerships with the administration and contributing to effective policy formulation process.

4.6. Operational Programme "Regional development"

The OP "Regional development" is oriented towards the practical implementation of NSRF Priority 4 "Balanced Territorial Development". The overall logic of interventions 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 at improving territorial, internal, and external connectivity, as well as to support the small municipalities with lower technical and institutional capacity by 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.

In addition, OP Regional Development due to its territorial character contains:

- two priorities, Regional and Local Development and Sustainable Tourism, which directly contribute to NSRF Priority 2 "Increasing the quality of human capital with a focus on employment" by increasing employment levels locally;
- one priority, Regional and Local Connectivity, especially development of ICT infrastructure, completing the NSRF Priority 1 "Improving basic infrastructure" and ensuring the pre-conditions for the wider use of E-Government (encouraged under NSRF Priority 3 "Fostering Entrepreneurship, favourable business environment and good governance".

4.7. Operational Programme "Technical Assistance"

The Operational programme Technical Assistance contributes to the successful implementation of the NSRF by providing the necessary logistical and material support to the Central Coordination Unit, Certifying Authority and Audit Authority. It has been set up to ensure coordination and implementation of the cohesion policy, the necessary reliable management as well as the introduction of a single Management Information System for all OPs, the supply of appropriate communication to the general public about the EU interventions and to raise the quality of the financial control and audit systems. As users of the unified MIS, the Managing Authorities shall also benefit from this OP.

The Operational programme Technical Assistance therefore identifies three priority axes:
– Support to the implementation of the activities, performed by the Central Coordination Unit, Certifying Authority, Audit Authority, and NSRF Monitoring Committee and OPTA Monitoring Committee and OPTA Managing Authority;
– Further development and support for the functioning of the Unified Management Information System; and
– Promotion of European Cohesion Policy in Bulgaria and Ensuring the Provision of General and Statistical Information.

4.8. Objective 3 "European Territorial Cooperation"

European Territorial Cooperation financed under the European Regional Development Fund (ERDF) is designed to support the harmonious and balanced integration of the territory of the European Union (EU) through assisting the cooperation in fields of importance to the Community at cross-border, international and inter-regional level.

The Republic of Bulgaria sets in its National Strategy for Regional Development 2005-2015 the territorial cooperation as separate priority with three specific objectives:

- development of cross-border cooperation,
- development of trans-national cooperation,
- networking and exchange of experience with the European regions.

Bulgaria actively participates in the preparation of five bilateral cross-border cooperation programmes with Romania, Greece, Serbia, the former Yugoslav Republic of Macedonia (fYRoM) and Turkey. These programmes cover about 2/3 of the country's territory.

The Operational Programmes for Cross-border Cooperation can be grouped by:

- Internal borders of the European Union: Bulgaria-Greece and Bulgaria-Romania financed under ERDF. These programmes include respectively 4 and 9 districts (administrative units) on the territory of Bulgaria at NUTS III level;
- External borders of the European Union: Bulgaria-Turkey (including 3 districts on the territory of Bulgaria at NUTS III level), Bulgaria-fYRoM (including 2 districts on the territory of Bulgaria at NUTS III level), Bulgaria-Serbia (including 5 districts on the territory of Bulgaria at NUTS III level). These three programmes will be financed under both ERDF and the Instrument for Pre-Accession Assistance (IPA) of the EU;
- Sea Basin Programme in the Black Sea including the two NUTS II regions – Bourgas and Varna, financed under both ERDF and the European Neighbourhood and Partnership Instrument (ENPI);

Within the framework of Objective 3 - European Territorial Cooperation, Bulgaria will develop cross-border cooperation in the following summarized fields:

- encouraging economic activity, in particular the development of SMEs, tourism, culture, and cross-border trade;
- encouraging and improving the joint protection and management of natural and cultural resources, as well as prevention of natural and technological risks;
- supporting links between urban and rural areas;
- reducing isolation through improved access to transport, information and communication networks and services, and cross-border water, waste and energy systems and facilities;
- developing collaboration, capacity and joint use of infrastructures, in particular in sectors such as health, culture, tourism and education;
- promoting the development of cross-border labour markets, local employment initiatives, gender equality and equal opportunities, training and social inclusion;
- developing the institutional and administrative capacity at regional and local level and providing technical assistance for the preparation of new projects.

Within the framework of ERDF, Bulgaria actively participates in the South-East European Space for transnational cooperation. The inter-regional cooperation is included as an operation in Priority Axis 4 "Regional and local networking, cooperation and absorption capacity" under Operational Programme Regional development 2007-2013 to be financed under ERDF supporting the more explicit connection between Objective 1 and Objective 3 of the new Cohesion Policy.

4.9. 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 basic 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.

The first strategic goal of the National Strategic Plan for Rural Development associates with the development of a competitive agriculture and forestry and innovation-based food-processing sector. The first strategic objective is to be achieved through interventions, supporting modernisation and restructuring of the agri-food chain, the forestry and primary wood-processing activities. The overall strategic approach is to boost productivity and competitiveness of agriculture, food and forestry sectors through support for:

- Up-grading technologies, improving plant and animal stock, introducing modern land and water management practices;
- Promoting innovations in the agri-food chain for production of new high value added products and technologies;
- Raising skills level and knowledge of the labour force;
- Improving the environmental performance of farms and forestry;
- Adjustment of farming structures and land ownership structures.

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 of 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 modernisation and adjustment of the Black Sea fishing fleet and the improvement of the working conditions and in 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 costal fishing areas. The activities will include:

- strengthening the competitiveness of the sector,
- restructuring and diversification of economic activities,
- improvement of the existing infrastructure, creation,
- modernisation and extension of the fishing tourism opportunities as well as the creation of alternative forms of tourism.

4.10. Coordination and complementarity among the Operational Programmes

The implementation of the operational programmes contributes to increasing the competitiveness of the economy and at the same time addresses the social aspects of the development: 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 and better service delivery in the OP Administrative Capacity. OP Human Resource Development is complemented by OP Regional Development in the social infrastructure investments. Innovation activity, higher quality of education and life-long training are an indispensable condition for transition to a knowledge economy. Both are developed in the OP Human Resource Development and OP Administrative Capacity.

The promotion of entrepreneurship and start-ups is essential for development of competitive economy thus it is supported in two OPs: OP "Human Resources Development" and OP "Competitiveness". OP "Human Resources Development" is aimed at improving the quality of the labour force and the labour conditions in enterprises, focusing on creation of possibilities for economic realization of unemployed and inactive people, including self-employment. OP "Competitiveness" complements the measures by supporting only start-ups is for creation of technological start-ups with high innovative potential. This is a specialized type of support for a specific target group aiming at stimulation of creation of innovations.

Fostering partnership between the academic institutions, the business and the administration is aimed at promotion of relevant business and administration skills. These interventions are complemented in three of the OPs: OP Development of the Competitiveness of Bulgarian Economy, OP Administrative Capacity and OP Human Resource Development. Special attention is paid in the capacity building of economic and social partners and relevant non-government organisations in the OP Administrative Capacity and OP Human Resource Development. Their commitment to strengthening economic and social cohesion by improving employment and job opportunities is essential. Clustering at regional and local level for successful partnerships between social and economic partners, regional associations and local authorities is elaborated under OP Regional Development. Fostering partnership between NGOs (with special focus on organizations representing the major target and beneficiary groups) and the administration should be deliberately searched and monitored all levels: from design of projects and documents to their implementation.

Improved business environment is essential for higher economic growth. OP Administrative Capacity provides for better regulation, increased transparency in the state administration and the judiciary system. The improved administrative framework and the reinforced competitiveness and enterprise development (OP Development of the Competitiveness of Bulgarian Economy) end up with improved investment climate.

Investment in infrastructure (OP Transport and OP Environment) will intensify the business links and sustainable development. ICT network broadening will be used for improving access to the administrative services at all levels (OP Regional Development and OP Administrative Capacity), innovation activities in SMEs (OP Development of the

Competitiveness of Bulgarian Economy) and for reducing regional disparities (OP Regional Development).

The OP Regional Development makes a significant contribution to mobilising 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 realisation of investment projects in the local infrastructure. OP Regional Development will complement OP Administrative Capacity in the improvement of administrative service delivery at regional and local level.

4.11. Coordination and complementarity between Objective 1 and Objective 3

The Territorial Cooperation Programmes for the period 2007 – 2013 root their actions in the bilateral and multilateral experience accumulated in the course of implementation of preceding Phare CBC and Neighbourhood programmes / INTERREG IIIB CADSES / INTERREG IIIC Community initiatives. In parallel, however, they draw inspiration from the present challenges at the regional and local level, but are inscribed in the larger European policies and strategies, such as the 1999 European Spatial Development Perspective (ESDP) and the new “Regions for Economic Change” platform.

The cross-border, transnational and inter-regional cooperation programmes seek to provide a specific and targeted territorial dimension to Lisbon and Gothenburg strategies by looking at geographical distribution of growth, innovation and employment processes in the eligible cross-border, transnational area or EU-wide and by offering an integrated and truly joint sustainable development actions between the countries concerned.

Although the priorities of these programmes may correspond to relevant national or EU sectoral policies, as opposed to the sectoral programmes the territorial cooperation programmes promote actions of a qualitatively different type. Projects selected are conducive to integrated territorial development using a multi-stakeholder approach (engagement of various sectors and authority levels) and obligatory meet at least two of the following criteria:

- joint development
- joint implementation
- joint staffing
- joint financing.

The Objective 3 programmes are not intended to finance large-cost and durable infrastructural investments (like Objective 1 programmes), but mainly soft, small-scale and people-to-people activities. The projects must have a clear impact beyond the national borders and include aspects (e.g. territorial coverage, poly-sectoral approach, level of stakeholder involvement) which are ineligible or impossible to cover within the sectoral operational programmes.

4.12. Lisbon Earmarking

Although Bulgaria is not legally required to undertake the ‘earmarking’ exercise, the country has decided to facilitate the verification of the progress on the Lisbon agenda by quantification of Lisbon-related activities as per the allocations of OP priorities.

The following table shows indicative list of Lisbon-related OP priorities, generating over 60% of the funding which is the Bulgarian commitment.

OP	OP Priority
OP Administrative Capacity	Quality of administrative service delivery and e-government development
OP Development of the Competitiveness of the Bulgarian Economy”	Development of a knowledge-based economy and innovation activities
OP Development of the Competitiveness of the Bulgarian Economy”	Increasing efficiency of enterprises and promoting a supportive business environment
OP Development of the Competitiveness of the Bulgarian Economy”	Financial Resources for Developing Enterprises
OP Development of the Competitiveness of the Bulgarian Economy”	Strengthening the international market positions of Bulgarian economy
OP Human Resource Development	Promotion of sustainable employment and development of inclusive labour market
OP Human Resource Development	Raising of adaptability and competitiveness of the employed persons
OP Human Resource Development	Improving the quality of education and training in correspondence with the labour market needs for building knowledge-based economy
OP Human Resource Development	Better access and integration to education and training
OP Human Resource Development	Social inclusion and enhancement of social economy
OP Human Resource Development	Improvement of the efficiency of the labour market institutions and social and healthcare services
OP Human Resource Development	Transnational cooperation
OP Regional Development	Sustainable and Integrated Urban Development (60%)
OP Regional Development	Regional and Local Accessibility
OP Transport	Development of railway infrastructure along the major national and Trans-European transport axes
OP Transport	Development of road infrastructure along the major national and Trans-European transport axes
OP Transport	Improvement of inter-modality for passengers and freight
OP Transport	Improvement of the maritime and inland-waterway navigation

The detailed classification of the expenditures at the level OP priorities and operations as per Annex IV of the Regulation 1083/2006 and in view of the respective Commission Implementing Regulation will be provided annually and consulted with the Commission.

5. INDICATIVE FINANCIAL 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 (Council Regulation l(EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, 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 "top-down" and "bottom-up" approach. As a starting point in the process of allocation of the resources from the 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 EC and the experience of the new EU member states, taking into account the specific character of each country and the driving forces and development tendencies for the country.

The Bulgarian authorities consider that the building of the main roads and major transport corridors (and respectively the improvement of the existing ones) will have the highest value added from the use of Cohesion Policy, thus having the potential of becoming the stronger driving force for economy development not only in the mid-term, but in the long-term as well. The improved road infrastructure and accessibility will undoubtedly allow for an increase of the transported goods and passengers, boosting also the related services. The logic focuses on the support for the pre-conditions of all sectors and types of productions and industries, including the export oriented ones, since this is the first programming period of Cohesion Policy in Bulgaria. The currently growing sectors might need to be tested by the EU competition and the forces of the internal market. The more sectoral investments are planned in the second programming period 2014-2020 for Bulgaria, allowing streamlining on the basis of growth potential. Moreover, the enhanced connectivity for 2007-2013 will create more favourable conditions for attracting foreign and domestic investments, thus will directly contribute to acceleration of the economic expansion without skewing the underlying market tendencies.

The labour market has a huge underutilised potential having in mind not only the number of the unemployed persons but also the low level of the participation rate. At the same time, a modern economy requires a qualified labour force in support of competitiveness and sustainability. Therefore, the activation policy accompanied by the policy of increasing the qualitative characteristics of the labour force could become among the main driving forces for fast economic development. By the intended measures and actions in this regard, the increased employment will generate additional gross domestic product, while the enhanced quality of the labour force will boost the labour productivity and therefore will trigger overall economy development.

Innovations and research and development are also considered crucial for business and scientific development and the supported investments in this field are expected to allow for sustainable long-term increase of the technological level, the related total factor productivity and eventually economic development. The increased production, especially in export-oriented industries will contribute to the overcoming of the foreign trade imbalances and narrowing of the current account gap. The provided support for SME development and the improved business environment will enable the economy to grow faster.

The valorisation of the country's rich cultural heritage and varied biodiversity is also considered as major opportunity for growth and local development. By realising its tourism development potential, Bulgaria will not only increase revenues from foreign visitors, but will be able to diversify the economy in the rural areas and consequently decrease the urban-rural disparities.

Subsequently the OP working groups developed the OP financial tables. The OP financing is based on the identified driving forces and development tendencies above, and subsequently adjusted to the national level measures, the budget possibilities for co-financing of the Structural and Cohesion Funds and sectoral absorption capacity analyses.

Table: Financial Table for the NSRF
Indicative annual allocation by Fund and Programme (euro, current prices)

Convergence		Community participation (in euro)							
OP	Fund	Total	2007	2008	2009	2010	2011	2012	2013
ERDF and CF									
OP "Competitiveness"	ERDF	987 883 218	71 844 538	105 171 139	143 202 668	150 898 409	161 551 329	172 263 692	182 951 444
OP "Regional Development"	ERDF	1 361 083 544	98 985 808	144 902 458	197 301 454	207 904 474	222 581 831	237 341 086	252 066 434
OP "Transport"	ERDF+CF	1 624 479 625	121 123 105	174 427 370	235 241 207	247 655 258	264 790 352	282 023 048	299 219 285
	ERDF	368 809 735	26 821 961	39 263 892	53 462 329	56 335 406	60 312 496	64 311 778	68 301 872
	CF	1 255 669 891	94 301 144	135 163 478	181 778 878	191 319 852	204 477 856	217 711 270	230 917 413
OP "Environment"	ERDF+CF	1 466 425 482	109 086 387	157 331 029	212 373 803	223 600 384	239 100 655	254 689 043	270 244 181
	ERDF	439 059 208	31 930 906	46 742 728	63 645 630	67 065 959	71 800 591	76 561 641	81 311 753
	CF	1 027 366 274	77 155 481	110 588 301	148 728 173	156 534 424	167 300 064	178 127 403	188 932 428
OP "Technical assistance"	ERDF	48 296 513	3 512 400	5 141 700	7 001 019	7 377 256	7 898 065	8 421 780	8 944 293
ESF									
OP "Human Resources"	ESF	1 031 789 139	75 037 629	109 845 411	149 567 231	157 605 005	168 731 388	179 919 856	191 082 619
OP "Administrative capacity"	ESF	153 670 723	11 175 817	16 359 955	22 275 971	23 473 086	25 130 207	26 796 574	28 459 113
TOTAL all funds NSRF 2007-2013		6 673 628 244	490 765 684	713 179 062	966 963 353	1 018 513 870	1 089 783 826	1 161 455 080	1 232 967 369
Total ERDF		3 205 132 217	233 095 613	341 221 917	464 613 100	489 581 504	524 144 311	558 899 977	593 575 795
Total CF		2 283 036 165	171 456 625	245 751 779	330 507 051	347 854 276	371 777 921	395 838 672	419 849 841
Total ESF		1 185 459 862	86 213 446	126 205 366	171 843 202	181 078 090	193 861 594	206 716 430	219 541 733
EAFRD		2 609 098 855	244 055 813	337 144 800	437 343 789	399 098 704	398 058 955	397 696 967	395 699 827
EFF		73 438 199	10 492 220	15 734 659	8 392 308	10 492 220	8 392 308	10 492 220	9 442 264

Note: The additional amount of 179,227,177 euro from ERDF are allocated additionally for Objective 3 programmes distributed as follows:

Paragraph 21 Annex II	1 711 766	1 556 810	1 564 632	1 614 381	1 665 494	1 711 607	1 758 897	11 583 587
Transfer to ENPI	282 563	482 759	527 693	538 247	549 012	559 992	571 192	3 511 458
Transfer to IPA	3 079 781	5 261 804	5 751 546	5 866 576	5 983 908	6 103 586	6 225 658	38 272 859
Transnational	4 266 307	3 880 108	3 899 596	4 023 591	4 150 985	4 265 910	4 383 773	28 870 270
TOTAL	23 672 981	24 216 606	24 844 075	25 559 955	26 294 534	26 972 322	27 666 704	179 227 177

EIB

Since 1990 the European Investment Bank (EIB) has provided loans to Bulgaria in excess of 1 bln. euro across a large variety of sectors. The Bank has co-financed many ISPA and PHARE supported projects in the country contributing to a leverage effect of EU grants. Recently, the EIB group, in close cooperation the European Commission and other financial institutions, has developed a number of new initiatives JASPERS, JEREMIE and JESSICA – in support of cohesion targets including project preparation for the forthcoming programming period 2007-2013.

In line with its role, the EIB is ready to offer co-financing of the Structural and Cohesion Funds during the forthcoming period. EIB may also assist the Bulgarian authorities and private sector entities who may benefit from EU grant assistance under the NSRF in the preparation, implementation and monitoring of projects and programmes. Such assistance is open to both public and private promoters, as well as to structures involving both (PPPs). Finally, it should be recalled that EIB loans may also cover projects or programmes pertaining to sectors or priority axes beyond the NSRF.

6. HORIZONTAL ISSUES

Public Procurement and Concessions

According to the Bulgarian legislation the public procurement is regulated by the Public Procurement Law (PPL), in force since 1st October 2004, amended with the Law for amendments to the Public Procurement Law (PPL), in force since 1st of July 2006. Additional secondary legislation of high importance are the Rules for the implementation of the Public Procurement Law[75], 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. Concession granting is regulated by the new Concessions Act and the Rules for its Application, effective as of 1 July 2006.

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[76], 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. The state policy in the field of concessions is carried out by the Council of Ministers, which represents the State as a party to the concession contracts for state concessions, and by the Municipal Councils as party to the concession contracts for municipal concessions.

Any contracting authority and any tenderer in a public award procedure may offer the conclusion of an arbitration agreement for hearing disputes between them over the conclusion of a public contract or a framework agreement. In this regard, a court of Arbitration is established within the Agency, which is an out-of-court institution for review and resolution of public procurement-related disputes.

Every decision, action or lack of action on the part of the contracting entities in the public award procedure prior to the conclusion of the public contract or the framework agreement shall be subject to legal review before the Commission for the Protection of Competition. The decision of the Commission for the Protection of Competition shall be subject to review before a three-member committee of the Supreme Administrative Court.

Every participant / candidate in a public procurement or concession granting procedure has the right to appeal every decision, action or lack of action by the contracting authority or the body representing the grantor, before the Commission on the Protection of the Competition and the Supreme Administrative Court.

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. A National Concessions Register has been established, which includes all notices related to the opening of concession granting procedures, data on signed contracts, and data on the implementation of signed contracts.

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[75] In effect as of 01.10.2004
[76] The Public Procurement Agency is established with a Council of Ministers Ordinance No. 56 of 13.03.2004

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 procurement and concession contracts award will be ensured.

According to the National Strategy for transparent management and anti-corruption measures for the period 2006-2008 (January 2006), public procurement and concessions are the main source for directing public funds towards the private sector. On the other hand, they are an easy target for administrative corruption in the attempts to receive unauthorised access to public resources and an instrument for political influence in order to receive or having received financial support from business. In order to restrict the corruption, the government has committed itself to improve the transparency in the management of the public procurement and concessions by the means of:

- multi-annual budgeting of expenditure;
- improved appeal system;
- strengthened specialised and public control procedures;
- increased quality of the Public Procurement Register;
- prevention of additional norms and regulations modification throughout an ongoing procedure;
- strengthened capacity of the PPA;
- improved financial control in the whole public service.

All those activities are aimed at transparent and efficient administration.

State Aids

In accordance with Article 54 (4) of the Council Regulation (EC) No 1083/2006, aid to enterprises under Structural Funds should be compliant to the rules on state aid. For that purpose each OP contains information certifying the examined compliance to the state aid scheme, in accordance with Article 87 of the Agreement. According to the Vademecum for Structural Funds plans and programming documents (Commission Working Paper No 1), this information is one of the mandatory elements, which the Commission requires in order to announce an OP eligible. This information is provided in standard format: a table reflecting detailed scheme of compliance with the state aid rules for each of the priorities, the document by virtue of which it has been allowed and duration of the scheme, or the lack of necessity for state aid permit, as well as the rule applied in each particular case. The responsibility for the updating of the table in case of any potential change in the OP and for informing the Commission in case of its change is on the respective OP MA. An indicative list of state aid schemes under each OP is provided in the document itself.

“State aid” is the term used to describe any support given from State resources to any one undertaking in preference to another, to improve that undertaking’s market position. Such support is considered incompatible with the common market, and so is illegal, unless it is expressly allowed by the EU Treaty or has been approved by the EC. However, such aid has also an important economic role to play where it is needed, by drawing in essential private sector investment.

The EC's state aid guidelines are currently under review, as many expire at end 2006 or 2007. The EC has proposed Regional Aid guidelines that will not take effect until 1st January 2007 and proposals for a strategic review of the legislative framework for horizontal and sectoral aids. There is no formal definition of state aid; however there are four general tests, all of which must be met for support to be classed as state aid. The tests derive from Article 87 (1) of the EC Treaty, which states that:

> *"Save as otherwise provided by the Treaty, any aid granted by a member state through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between member states, be incompatible with the common market."*

The four tests that are used to assess whether assistance is State aid are the aid has to:

- Be granted by a Member State or through state resources;
- Favour certain undertakings or the production of certain goods;
- Distort or threaten to distort competition;
- Affect trade between member states.

If these four tests are met, then the proposed support is defined as a state aid that must be assessed for its compliance with the State aid rules. The MA, in cooperation with the Bulgarian State Aid Department in the Ministry of Finance (website: www.stateaid-bg.org) and the EC, may be best placed to conduct this assessment. 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 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 in Bulgaria. It is submitted to the National Assembly, the Council of Ministers, the European Commission and published.

7. Coordination mechanism

7.1. High Level Coordination

There are two institutionalized high-level coordination for the efficient preparation and effective management of the structural funds activities before accession.
Firstly, each week a meeting among the respective deputy ministers and directors (heads of Managing Authorities of the Operational programmes) continue to take place. Preparatory activities, deadlines, budgets, external commitments are discussed allowing not only direct involvement of the deputy ministers in the day-to-day work in programming and institutional developments, but also an early warning system in cases of difficulties, possible overlaps, desirable synchronization.
Secondly, there is a new initiative at ministerial level, which formalizes the contacts and agreements at the highest level and contributes to the timely preparation of the country. A Council for coordination of the preparation of the National Strategic Reference Framework 2007-2013 and Operational Programmes is established as a legal entity by a Prime Ministerial Decree (No. P-57 of 14 July 2006). Regular monthly meetings of the 6 Ministers responsible for the management of the SCF Operational Programmes, as well as the Minister of Agriculture and Forestry, Minister of the European Affairs and the Minister of Finance as Chairman, guarantee highest level commitment and information exchange, as well as problem solving in cases of legal doubt or where a unified governmental position has to be prepared. The Council for the coordination of the preparation of the National Strategic Reference Framework 2007-2013 and Operational Programmes until their final adoption acts as a bridge between the relevant programme managers and Council for European Integration, which covers all the Treaty commitments.

The Council for the coordination of the preparation of the National Strategic Reference Framework and Operational Programmes:

- review all progress in the programming process concerning ERDF, ESF, Cohesion Fund and the EAFRD;
- ensure coordination amongst the competent authorities;
- provide the opportunity for joint actions and coordinated corrective measures, where necessary;
- discuss the changes to the programming documents in view of EC comments or ex ante reports;
- review information prepared by the Managing Authorities and/or the Central Coordination Unit on the pending steps and activities;
- inform where appropriate the Council for European Integration.

The new initiative ensures full and timely coordination at the last stages of programming, negotiation and finalization of the NSRF 2007-2013 and the Operational Programmes.

Detailed procedure for coordination of the NSRF is presented in Annex 1.

7.2. Complementarity of the Activities financed from the European Regional Development Fund, the European Social Fund, the Cohesion Fund, European Agricultural Fund for the Rural Development and the European Fisheries Fund

According to the Strategic Guidelines for rural development and the Cohesion Policy of the Community, it is necessary to ensure complementarity 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) on one hand, and the European Agriculture Fund for Rural Development (EAFRD) and the European Fishery Fund (EFF) on the other. Because of that, guiding principles have been adopted at national level, to put the demarcation line between the aid for rural development, the measures supporting Fishery and Aquaculture, and the activities to be financed by the Structural Funds and the Cohesion Fund on two levels – strategic (at the level of NSP and NSRF) and at the program level.

The coordination at strategic level is of high importance for achieving complementarity among the different objectives and thus optimal impact on the socioeconomic development of the country.
The main principles of demarcation are depending on the following types for different policies, measures and activities:

- by type of territories concerned (geographical demarcation);
- by the size of local administration;
- by type of beneficiaries;
- by type and/or the size of actions selected under each policy;
- by establishment of co-ordination administrative mechanism on program level to ensure consistency.

7.3. Coordination Mechanism in Programming

In Bulgaria there is an established coordinating mechanism with an aim to properly distribute the aid from the Structural Funds, European Agriculture Fund for Rural Development, European Fisheries Fund, European Investment Bank and other financial instruments and institutions. Apart from the high level coordination at **ministerial level**, each week a meeting among the respective **deputy ministers and directors** (Heads of Managing Authorities of the Operational Programmes) continue to take place. Preparatory activities, deadlines, budgets, external commitments are discussed allowing not only direct involvement of the deputy ministers in the day-to-day work in programming and institutional developments, but also an early warning system in cases of difficulties, possible overlaps, desirable synchronization.

With an aim to ensure coordination while preparing of the strategic programming documents with Decree No. 71 of the Council of Ministers from 02.08.2002 was established the Coordination Council for the National Development Plan and the National Strategic Reference Framework for the period 2007-2013, chaired by the Minister of Finance. The members of the council are deputy ministers of all ministries, responsible for the management of the financial assistance from the EC. The council coordinates the activities of the working groups for the preparation of the strategic planning documents under SF, CF, EAFRD and EFF. The council is also responsible for avoiding overlaps between them.

The "Management of EU Funds" Directorate within the Ministry of Finance plays the role of Central Coordination Unit. The Directorate is responsible for the operational coordination between national strategic documents for the period 2007-2013 and between the Operational Programmes and the assistance from EAFRD and the EFF. The Coordination Council approves the drafts of the National Strategic Reference Framework, the National Strategic Plan for Rural Development and the National Strategic Plan for Fisheries. With a decision of the Coordination Council during 2004-2005 were established inter-ministerial working groups to prepare the strategic documents and Operational Programmes. Working group to prepare the NDP and the NSRF was established in the MF and is headed by the Agency for Economic

Analysis and Forecasting. The working group for the preparation of the NSPRD is headed by the Ministry of Agriculture and Forestry, while the working group for the NSPF is headed by the Implementing Agency for Fisheries and Aquacultures in the MAF. In the working group are included representatives of the socio-economic partners.

Representatives of "Management of EU funds" Directorate and of the OP Managing Authorities are members of the working groups preparing the National Strategic Plan and the Programme for Rural Development, along with the sub-groups for the development of the measures. On the other hand, representatives of MAF participate in the development of all other strategic documents and Operational Programmes. The principles of establishment and representation mechanism of the Monitoring Committees for the different Operational Programmes, along with the ones related to the Programme for fisheries and rural development have been set with a decree of the Council of Ministers. It is envisaged that the NSRF Monitoring Committee, chaired by the Minister of Finance, will be composed of deputy ministers of all ministries and departments, which are responsible for Operational Programmes under the structural and cohesion funds, including the Programme for Rural Development and the OP for Fisheries and Aquacultures.

During the preparation of the strategic documents four public forums were conducted under the leadership of the Ministry of Finance for the introduction and coordination of the strategic documents.

Administrative mechanism for coordinating and avoiding overlapping during implementation of the programmes includes the following steps:

- for the measures with possible overlapping or in order to comply with the requirements of the de minimis rule, the beneficiaries are required to submit a declaration that this project is not receiving financing under any other program;
- for measures, eligible for funding under more than one programme and addressing common target groups, ad hoc working groups between MAs will be set up to synchronise measures' formulation and implementation
- projects selection mechanism with cross participation of MAs under each programme will be established;
- all approved projects are included in a single system for management and monitoring at national level, which is maintained by the "Management of EU Funds" Directorate in the Ministry of Finance.

Detailed information on the coordination and demarcation issues is given in Annex 2.

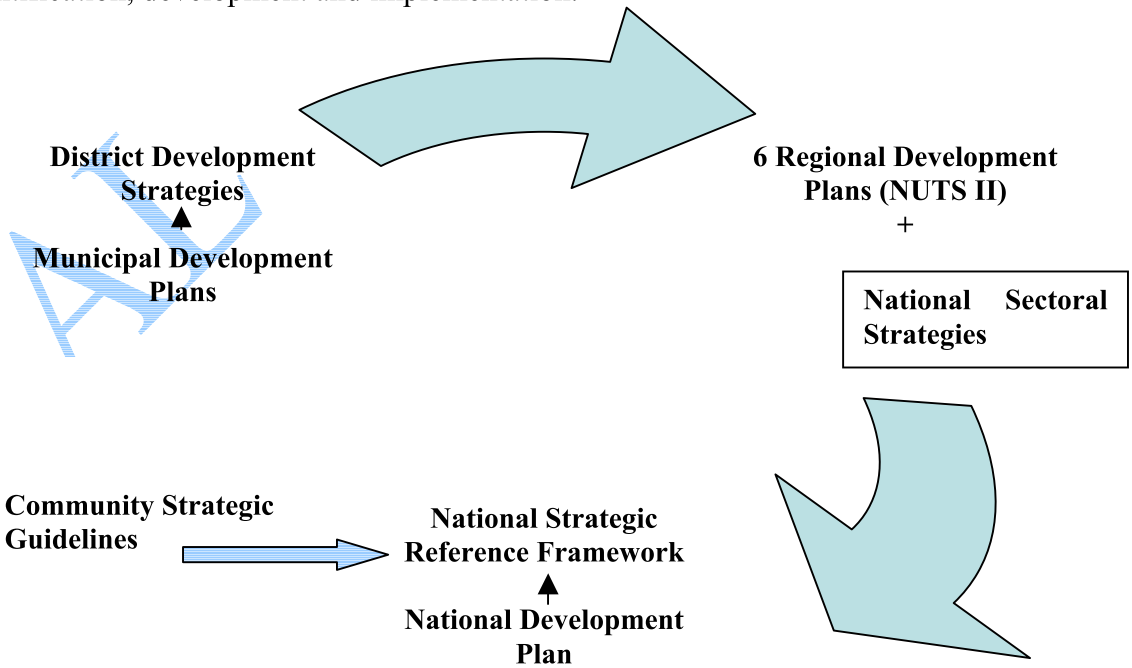
8. ANNEXES

ANNEX 1. PROCEDURE FOR COORDINATION OF THE STRATEGY

Coordination Mechanisms

Coordination of Central, Regional and Local Level Government

The public authorities in Bulgaria interact in the processes of EU project and programme identification, development and implementation.



At central level a Coordination Council for the National Development Plan (NDP) and the National Strategic Reference Framework (NSRF) was established. It is chaired by the Minister of Finance and the members are deputy ministers from the Bulgarian ministries. The Council's work is supported by a Working Group organised following the partnership principle. On the basis of recommendations from the Chair 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 coordination at strategic level is a crucial element in order to achieve synergy between different policies and consequently to maximise the impact of the socio-economic development of the country. That is why an additional Council, chaired by the Minister of Finance, was established with special orders issued by the Prime Minister. It consists of the Minister of Economy and Energy, Minister of Environment and Water, Minister of Transport, Minister of Regional Developments and Public Works, Minister of Labour and Social Policy, Minister of State Administration and Administrative Reform, and the Minister of Agriculture and Forestry. The purpose is to ensure the coordination process and the integrated approach in the preparation of the NSRF. The Council convenes every month, but each Minister can initiate additional meeting. The Council will work until official approval of the NSFR. The final decisions and approval of the NSRF are taken by the Coordination Council, composed by the line deputy Ministers.

The central level, although sensitive to regional and local needs, is responsible for ensuring an integrated approach towards EU funding with respect to planning and implementation.

The Regional Development Plans were approved by the respective six Regional Development Councils (RDCs) which currently support the EU Cohesion Policy planning within the territory of Bulgaria at NUTS II level. The Councils are presided over by one of the district governors on a rotation basis. 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, the Ministry of Transport and the Ministry of State Administration and Administrative Reform, as determined by the relevant ministers.

The Regional Development Councils:

- discuss and co-ordinate projects at regional level and the progress of the respective Regional Development Plan;
- discuss and submit opinions on the measures that should be implemented at the regional level with respect to the NSRF and the OPs;
- assist in the evaluation of a pipeline of projects for NSRF and OPs;
- submit opinions on the annual reports and on the final report concerning OPs;
- participate in the NSRF and OPs Monitoring Committees through appointed representatives;
- interact with Municipalities and their Associations, District Development Councils and with the central administration.

The functions of the RDCs are continuously strengthened along with the technical directorates which exist to fully support the working and policy continuity of the RDCs. This policy of adding capacity to the RDCs and their supporting structures follows the increasing role they are expected to play in the process of regional coordination of the Cohesion Policy in Bulgaria and is in line with EC recommendations.

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) civil servants are appointed, responsible for European projects, and who perform other duties as well. In compliance with the partnership principle and with the commitments, that have been undertaken according to the Official Memorandum of Understanding, 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 decentralisation in management and financing";
- "Expanding the capacity and improving the status and management of municipal property and infrastructure";
- "Preparation of the municipalities for Bulgarian membership in the European Union".

Coordination of Partnership

The Bulgarian public authorities recognise that the partnership principle is a necessary element in the process of preparation, approval and implementation of the NSRF and OPs.

The NDP/NSRR working group, the OP working groups and subsequently the NSRF and OP Monitoring Committees are composed by experts not only of the central administration (Ministries), the Agency for Economic Analysis and Forecasts, the State Agency of Youth and Sports and the National Statistical Institute, but also of the 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 "Vazrajdane", 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.

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.

Coordination of Functions

The structures responsible for the management of the structural instruments 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 authority for structural instruments has been established in the Ministry of Finance with Council of Ministers Decree No 300/29.12.2005.

Internal Audit Directorate is established with Council of Ministers 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.

Internal Control Directorate in the Ministry of Finance also functions (Council of Ministers Decree No 198/12.09.2005, amending the Organic Rule of the Ministry of Finance). The Directorate has undertaken all the functions related to coordination, harmonization and methodology of financial management and control and internal audit.

Central Coordination Unit

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

The main responsibilities of the Unit are to:

- Ensuring the quality of the NSRF in order to 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;
- Coordinate the submission of applications for major projects by Managing Authorities to the Commission;
- Chair and act as a secretariat for the NSRF Monitoring Committee;
- Participate in all OP Monitoring Committees.

Certifying Authority

The National Fund Directorate in the Ministry of Finance is the Certifying Authority (CA) and also executes functions of a competent Body for receiving all payments of ERDF, ESF and Cohesion Fund resources, as well as under the Instrument for Pre-Accession Assistance (IPA) for the Operational Programmes for Cross-border Cooperation on the External borders of the EU made by the European Commission.

CA is responsible in particular for drawing up and submitting to the EC certified statements of expenditure and applications for payment and for certifying that the:

- Statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents;

- 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.

CA certifies expenditure listed in the Claims for Reimbursement submitted to the Commission, provided that the MA and IBs which report to the MA and are responsible for Programme implementation have met the conditions laid down in the EU regulations and the national legislation.

CA is also responsible for ensuring that it has received adequate information from the MA on the procedures and verifications carried out in relation to expenditure included in statements of expenditure and for taking account, for the purposes of certification, of the results of all audits carried out by or under the responsibility of the Audit Authority.

It maintains accounting records in computerised form of expenditure declared to the EC and keeps an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation.

CA submits annual forecasts of expenditure to the European Commission.

It ensures that the beneficiaries/contractors receive payment from the Structural and Cohesion Funds on the basis of requests for funds submitted by the MAs.

CA is responsible for reporting to the EC any irregularities which have been the subject of initial administrative or judicial investigation, and informing the Commission, with reference back to any previous reports, of the procedures instituted following all irregularities previously notified and of important changes resulting there from.

Audit Authority

The Audit of European Union Funds Directorate within the Ministry of Finance performs all functions of the Audit Authority, e.g. audits on appropriate base aiming to ensure that the management and control systems of the operational programmes function effectively. Two types of audits shall be performed by the Audit Authority: systems audits and audits of operations.

From 2008 on the Audit Authority shall issue an annual control report and an audit opinion for the legality and regularity of the transactions, subject to audit.

Managing Authorities

A Council of Ministers decree (Decree 965/16.12.2005) officially nominated the names and location of the MAs and the respective IBs, which were established during the chapter 21 negotiations. The institutional arrangements diagram describes the nominated MAs and IBs. The CCU gives the MAs guidance based on the requirements of the General Regulation on how to prepare the OPs to be ready within the scope of the NSRF. Subsequently, each MA is responsible for managing and implementing their OP in accordance with the principles of sound financial management.

As defined in Article 60 of the General Regulation the MA shall be responsible for managing and implementing the OP in accordance with the principle of sound financial management and in particular for:
(a) ensuring that operations are selected for funding in accordance with the criteria applicable to the OP and that they comply with applicable Community and national rules;
(b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules;
(c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the OP and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
(d) ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
(e) ensuring that the required evaluations of operational programmes;
(f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
(g) ensuring that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
(h) guiding the work of the monitoring committee and providing it with the documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific goals;
(i) drawing up and, after approval by the monitoring committee, submitting to EC the annual and final reports on implementation;
(j) ensuring compliance with the information and publicity requirements;
(k) providing EC with information to allow it to appraise major projects.

Monitoring Committees

NSRF Monitoring Committee

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.

OP Monitoring Committees

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 partners can be distinguished:

- employers organisation and unions (including industrial and trade chambers, business and entrepreneurship associations);[77]
- trade unions and other working alliances;[78]
- civil society (including the nongovernmental sector (NGOs), academic communities, consumer associations, ecological and other thematic organisations).

Detailed descriptions of institutional, operational, financial and other relevant arrangements are provided in Annex 1 and in the:

- the General Guidance Manual for SCF in Bulgaria;
- the Procedures Manual of the CCU and OP MAs;
- the Manual describing the cash-flows and the responsibilities of CA;
- the Internal Rules of Procedure for NSRF Monitoring Committee and OP Monitoring Committees.

Systems and Tools

Experience and Training

The Ministry of Finance has extensive experience with pre-accession assistance. The established CCU carries the know-how and experience of the National Aid Coordinator and National ISPA Coordinator services. The Certifying Authority is the National Fund Directorate which as National Authorising Officer services is in charge of the overall financial management of the pre-accession funds and corresponding national co-financing, acts as a Competent Authority under SAPARD programme, certifies the expenditure under SAPARD and ISPA funds, processes all the financial data and conducts payments to all Phare and ISPA Implementing Agencies and to the SAPARD Agency.

All OP MAs have elaborated Organisational Development Strategies (ODSs).

The ODSs provide detailed information on functions and responsibilities of OP MAs a share of which could be delegated to the IBs on the basis of written agreements. 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.

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[77] 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).
[78] Confederation of Independent Trade Unions in Bulgaria (CITUB), Confederation of Labour Podkrepa.

For the improvement of the human resources qualification and in order to build additional capacity for absorption of funds, a comprehensive Training programme on Structural and Cohesion Funds for the period July-December 2006 has been established. It covers all programme and project managers and beneficiaries of the Operational Programmes, including representatives from the central, regional and local state administration as well as socio-economic partners, non-governmental organisations, research institutes, academic circles. The aim of the training programme is to build sufficient capacity at all levels for absorption of Structural Funds at the earliest possible stage. The additional added value of the comprehensive training, predominately conducted by the directly involved state administration, is the provision of networking and partnership opportunities.

The programme has been elaborated in response of the undertaken commitment from the Bulgarian government, according to Chapter 21 "Regional Policy and Coordination of Structural Instruments" and the recommendations from the EC Monitoring report from May 2006. The overall training covers general topics, such as: Introduction to and Management of EU Structural funds; Bulgarian programming documents: National Strategic Reference Framework and Operational Programmes for the period 2007-2013; Project cycle management; Project selection criteria; Major projects; Implementation of the legislation in the field of Public procurement, grant schemes, gender equality, environmental impact assessment and others. Specialised training is also provided on some of the core areas to be effectively dealt with in the process of SCF implementation: State aids and other horizontal policies; Information and Publicity; Financial management, financial control and audit; Unified Management Information Pilot System; Monitoring and evaluation; Procedure Manuals; Monitoring Committees and some specific issues to each Operational Programme.

Guidelines and Manuals

The following documents will be circulated to fully support the process of preparation and implementation of Structural and Cohesion Funds programmes:

- Guidance Manual for Implementation and Administration of EU Structural and Cohesion Funds in Bulgaria;
- Guidelines for Elaboration of Procedures Manual of OP Managing Authority;
- 6 Procedures Manual of OP Managing Authorities;
- 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.
- Description of the cash-flows and the responsibilities of the Certifying Authority and the MAs/IBs concerning cash-flows management; instructions to the MAs/IBs in relation to payment and certification

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 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 beneficiaries. The system gives aggregated information at the level of individual operations, OP- 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 is tested and set up to ensure the ability to exchange electronic data between the MIS in Bulgaria and the system developed for the European Commission (SFC 2007).

Publicity and Information

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. 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.

Leaflets, brochures, information booklets, short films and many other consultative materials are under preparation as part of Communication Strategy or within the budgets of the leading ministries, especially the Ministry of Finance. The Central Coordination Unit and the Managing Authorities will be the key to ensuring compliance with the principles of publicity and transparency and will establish the necessary structures and the relevant instruments. Public conferences, discussions, debates and round tables also comprise part of publicity and information on the NSRF in order to raise the awareness of all Bulgarian stakeholders and support the high level of SCF applications.

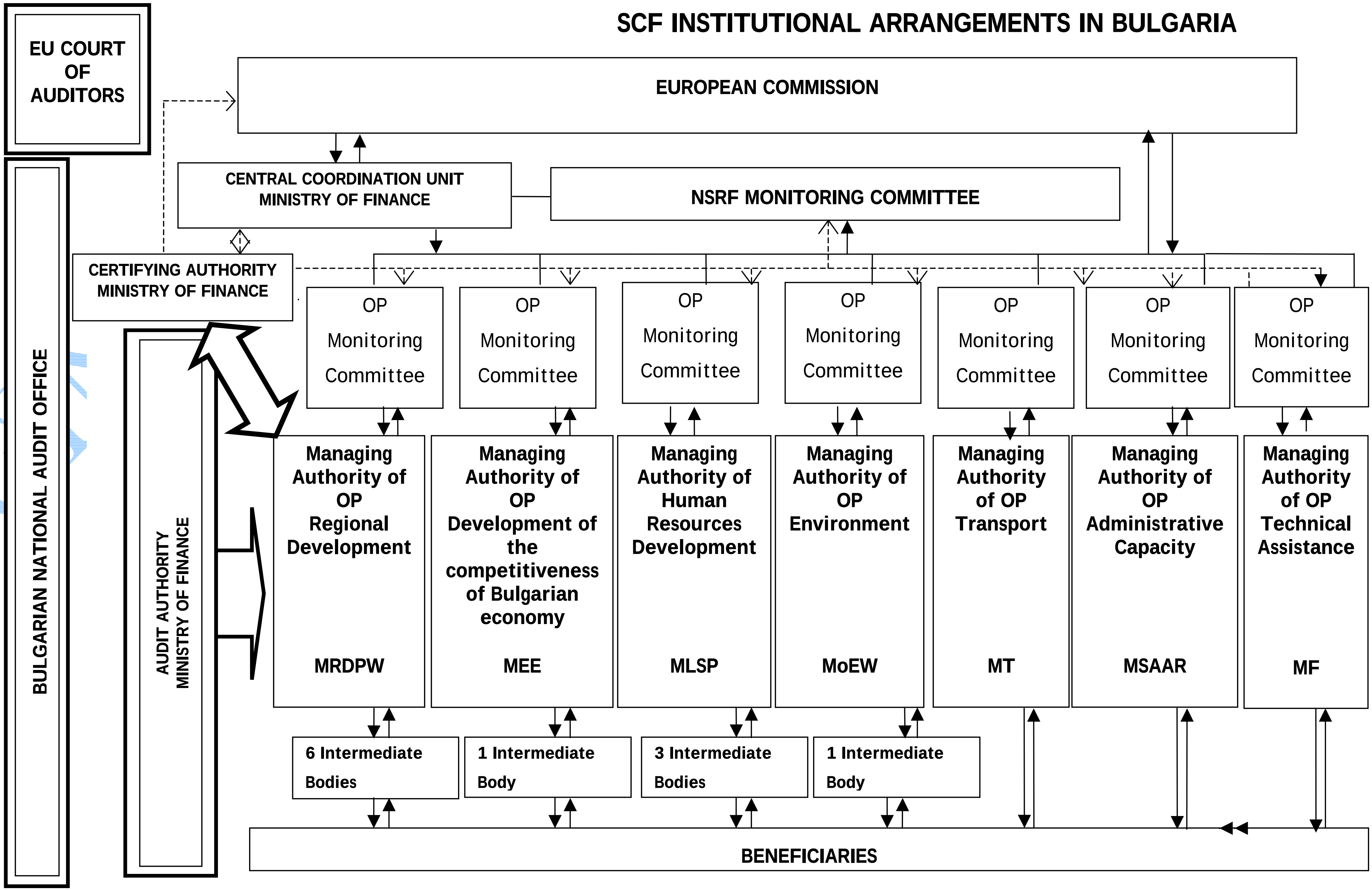
INSTITUTIONAL AND FINANCIAL CHARTS

The institutional chart contains the designated bodies in Bulgaria as well as their participation in NSRF and OP Monitoring Committees. The Managing Authority is the institution designated by the Member State as responsible for managing and implementing the Operational Programme efficiently, effectively and correctly in line with the provisions of Article 60 of the General Regulation. The designated Managing Authorities in Bulgaria are the following:

MA of OP Regional Development – Ministry of Regional Development and Public Works
MA of OP Development of the Competitiveness of the Bulgarian Economy – Ministry of Economy and Energy
MA of OP Human Resources Development – Ministry of Labour and Social Policy
MA of OP Environment – Ministry of Environment and Water
MA of OP Transport – Ministry of Transport
MA of OP Administrative Capacity – Ministry of State Administration and Administrative Reform
MA of OP Technical Assistance – Ministry of Finance

The financial chart below summarises the financial and reporting arrangements envisaged at this stage.

SCF INSTITUTIONAL ARRANGEMENTS IN BULGARIA



Note:

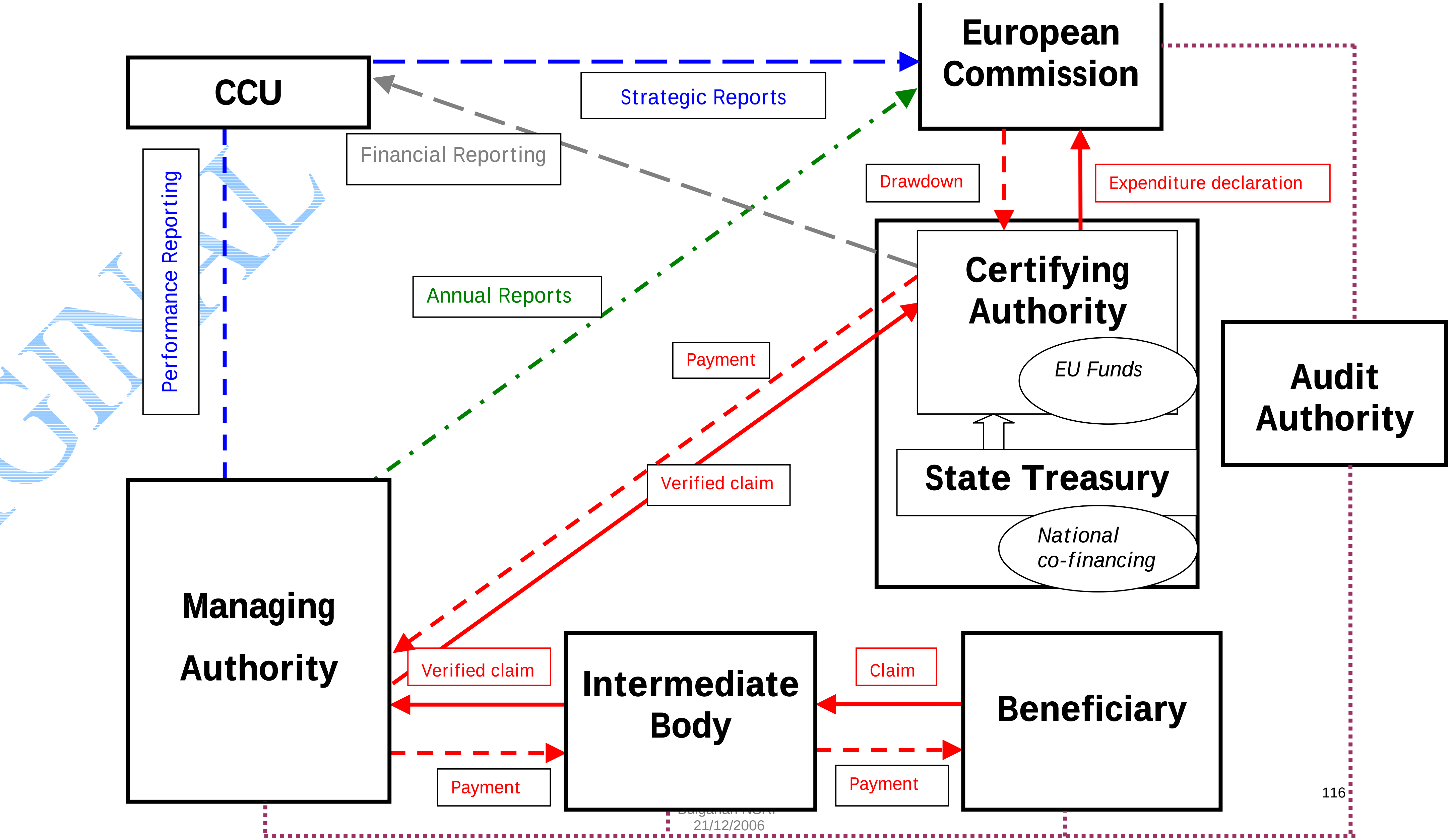
Additional arrangements following the same rationale are envisaged for the National Strategic Plan for Rural Development and Rural Development Programme to be managed by the Ministry of Agriculture and Forestry and the National Strategic Plan for Fisheries and OP Fisheries to be managed by the Executive 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, trans-national and inter-regional cooperation programmes, which require coordination with other participating countries. The management of Objective 3 in Bulgaria is the responsibility of the Ministry of Regional Development and Public Works, General Directorate "Planning of Regional Development".

RESPONSIBILITIES ACCORDING TO PROJECT CYCLE MANAGEMENT

SCF Responsibilities in Bulgaria	CCU	CA	OP MAs	IBs (where applicable)	FBs
Programming					
- Set-up of institutional structure & inter-ministerial coordination	X		X		
- Coordination of NSRF and OPs preparation	X				
- OP preparation			X	X	
- Organisation of partnership	X		X		
- Negotiations with EU	X		X		
Implementation					
- Awareness, project promotion & publicity campaign	X		X	X	X
- Project application					X
- Project selection and approval			X	X	
- Ensure compliance with EU policies			X	X	X
- Project implementation (tendering, supervision etc.)			X	X	X
- Financial control and accounting		X	X	X	X
Monitoring & Evaluation					
- Set up NSRF Monitoring Committee	X				
- Set up OP Monitoring Committees			X		
- Monitoring implementation	X		X	X	X
- Organize evaluations	X		X		

SCF FINANCIAL ARRANGEMENTS IN BULGARIA



The National Fund in the Ministry of Finance is designated by the Member State to fulfil the role of Certifying Authority, responsible for certifying declarations of expenditure and applications for payment before they are sent to the Commission in line with the provisions of Article 61 of the General Regulation. The National Fund is also designated by the Member State to act as the Competent Body for payments, responsible for receiving all payments of ERDF, ESF and Cohesion Fund resources made by the Commission in respect of all OPs and for transferring payments of Community resources to the Beneficiaries. It operates as the Commission's counterpart for financial reporting.

The CCU coordinates and overlooks the implementation of the NSRF, and operates as the Commission's counterpart for official reporting. Performance Reporting includes the process of Annual and Mid-term reporting that the Managing Authorities are required to conduct in the delivery of their Operational Programmes.

The CCU agrees the allocation of funds with the Managing Authority.

MA may delegate its financial and accounting tasks to an intermediate body but keeps the ultimate responsibility.

MA aggregates the information on expenditure supplied by the IBs in reports on certification, and certifying such expenditure in the certification report. The latter is completed at Operational Programme level and submitted on a periodic basis to the CA with the applicable lists of priorities, with references made in the report on certification submitted by IBs, as well as to reports supplied by the beneficiaries. MA shall specify the deadline within which the IBs under the MA must submit the reports on certification.

MA reports to the CA on a monthly basis all irregularities detected and reported by the Intermediate bodies in the course of verifications of expenditure and any other activities undertaken in the course of its management of the OP.

MA makes the financial payments to the beneficiaries for the sums set out in individual expenditure claims, having deducted any amounts deemed irregular or ineligible during the course of certification of the IB and its own verifications of expenditure and reported as Irregularities. Each payment authorization is broken down between the contribution of the relevant Structural Instrument and the national co-financing contribution according to the intervention rate agreed in the corresponding contract. Where the MA delegates the functions of payment to the IBs it shall obtain from them and provide the Certifying Authority, with written standards for undertaking the payment authorisation process.

MA is required to provide an accurate forecast on a regular basis to the National Fund, of the level of financial commitments and payments likely to be needed to cover approvals coming forward and implementation of operations under the OP. Together with the monthly claim the MA shall provide the CA and Payments Departments with an expenditure forecast for the current and following year and with an updated expenditure forecast.

CA certifies expenditure listed in the Claims for Reimbursement submitted, to the European Commission, provided that the Managing Authority and Intermediate Bodies, which report to the MA and are responsible for Programme implementation, have met the conditions laid down in the EU regulations, and in particular in the General Regulation, and comply with

Bulgarian rules based on the EC regulations, and in particular that the Programme funding is spent in accordance with the Public Procurement Law.

ANNEX 2. EX-ANTE EVALUATION OF THE BULGARIAN NSRF 2007-2013

KEY FINDINGS AND RECOMMENDATIONS

The purpose of the ex-ante evaluation is to improve the quality of programming and optimise the allocation of resources. The content of the report are structured as follows:
1) Review of the Socio-Economic Analysis
2) Assessment of the SWOT analysis
3) Evaluation of the proposed Strategy and Programming
4) Assessment of the Implementation Arrangements

Review of the Socio-Economic Analysis
The socioeconomic analysis presented in the Bulgarian NSRF covers the themes: macroeconomic stability and growth, basic infrastructure, human resources development, entrepreneurship and good governance, territorial development and lessons learned from the pre-accession period. For each theme, the main findings of the analysis were summarised and assessed.

The analysis of Bulgaria's macroeconomic framework is detailed and precise. On all the themes addressed, sufficient amount of data is provided and in most cases the important issues are clearly highlighted. The Bulgarian authorities have reiterated that a **sectoral approach** to programming providing sectoral data (e.g. types of industries and services with highest potential) will be developed only gradually. The analysis could be enriched with a brief discussion of grey economy (size and effects).

The analysis of the **transport sector** could be even more specific about the transportation network with more information about traffic flows and congestion or speed problems on specific parts of the network (main roads or railway lines). Further traffic data and traffic forecast could enrich the analysis. The main problems in rail infrastructure are described as technical which results in low speed and rolling stock. Further attention in the NSRF should be paid to specific issues connected with operation of the railway lines in order to bring it in line with the thorough explanation of this issue in the Operational Programme (operation of state rail company, service levels, prices, promotion). Sustainable transport and the (unbalanced) development of different transportation modes could be discussed in more details which will additionally deepen the analysis.

The analysis of the **environment** has significantly improved compared to previous drafts. Further clarification of the precise problems and threats for the biodiversity is needed. Main threats for biodiversity protection to be discussed in the analysis or SWOT include: accelerated economic growth, urbanization and tourism in specific regions or areas. For water and waste more attention could be given to the specific infrastructure needs and regional dimension. In addition, the discussion of environment related issues could be enriched to include soil and surface water, monitoring systems for environmental quality (air, water, noise), illegal dumps/polluted terrains and more information on hazardous waste.

ICT penetration and use is lagging behind in Bulgaria compared to EU-25. Some issues regarding lack of ICT infrastructure which prevents the full development of the ICT sector could be highlighted. The analysis could be further improved to include the current status regarding use of ICT in the government (current situation in E-government and other issues) and the main problems in some regions (for example the Northwest).

The analysis of **energy infrastructure** could focus more on the reasons for the high energy consumption of the business sector relating to specific outdated technologies in certain industries or the price level of energy as possible causes. Also, it could further address energy consumption of households and causes for high consumption related to quality of the housing stock, heating, cooking, gas connection and the price of energy.

The review in the NSRF of social development and quality of **human resources** covers a large array of issues. The analysis is thorough and a great deal of data is provided, both national and comparative with other EU countries. Labour market analysis could be enriched with more data for the employment of women and for institutions and programs for combating unemployment (e.g. subsidised employment programs).

In **education**, the analysis could be more explicit in identifying and quantifying the existing problems regarding vocational training and lifelong learning. The discussion of the **health** sector should address more clearly issues related to the capacity and availability of healthcare professionals and the underinvestment in infrastructure.

The section describing **vulnerable groups, social exclusion and poverty** could be improved by separating the identification of those groups and providing some data as to the size of each group, the problems they face and the possible causes for these problems. The analysis of the Roma issues is comprehensive; however the discussion of health and health insurance problems could be clearer, distinguishing Roma from other vulnerable groups if data specifics justify such approach. Issues regarding gender equality should include problems related to women's income and employment levels, domestic violence and human trafficking.

The section on **entrepreneurship and good governance** is comprehensive and thorough; sufficient data is provided and most of the major issues are addressed, such as business environment, reforms in the state administration, role of SMEs and innovation policy. There are a few issues that need to be further analysed, namely the effect of grey economy and corruption on SMEs and certain issues related to the human resources in the state administration (capability to carry out the implementation of the SFs and high staff turnover).

The analysis of **territorial development** gives comprehensive general information on the six planning regions. Causes of unbalanced regional development could be specifically addressed with emphasis on the rural-urban dimension. Examples of causes of unbalanced territorial development could be the geographical position and underdeveloped production structure in some regions (Northwest), lack of skilled labour force or quality of the transportation network or availability and quality of industrial sites. Clearer focus could be added on the most important regional issues, especially intraregional disparities. Overviews (maps or tables) of GDP per capita and unemployment figures for intraregional disparities (rural versus urban areas or for groups of municipalities) would be very helpful. Opportunities for rural areas in diversification of the economic activity (apart from developing tourism) deserve further attention both in the analysis and the strategy. The effect on social aspects, the economic base and services in the rural areas caused by the depopulation of rural areas should be more clearly stated.

Assessment of the SWOT analysis

In a SWOT, strengths and weaknesses describe internal/inherent characteristics of the country at its present state while opportunities and threats refer to external or dynamic characteristics. Each element of the **SWOT analysis** should be easily traced back to the **socio-economic analysis**.

Evaluation of the proposed Strategy and Programming

The vision of the NSRF is that by 2015 Bulgaria should become a competitive EU country with a high quality of life, incomes and social awareness. The strategic goals for the achievement of this vision are (a) to strengthen the competitiveness of the economy so as to achieve high and sustainable growth and (b) to develop human capital so as to ensure higher employment, income and social integration.

The above **stated goals are relevant to Bulgaria's current situation and direction for the future**, especially under the light of its imminent integration to the European Union. In addition, they are accompanied by target indicators.

Priority 1. Improving Basic Infrastructure

The main objectives under Priority 1 relate to investments in transport, ICT infrastructure, environmental protection infrastructures and investments in the energy sector for sustainable development. Regarding transport, the main types of activities are **improving key links** in road and rail transport, investments in safety of transport, regional and rural road improvements and investments in transport inter-modality and navigation on inland waterways. More than two-thirds of EU assistance will be focused at the main European priority axes in accordance with the Community Strategic Guidelines. Apart from the list of projects in the relevant Annex, this commitment should be clearly stated in the NSRF. The **balance between modes** could be justified in more detail. For roads and rail, a large number of major projects are given. The strategic considerations behind the selected objectives and projects could be described more clearly in the strategy.

With view to ICT infrastructure the main types of activities are investment in broadband connections, establishing digital connections and capacity development for public information systems. It is not sufficiently clear why these types of activities are prioritized and some other possible **communication infrastructures** have not been chosen (e.g. communication networks in transport). Some more information on the chosen activities and justification could be given and the relation with ICT issues in the other priorities might be highlighted.

In the section of **the strategy dealing with environmental protection**, the main types of activities concern the improvement of waste water infrastructure, solid waste collection and treatment (including waste management) and conservation and preservation of biodiversity (NATURA 2000). Some other important policy issues in the environment should also be explicitly addressed: water supply and air quality (including urban air emissions). Referring to the socio-economic analysis and the SWOT might give more clarity on these issues. The actions on biodiversity are mainly related to developing the NATURA 2000 network (designation of NATURA 2000 sites). Other types of actions in the field of biodiversity could also be included: registration of species, protection and management of sites, etc.

The main types of activities in the **energy sector** are supporting the energy production from renewable resources, as recommended by the EC, and providing general support to gasification and gas-distribution networks. Activities in the fields of reducing air emissions of existing energy suppliers and in the field of reducing energy consumption of households or businesses should be also included.

Priority 2. Increasing the Quality of Human Capital with a Focus on Employment

This priority aims at developing the human capital of Bulgaria and includes objectives related to employment support, education, training and life-long learning, mobility and adaptability of the labour force, social protection and social inclusion, social services and healthcare. The strategy on employment support is focused primarily on main policy orientations. These orientations are relevant to the disparities and the EU policies on employment. It would be useful to discuss in more detail the groups of operations envisaged with activities targeted towards **combating low participation rate, long-term unemployment and youth unemployment**, since these have been identified as major issues in the socioeconomic analysis and in the OP. The role and capacity of social partners should be highlighted since they are a main ingredient for the successful design and implementation of employment support measures.

The strategy on education and training should be extended with more information on specific actions envisaged for **vocational guidance, life-long learning and ensuring equal access** to education for people with special needs. The section on mobility and adaptability includes policies and activities related to both employment and training. Although these concepts are to a large extent interrelated, it may be more comprehensible to separate the different components and include them in the corresponding sections above. Regarding social services, more specific types of envisaged interventions should be discussed. For healthcare the policies and activities planned for enhancing preventive treatments and rehabilitation and reducing health risk hazards could be enriched, since these are important problems identified in the socioeconomic analysis and the SWOT.

Priority 3. Fostering Entrepreneurship, Favourable Business Environment and Good Governance

The two main themes of this priority are related to (a) enhancing the competitiveness of the Bulgarian economy through supporting businesses and innovation and (b) improving state administration at all levels. Priority 3 manages successfully to present both objectives and envisaged activities; thus it gives a clear picture of what is pursued and how it will be achieved.

Concerning business, innovation and SMEs, the combined approach of supporting innovation and ICT assimilation, improving management and production processes and enhancing investment opportunities is effective and well designed. The goal of reducing the economy's dependence on traditional lower added value sectors is mentioned, but these sectors should be specifically identified and targeted. By the same token, **sectors with higher added value** could also be identified and particular measures for their further development could be described.

Improvement of the **state administration** at all levels is a crucial factor not only for enhancing good governance and facilitating economic growth, but also for the successful implementation of SF assistance. The proposed policies and planned activities are well thought out and presented. The important threat of weakening of the state administration due to "brain drain" and high turnover (which is also identified in the SWOT) should be explicitly addressed in the Strategy. It is necessary to not only improve the qualifications of the civil servants but to also provide suitable financial and other incentives for them not to leave the public sector, as the OP "Administrative Capacity" will aim to ensure.

Priority 4. Supporting Balanced Territorial Development

The main specific objectives under this priority are: urban development, improving connectivity and rural development across all regions in Bulgaria. The assistance from the Structural Funds is described in the Operational Programme Regional Development and will cover mainly non rural municipalities. The Rural Development Plan, which is outside the scope of NSRF and funded by EAFRD, will mainly cover municipalities in rural areas. The objectives of this priority are of a horizontal (cross-national) nature; the focus on specific regions with most severe socio-economic problems should be made clearer. Annex 2 is focused at the demarcation of municipalities between the OPs and EARDF assistance but it will be also useful specific groups of municipalities to be prioritized on the basis of outlined criteria for Structural Funds assistance.

Regarding **urban development**, the following types of activities are presented: improving networks, technical infrastructure and public works, restructuring and renewal of industrial locations, improvement of public buildings, social infrastructure, cultural assets and housing and urban transport. The concept within this objective is of cities as engines of growth: cities have a role generating economic spin-offs to the countryside. However, the mechanism and pre-conditions of how this could lead to more balanced growth should be better explained. There is a risk that if these spin-offs do not arise in reality, more unbalanced growth between city centres and rural areas may occur. There could be more elaboration on this risk and how it could be avoided. Moreover, it is should be more clearly stated on which types (or groups) of the 83 municipalities the activities will focus.

The main types of activities related to **connectivity** are: improving regional transport, development of communication networks (broadband infrastructure), mobility management & sustainable transport and interregional and intercity cooperation. The development of broadband infrastructure in the regions could be a risk in relation to the not sufficient internet penetration and ownership of computers due to the low purchasing power in the regions. Paying more attention to these issues will help to avoid risks of low usage of broadband infrastructure.

Regarding **rural areas**, the described policies of the NSRF include the promotion of foreign language learning, local business development, tourism development (especially cultural tourism), preservation of natural and cultural heritage and promotion of inter-regional cooperation (both between Bulgaria's regions and cross border cooperation). Economic diversification of rural areas can be strengthened if it is made more clear what type of activities (apart from general ideas of promotion of local business development and tourism) are foreseen. The relation of NSRF with the Rural Development Plan (funded by EAFRD) and OP Regional Development and the linkages between these programmes might be further explained in this section (or briefly addressed and further referred to in Annex 2).

The priorities of the **NSRF are consistent with the national strategies** regarding the environment, the transport system, social policy and regional development. However, the national goal of more sustainable transport should be better reflected in the NSRF and the types of activities foreseen in order to achieve this goal.

The framework for cohesion policy 2007-2013 sets out 3 main objectives: convergence, regional competitiveness and employment and European territorial cooperation. Within these objectives and regarding the (renewed) **Lisbon Agenda** cohesion policy should seek to target resources on the following three priorities: improving the attractiveness of member States, regions and cities, encouraging innovation, entrepreneurship and the growth of the knowledge economy and creating more and better jobs. On this general level **the objectives of the NSRF are in line with these three priorities**. In addition to that, there should be a separate priority in the NSRF on information society, which is a prevalent objective in the existing priorities (ICT, telecommunication infrastructure, E-Government, Human Capital and ICT etc.).

The main goal of the **Lisbon Agenda** is to create knowledge based competitive and dynamic European Economy. The medium term goals of the NSRF are to attain and maintain high economic growth by dynamic knowledge economy and to improve the quality of human capital. These goals are in line with the general objectives of the Lisbon Agenda.

An important thematic area in the NSRF is environment which leads to the following objectives in the NSRF: improvement of waste water sewage and treatment and solid waste infrastructure and management and biodiversity protection: development of NATURA 2000 network, conservation and rehabilitation of natural species, raising public awareness. On the other hand, objectives and measures in the field of air emissions are not specifically addressed. However, it is stated that Strategic Environmental Assessments are foreseen for OPs and Environmental Impact Assessments (EIAs) will be undertaken for projects when legally required. Mitigation policies to protect the environment might be a result of these foreseen studies. Finally, it is not in the NSRF but in the manuals how **environmental issues will be integrated** at all stages of programming and implementation (e.g. project selection).

Gender equality is an issue in the NSRF and it is stated that gender equality is an important aspect in programming and implementation (project selection) of the activities. However, it is not clear which precise types of activities are foreseen to promote gender equality.

The NSRF does not contain thorough information about the (amendment of) the **national public procurement law**, concessions act and the role of the Public Procurement Agency. Also possible issues in Public Private Partnership might be mentioned in this respect.

The NSRF contains summary information on the key issues at stake in the field of **state aid**. Each OP contains information certifying that aid to enterprises under Structural Funds should be compliant with the rules of State Aid.

The **financial allocations** have been elaborated as a result of an interactive process, which combines a “top-down” and “bottom-up” approach. As a starting point in the process of allocation, a proposal was elaborated based on the EU rules of the Funds and co-financing, the experience in allocations across similar priorities of the new EU member states and the particular considerations among priorities. This top-down exercise initiated budget related dialogue with the OP working groups, which resulted to a bottom-up adjustment and finetuning of the financial allocation based on analysis of national level measures and budget possibilities for co-financing of the Structural Funds and the Cohesion Fund.

The **national and private co-financing** is missing from the NSRF (apart from references in footnotes). Therefore, the total amounts of expenditures are not explicit and the assumptions for the EU co-financing rates are not presented. It is advised to give more explanation regarding the financial allocation.

The **structure for the indicators** of the NSRF is now in place and some indicators for GDP and employment have been quantified (baseline and targets). The quantification of baselines and targets of many of the indicators still needs to be improved due to inputs required from the OPs. It is envisaged that the OPs will quantify their indicators in October 2006. In general the indicators are related to the strategic objectives and priorities of NSRF. It is advised to speed up the quantification process in OPs as soon as possible in order to obtain quantified objectives for all priorities in the NSRF. Some of the indicators should be further discussed, for example GDP per capita target might be too ambitious (51% GDP per capita compared to EU average current level of 32%).

The Bulgarian Agency for Economic Analysis and Forecasts (AEAF) has undertaken a **model simulation for the assessment of socio-economic impacts** of NSRF policies. The AEAF model contains four blocks: a real sector demand block, a supply block, an external sector block and a fiscal sector block. The main concern about the impacts assessed is that the model used is mainly a macro-economic short term oriented demand model (with some limited features of the supply side in a very simple production function). The model does not include important long term supply side aspects of the economy such as human capital, physical infrastructure, endogenous factor productivity or production costs. In order to achieve more reliable impact estimations in the future, it is advised to construct a long term supply side oriented economic model of the Bulgarian economy.

Assessment of the Implementation Arrangements

The **structures** responsible for the management and implementation of the structural instruments in Bulgaria have been defined and described in the NSRF – the Central Coordination Unit, the MAs and IBs, the Certifying Authority, the Audit Authority, the Monitoring Committees, etc. The description and legal status of these institutions are in place.

Sufficient **administrative capacity** is an important issue related to the absorption of funds. Administrative capacity building can be addressed by training, human resource development (HRD) and increasing of staff or institution building. NSRF focuses mainly on HRD and training thus not explicitly addressing the possibilities of increasing the number of staff in institutions and institution building. These are particularly relevant issues for those OPs where new types of policies are implemented or where the absorption capacity of beneficiaries might be a risk (e.g. municipalities, regions).

In addition, a variety of **guidelines and tools** has been developed (mainly relating to procedures manuals for CCU, MAs, control and audit bodies) and a Management Information System (MIS) will be established. However, other tools and guidelines related to guiding project applicants and project preparation (for example checklists for feasibility studies and tendering documents, ToRs) and risk management are not described in the NSRF but in the SCF manuals. Previous experience in ISPA and Phare show that these types of tools are essential for sound quality of project preparation (project pipeline management). Finally, some aspects of multi-annual budgeting as a tool could be described in this chapter of the NSRF.

The precise **evaluation arrangements** for the NSRF and the OPs (ex-ante, ongoing, ex-post) are not well described. In general, the provisions for monitoring and evaluation of the Structural Funds are not discussed systematically. A thorough explanation of the future implementation process in relation to the project cycle including arrangements for project pipeline development and project selection is only briefly explained in the SCF manuals. Also, more description of the selection of IBs could be given.

The general provisions for **project generation, project applications and project selection** across the OPs are not described in the NSRF. It is advised to describe in the NSRF the general structure, responsibilities and staffing of bodies in project pipeline development and selection of projects (across the OPs), since these are crucial issues for the timely absorption of funds.

Regarding **partnership**, socio-economic partners have actively participated in the working groups of NSRF and OPs. However, the precise mechanisms to involve partners in implementation, project pipeline development and project selection are not yet described. Also, actions to improve absorption capacity of municipalities and NGOs could be mentioned.

It is intended to increase **public awareness and transparency** of the programming process, relevant national and EU documents and EU funding opportunities, but precise information in the types of communications foreseen to stakeholders is not given. More could be said about creating awareness of EU Funds and possibilities for project generation at the level of municipalities, NGOs and other bodies (beneficiaries). The responsibilities for publicity of CCU, MAs, IBs, FBs in relation to the EU requirements (for example bill boards, logos), as described in the SCF manuals, could also be briefly described in the NSRF.

APLLICATION OF THE EX-ANTE RECOMMENDATIONS

1) Socio-Economic Analysis

The socio-economic analysis has been improved in view of the recommendations of the ex-ante evaluation. Additional data, including further sectoral data is provided, either in the NSRF text or as an information note. A reference to the grey economy is inserted. The National Statistical Institute now collects data with respect to aspects of the grey economy and its possible effects. Such information could be integrated in the NSRF if at a later stage impacts on Cohesion Policy not envisaged at the programming stage occur.

The analysis of traffic flows is conducted for the analysis of the transport sector. The main problems in rail infrastructure are described in more detail. The analysis of environment is enriched with aspects of air, soil, water and biodiversity in general. Information about the current status regarding use of ICT is added, as well as references to the National Programme for Accelerated Information Society Development. Energy, human resources, including vulnerable groups and health-related annexes supplement the main NSRF text.

Further discussions continue as to the absolute clarity of the demarcation issues between the Cohesion policy and the NSP for agriculture and rural development. At the same time, OP Regional Development provides a smooth link between the two policies, especially with respect to diversification.

2) SWOT Analysis

Each SWOT element has been carefully examined in itself and as to whether it can easily be traced back to the socio-economic analysis. Adjustments are made.

3) Strategy and Programming

For Priority 1 Annexes with priority projects in Transport and Environment are included in order specify the forthcoming interventions. Concerning ICT a combined approach has been undertaken using e-government (in OP Administrative Capacity), ICT infrastructure (in OP Regional Development) and ICT in enterprises (in OP Competitiveness). In the area of environment further issues could be included, although the restricted budget requires that strategic choices be made.

For Priority 2 the strategy is either more precise or contains references to the key national documents which supplement the NSRF main text.

Priority 3 has been identified as NSRF priority in order to confirm the importance of good governance and the effective functioning of the administration. Administrative capacity, including at the regional and local level and including the socio-economic partners, remains a challenging area for Bulgaria and there is clear commitment from the government that the policy of further strengthening of the administrative capacity will be continued and reinforced.

Priority 4 now directs OP regional Development better in the direction of urban policy. The cities indeed have a role generating economic spin-offs to the countryside and the mechanism and pre-conditions of how this leads to more balanced growth is thereby explained.

Environmental Impact Assessments (EIA) will be undertaken for all programmes and projects when legally required and when possible issues of concern may occur, which is considered by the Ministry of Environment and Water in Bulgaria. Issues with respect to gender equality, public procurement and state aids are more detailed in the Bulgarian General Manual for the Structural and Cohesion Funds Implementation and the respective OP Manuals.

The financial allocations should be distinguished from the discussions concerning the financial allocation. The discussions indeed combined top-down and bottom-up approaches. Nonetheless, the resulting financial allocations aim to reflect the driving forces and development tendencies of the NSRF as a visionary document.

The inclusion of the national and private co-financing has been done for all the OPs, but is not a legal requirement for the NSRF.

The work on a system of indicators has continued. The goal set for the analysts remains to think ambitiously, but realistically.

The AEAF team is aware of the imperfections of the conducted model simulation for the assessment of socio-economic impacts of NSRF. Additional information with a focus on the supply side is elaborated separately.

4) Implementation Arrangements

As already mentioned, administrative capacity remains a challenging area for Bulgaria and there is clear commitment from the government that the policy of further strengthening of the administrative capacity will be continued and reinforced. Nevertheless, the early clarity of the structures, the guidelines and tools, the transparency and communication initiatives hugely support the process.

Concerning the function according to the project cycle, a table is inserted outlining the key responsibilities of the institutions involved.

ANNEX 3. ASSESSMENT OF THE MACROECONOMIC IMPACT BY NSRF INTERVENTIONS

The assessment of the macroeconomic impacts caused by the NSRF interventions is made by the means of the existing macroeconomic model in the Agency for Economic Analysis and Forecasting[79]. For this purpose two alternative scenarios have been elaborated. The first one (baseline scenario) has been build with the assumption of no EU Structural Funds (SF) money entering the economy in the period under consideration, while the alternative scenario assumes that the whole amount of the funds available for the country from the EU budget is fully absorbed and utilized. It has to be noted that the macroeconomic impact assessment, which findings are presented here, did not have the task to project the absorption capacity rate; it rather evaluated what would be the effects of the absorbed SF over the main macroeconomic indicators, such as GDP growth rate, investments, consumption, inflation, etc. The difference between the projected values of these macroeconomic variables in the two scenarios actually represents the influence of the SF on the Bulgarian economy.

Still, it has to be noted that as far as macroeconomic model was used for the evaluation of the macroeconomic impacts, caused by the absorption of EU SF, it was not possible to be observed and assessed effects on several important aspects of the NSRF and EU Cohesion policy, especially when regional development was concerned. The forthcoming findings present the thorough macroeconomic picture in the country with no clear distinction of the small pieces (sectors, industries, regions) within it.

We assume commitments from EU will be spent according to ‘n+3’ rule in the period 2007-2009, while for the remaining period the ‘n+2’ rule will be applied. Effects are assessed on the basis of spending and not on commitments. Investment co-financing calls for either reduction in current expenditures on non-EU co-financed national budget lines or an alignment of the national budget priorities with the SCF priorities in order to negatively affect budget deficit position. The reform of the Bulgarian national budget has already been undertaken in order to allow efficient programme-based multi-annual planning, to prepare for

[79] See provided brief description below

the substantial levels of EU financing and to prevent cutting exiting funding levels in areas not receiving funding from the EU.

Main conclusions

Given the specified clarifications and hypotheses, government interventions over the period under review will result in a higher real GDP growth rate by 0.27 pps on average mainly due to the expected 0.79 pps faster increase of gross capital formation. The interventions envisaged in the National Strategic Reference Framework are expected to yield positive results on both the supply and demand sides. Demand side impetus is of short-term nature as it directly or indirectly results in an increase of final demand. Supply side effects, however, are of longer-term character and have to do with the establishment of new production facilities, improvement of the qualitative properties of labour force, the spread of modern technologies, and ultimately, with the enhancement of the production technology level. The supply side will be affected through two channels. Firstly through increased capital stock in the economy (increased capital stock will cause 0.3 pps higher real GDP growth). The second effect comes from the higher Total Factor Productivity (TFP). We expect investments in innovation and in human capital under OP Competitiveness and OP Human resources to have a positive effect on TFP.

The made estimations show that as a result of the planned interventions the labour market will improve both on terms of participation rate and unemployment. The number of employed persons will increase by 36,736 persons on average in the alternative scenario in the period under consideration.

Meanwhile, the increased incomes and investment demand will lead to higher imports. Still, the current account deficit will improve by 409.7 mln. euro on average in comparison with the baseline scenario in the period 2007-2013 and will reach 10.7% of GDP in 2013. Two major factors will contribute to the CA improvement, namely the increased exports and the higher current transfers, reflecting the positive net position of the country with the EU budget.

Given the nature of actions in which government interventions are concentrated it is quite likely that no crowding-out effect will be evident, i.e. the expenditures made will not crowd out private investment. On the other hand, it is unlikely that the government's expansionist policy will result in a notable interest rate change since investment demand in the country is still relatively low, remaining far below the supply of free money resources. In other words, the public investment programme and the inflow of resources under the Structural Funds will not affect private investment in the medium-term.

At the same time, the inflation level will not be affected by the government interference in the economy. Over the programming period, the increase of average inflation in Bulgaria, gauged by the consumer price index, will exceed by bare 0.09 pps the CPI growth under the baseline scenario, which in turn will bring about a negligible real appreciation of the exchange rate.

Table Structural Funds influence over main economic indicators

	2006	2007	2008	2009	2010	2011	2012	2013	average 2007-2013
GDP, real growth rate (baseline)	5.45%	5.58%	5.78%	5.72%	5.42%	5.32%	5.30%	5.15%	5.47%
GDP, real growth rate (alternative)	5.45%	5.87%	6.18%	6.14%	5.70%	5.40%	5.50%	5.35%	5.73%
effect, pps		***0.29***	***0.40***	***0.42***	***0.28***	***0.08***	***0.20***	***0.20***	***0.27***
GFCF, real growth rate (baseline)	17.00%	9.00%	8.60%	8.50%	8.50%	7.60%	6.32%	6.12%	7.81%
GFCF, real growth rate (alternative)	17.00%	11.00%	9.70%	9.60%	9.00%	7.77%	6.60%	6.50%	8.60%
effect, pps		***2.00***	***1.10***	***1.10***	***0.50***	***0.17***	***0.28***	***0.38***	***0.79***
CPI, p.a. (baseline)	7.66%	4.18%	2.78%	3.04%	3.40%	3.25%	3.25%	3.25%	3.31%
CPI, p.a. (alternative)	7.66%	4.23%	2.80%	3.14%	3.47%	3.30%	3.36%	3.45%	3.39%
effect, pps		***0.05***	***0.02***	***0.10***	***0.07***	***0.05***	***0.11***	***0.20***	***0.09***
Exports of goods, nominal growth rate (baseline)	29.00%	13.92%	12.49%	12.79%	12.99%	14.06%	13.50%	13.12%	13.27%
Exports of goods, nominal growth rate (alternative)	29.00%	13.95%	12.65%	12.94%	14.49%	14.54%	13.86%	13.64%	13.72%
effect, pps		***0.03***	***0.16***	***0.15***	***1.50***	***0.47***	***0.35***	***0.51***	***0.46***
Exports of services, nominal growth rate (baseline)	12.75%	10.96%	10.09%	10.02%	9.92%	10.30%	9.90%	9.59%	10.11%
Exports of services, nominal growth rate (alternative)	12.75%	10.98%	10.17%	10.09%	10.67%	10.57%	10.12%	9.91%	10.36%
effect, pps		***0.02***	***0.08***	***0.07***	***0.74***	***0.27***	***0.22***	***0.32***	***0.25***
Current account balance, EUR mn current prices (baseline)	-3,374.0	-3,190.1	-3,129.2	-3,376.9	-4,029.6	-4,526.7	-4,808.3	-5,043.7	-4,014.9
Current account balance, EUR mn current prices (alternative)	-3,374.0	-3,318.3	-3,205.2	-3,298.2	-3,422.2	-3,633.9	-3,900.3	-4,458.7	-3,605.3
effect, EUR mn		***-128.2***	***-76.0***	***78.7***	***607.3***	***892.8***	***908.0***	***585.0***	***409.7***
Employment, thousands persons (baseline)	3,084.3	3,107.8	3,120.4	3,123.2	3,123.5	3,130.7	3,133.2	3,139.2	3,125.4
Employment, thousands persons (alternative)	3,084.3	3,118.2	3,144.7	3,161.4	3,170.9	3,175.7	3,180.1	3,184.1	3,162.2
effect, thousands persons		***10.5***	***24.3***	***38.1***	***47.3***	***45.0***	***47.0***	***44.9***	***36.7***

The model

External sector

Bulgaria is a small and open economy. Foreign demand is an important factor for economic performance. That is why the external sector is an important module of the model. Foreign trade depends on variables exogenous to the model: economic development of trading partners, international prices of metals, energy, etc, exchange rates and interest rates. The IMF, WB, and EC forecasts are used for these variables.

Fiscal sector

Fiscal module of the model formalises general government demand in GDP. The model forecasts consolidated budget revenues and having pre-determined deficits evaluate budget expenditures: current and capital. Budget revenues fall into three categories: tax revenues, non-tax revenues, and transfers from EU. Each category of revenues is estimated on the base of specific information and set of equations. Under pre-determined deficit budget expenditures are a function of revenues. The model evaluates separately current and capital expenditures and transfers to/from EU budget.

Real sector

GDP is estimated from the demand side and supply side. From the demand side the model forecasts private consumption and investments. General government final expenditures and net exports are estimated in the fiscal and rest of the world modules of the model. We employ the inflation rate in Bulgaria and in the EU as proxies for import and export deflators.

Domestic inflation forecast is based on three factors: changes in international prices, changes in administrative prices, and changes in money supply. International price changes is an assumption, changes in administrative prices follows government policy. Money supply is tight to changes in Currency board reserves. Supply side is formalized by means of Cobb-Douglas production function. We solve the function with respect to labour and total factor productivity. Production function assesses the contribution of each production factor (capital, labour, and total factor productivity) to growth. Under the hypothesis the wage growth equals productivity growth we get to real wage growth.

ANNEX 4. ADDITIONALITY TABLE

As per the Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No. 1260/1999 the additionality principle stays to ensure the genuine economic impact of the Structural Funds contributions to the economies of the Member States.

The underlying tenet of the additionality principle is that the contributions from the Structural Funds shall not replace public or equivalent structural expenditure by a Member State. In practical terms this means that the Commission and the Republic of Bulgaria shall determine the level of public or equivalent structural expenditure which the latter shall maintain at national level during the 2007 – 2013 programming period.

The general rule is that the level of the public expenditures in 2007 – 2013 programming period shall be at least equal to the amount of average annual expenditure in real terms attained during the period 2004 – 2005. Furthermore, the level of expenditure shall be determined with reference to the general macroeconomic conditions in which the financing is carried out and taking into account certain specific or exceptional economic situations, such as privatisations as well as an exceptional level of public or equivalent structural expenditure by the Republic of Bulgaria during the previous 2004 – 2005 period.

The process of assessment of the additionality principle is threefold:

- Ex-ante assessment included in the drafting of the National Strategic Reference Framework;
- Mid-term verification of the additionality for the Convergence objective will be accomplished by the Commission in cooperation with the Republic of Bulgaria in 2011. As part of this mid-term verification the Commission may decide to modify the required level of structural expenditure if the economic situation in the Republic of Bulgaria has significantly changed from the one existing at the moment of the determination of the level of public or equivalent structural expenditure.
- The Commission shall, in cooperation with the Republic of Bulgaria, verify additionality ex post on 31 December 2016 for the Convergence objective. The Republic of Bulgaria shall transmit to the Commission the information required to enable the verification of compliance with the level of public or equivalent structural expenditure determined ex ante. Where necessary, methods of statistical estimation should be used.

BULGARIAN ADDITIONALITY TABLE

Summary financial table of public or other equivalent structural expenditure in Convergence objective regions

(euro, 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=4+5+6	3	4	5	6	7=5+6=2-4	8=10+11+12	9	10	11	12	13=11+12=8-10
1. Basic infrastructure	649 776 752	154 017 500	157 047 068	45 712 226	447 017 458	492 729 684	668 155 113	185 482 298	122 563 408	80 195 787	465 395 925	545 591 708
Transport	238 915 091	27 127 500	83 131 612	21 687 972	134 095 507	155 783 479	226 470 932	32 669 476	65 377 960	43 749 109	117 343 863	161 092 972
Telecommunications	21 872 976	0	148 426	53 339	21 671 211	21 724 550	14 513 090	0	5 165 921	911 633	8 435 536	9 347 169
Energy	152 953 619	126 890 000	18 822 073	6 112 743	128 018 803	134 131 546	162 084 081	152 812 821	5 235 731	923 952	155 924 398	156 848 350
Environment & water	190 806 150	0	54 190 364	17 612 809	119 002 977	136 615 786	208 857 108	0	44 137 779	34 144 147	130 575 182	164 719 329
Health	45 228 915	0	754 592	245 363	44 228 960	44 474 323	56 229 902	0	2 646 014	466 943	53 116 945	53 583 888
2. Human Resources	152 946 271	0	58 871 377	19 127 659	74 947 235	94 074 894	228 245 851	0	105 523 073	18 621 719	104 101 063	122 722 779
Education	63 125 255	0	17 621 691	5 728 697	39 774 867	45 503 564	102 839 604	0	38 102 614	6 723 990	58 013 000	64 736 990
Training	57 485 114	0	19 709 565	6 400 778	31 374 771	37 775 549	105 168 428	0	55 260 050	9 751 773	40 156 605	49 908 378
RTD	32 335 902	0	21 540 121	6 998 184	3 797 597	10 795 781	20 237 819	0	12 160 408	2 145 954	5 931 457	8 077 411
3. Productive Environment	160 488 746	0	23 267 392	7 563 586	129 657 768	137 221 354	399 570 307	0	209 988 866	37 056 859	152 524 588	189 581 443
Industry	7 377 702	0	4 493 775	1 461 511	1 422 416	2 883 927	100 187 844	0	83 978 881	14 819 802	1 389 161	16 208 963
Services	143 166 496	0	11 661 095	3 787 127	127 718 274	131 505 401	266 413 242	0	99 482 277	17 555 695	149 375 270	166 930 965
Tourism	9 944 548	0	7 112 522	2 314 948	517 078	2 832 026	32 969 221	0	26 527 706	4 681 359	1 760 156	6 441 515
4. Others	101 342 394	0	43 615 768	14 177 725	43 548 901	57 726 626	73 118 777	0	11 955 483	2 109 791	59 053 503	61 163 294
TOTAL	1 064 554 162	154 017 500	282 801 604	86 581 196	695 171 362	781 752 558	1 369 090 048	185 482 297	450 030 824	137 984 148	781 075 076	919 059 224

VERIFICATION OF ADDITIONALITY TABLE

Summary financial table of public or other equivalent structural expenditure in Convergence objective regions

(euro, 2006 prices)

	Annual average 2007-13 NSFR (ex ante)						Annual average 2004-2005 (actual)					
	Total	Of which public enterprises	NSRF		Not EU co-financed	Total	Total	Of which public enterprises	CSF**		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=4+5+6	3	4	5	6	7=5+6=2-4	8=10+11+12	9	10	11	12	13=11+12=8-10
1. Basic infrastructure	668 155 113	185 482 298	122 563 408	80 195 787	465 395 925	545 591 708	649 776 752	154 017 500	157 047 068	45 712 226	447 017 458	492 729 684
Transport	226 470 932	32 669 476	65 377 960	43 749 109	117 343 863	161 092 972	238 915 091	27 127 500	83 131 612	21 687 972	134 095 507	155 783 479
Telecommunications (capital)	14 513 090	0	5 165 921	911 633	8 435 536	9 347 169	21 872 976	0	148 426	53 339	21 671 211	21 724 550
Energy (capital)	162 084 081	152 812 821	5 235 731	923 952	155 924 398	156 848 350	152 953 619	126 890 000	18 822 073	6 112 743	128 018 803	134 131 546
Environment & water (capital)	208 857 108	0	44 137 779	34 144 147	130 575 182	164 719 329	190 806 150	0	54 190 364	17 612 809	119 002 977	136 615 786
Health (capital)	56 229 902	0	2 646 014	466 943	53 116 945	53 583 888	45 228 915	0	754 592	245 363	44 228 960	44 474 323
2. Human Resources	228 245 851	0	105 523 073	18 621 719	104 101 063	122 722 779	152 946 271	0	58 871 377	19 127 659	74 947 235	94 074 894
Education	102 839 604	0	38 102 614	6 723 990	58 013 000	64 736 990	63 125 255	0	17 621 691	5 728 697	39 774 867	45 503 564
Training	105 168 428	0	55 260 050	9 751 773	40 156 605	49 908 378	57 485 114	0	19 709 565	6 400 778	31 374 771	37 775 549
RTD	20 237 819	0	12 160 408	2 145 954	5 931 457	8 077 411	32 335 902	0	21 540 121	6 998 184	3 797 597	10 795 781
3. Productive Environment	399 570 307	0	209 988 866	37 056 859	152 524 588	189 581 443	160 488 746	0	23 267 392	7 563 586	129 657 768	137 221 354
Industry	100 187 844	0	83 978 881	14 819 802	1 389 161	16 208 963	7 377 702	0	4 493 775	1 461 511	1 422 416	2 883 927
Services	266 413 242	0	99 482 277	17 555 695	149 375 270	166 930 965	143 166 496	0	11 661 095	3 787 127	127 718 274	131 505 401
Tourism	32 969 221	0	26 527 706	4 681 359	1 760 156	6 441 515	9 944 548	0	7 112 522	2 314 948	517 078	2 832 026
4. Other	73 118 777	0	11 955 483	2 109 791	59 053 503	61 163 294	101 342 394	0	43 615 768	14 177 725	43 548 901	57 726 626
TOTAL	1 369 090 048	185 482 297	450 030 824	137 984 148	781 075 076	919 059 224	1 064 554 162	154 017 500	282 801 604	86 581 196	695 171 362	781 752 558

ANNEX 5. INDICATORS

The following table contains an indicative system of relevant indicators for the Strategic Objectives and Priorities of the NSRF. Detailed quantified indicators can be found in the relevant Operational Programme:

Strategic Objectives	**Indicator**	**Baseline**	**Target**	**Sources and method**
1. Develop a competitive economy to achieve high and sustainable growth	1. GDP per capita (in PPS) as share of EU average; 2. GDP growth (yearly average period); 3. Exports/GDP ratio	32,1 % (2005) 5% 2000 – 2006 60.8% (2005)	51.2% (2013) 5.73% (2007-2013) 89.77% (2013)	AEAF Estimation Working Group NSRF verification with Macroeconomic model AEAF
2. Develop human capital to ensure high employment, income and social integration	1. Rate of Employment; 2. Rate of Unemployment; 3. Rate of Poverty (including among Roma ethnic minority)	55.8% (2005) 10.1% (2005) 14.2% (2003) 63.8% (2003)	64% (2013) 7% (2013)	MLSP/AEAF NSI, World Bank
Strategic Priorities	Indicator	Baseline	Target	Sources and method
1. Improving basic infrastructure	1. Increased economic growth due to improved transport connectivity and reduced transport costs 2. Increased attractiveness of selected regions and localities*1 due to higher ecologic quality of life	0% 0%		AEAF based on contribution of transport sector to GDP growth and relative share of transport expenditure in business total cost AEAF and MoEW based on investment attracted and reduction of outer migration trends
2. Increasing the quality of human capital with a focus on employment	1. Participation rate – aged 15-64; 2. Percentage of the adult population aged 25 to 64 participating in education and training 3. Percentage of the population aged 18-24 with at most lower secondary education and not in further education or training	62.1% (2005)	68.5% (2013) 5% (2013) 16% (2013)	MLSP; MES
3. Fostering entrepreneurship, favourable business environment and good governance	1. Labour productivity 2. FDI to GDP ratio;	3.5% (2005) 8.8% (2005)	5% annual average 8.1% (2013)	MLSP; AEAF AEAF
4. Supporting balanced territorial development	1. Increased income and employment in less developed and peripheral areas due to Cohesion Policy interventions	0%		NSI, MLSP

* based upon the additional population served by waste and waste water facilities

ANNEX 6. INFORMATION ON THE PUBLIC DISCUSSIONS OF 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:

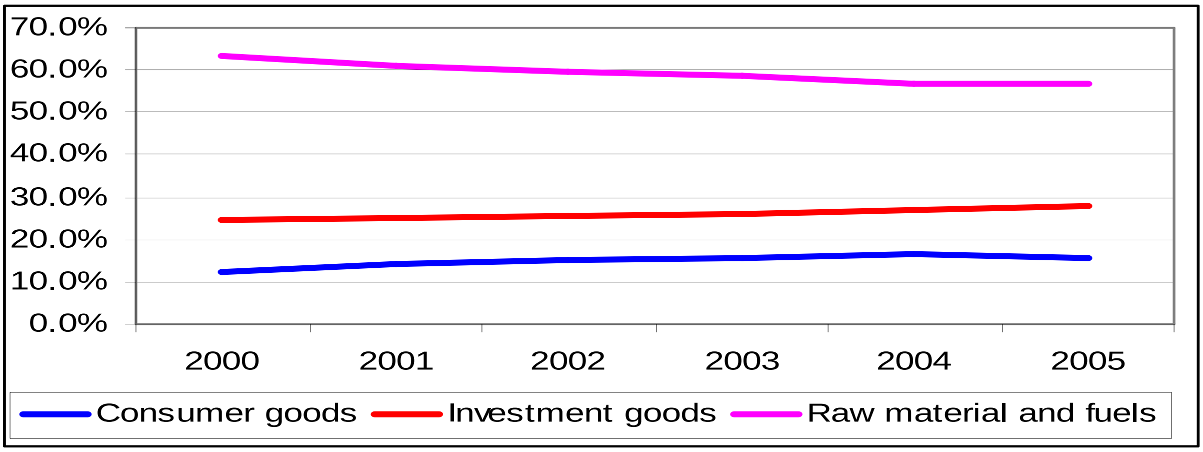
DATE	EVENT	PARTICIPANTS
12th February 2006	Discussion on the main issues of the National Development Plan and the Operational Programmes	Representatives of the State administration (Ministry of Finance, Agency for Economic Analysis and Forecasting) Members of the Institute of Economics and International Relations, Centre for Economic Development (CED), Centre for Liberal Strategies (CLS), Centre 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.
21th February 2006	Discussion on some aspects of the National Development Plan and the Operational Programmes	Representatives of the State administration (Ministry of Finance, Agency for Economic Analysis and Forecasting) Economic and Social Committee (representatives of the employers, syndicates and civil organizations).
26th February 2006	Discussion between the authors of the NDP/NSRF and independent experts: "National Development Plan- an inside-outside look"	Representatives of the State Administration (Ministry of Finance, Agency for Economic Analysis and Forecasting) Institute of Economics and International Relations, Centre for Economic Development (CED), Centre for Liberal Strategies (CLS), Centre 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.
26th April 2006	Public Awareness Forum "National Strategic Reference Framework"	Representatives of the State Administration (Ministry of Finance, MAs) Official representatives from the Delegation of EC Representatives of the employers (Association of the Organizations of Bulgarian Employers), syndicates (Confederation of Labour "Podkrepa";

		Confederation of Independent Trade Unions in Bulgaria)and civil organizations (Economic and Social Committee, Centre for the Study of Democracy (CSD), National Association of Municipalities in the Republic of Bulgaria and others)
31st August 2006 01st September 2006	NSPDRR, OP Fisheries and National Strategic Reference Framework"	Ministry of Finance, Agency for Economic Analysis and Forecasting, Managing Authorities, Ministry of Agriculture and Fisheries UNDP

ANNEX 7. BALANCE OF PAYMENTS DYNAMICS

The major factor for the widening goods trade deficit is the investment activity of the local firms as the imported investment goods surged by nominal 183.7% in the period 2000-2005 to 3.9 bln. euro. Since 2000 the investment goods share in the overall goods imports of the country exhibits a sustainable growth reaching 27.6% at end-2005. Moreover, the valued imports of raw materials and energy sources boosted 2.7 times in period under consideration, being also a strong contributor to the trade and current account deficits deterioration. Bulgaria is a small country, relatively poor in mineral resources, raw materials and energy sources. At the same time, the inherited production structure of the country still requires high availability of energy resources. Thus, for example, in 2000 about 63% of the goods' import constituted raw materials and energy resources. The resource dependence of Bulgarian production represents a potential risk for the competitiveness of the economy due to the strong dependence of the national production on the international situation and specifically – the prices of the main raw materials and energy resources.

Figure 3: Relative share of the individual groups of goods in the overall imports

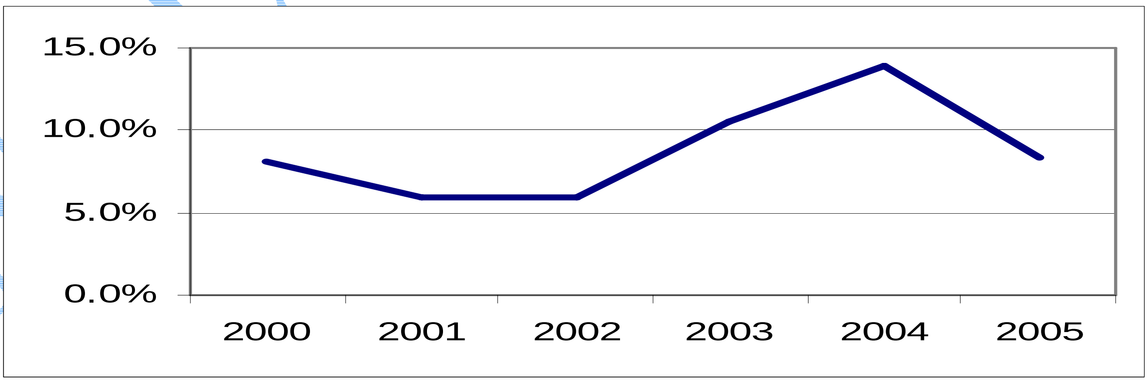


Source: BNB, AEAF calculations

Meanwhile, an opposite tendency has been observed in the services - the positive balance surged by 118.1% (from 306 mln. euro in 1999 to 667 mln. euro in 2005), which indicates the capabilities for improving the competitiveness of the economy. The improvement of the services balance is due primarily to the increase of revenues from tourism, especially during the period 2002-2004. Since 2005 though, the pace of growth of tourism revenues slowed because of unresolved infrastructure problems and resorts' areas overbuilding. However, with the reforms accomplished the tourism sector might become a stable source of revenues for the Bulgarian economy.

The current account deficit is financed entirely through financial account transactions whereas the overall balance of payments is invariably positive and the Central Bank's reserves are increasing every year (Annex 7). The FDI inflows constitute on average about 80% of the financial account balance. They are characterized by rapid and sustainable growth, stimulated by the macroeconomic stability and progress in restructuring the economy. During the observed period their structure has considerably changed from dominated by privatisation revenues to dominated by greenfield and expansion investments mainly due to the progress in privatisation (in 2000 most of the state owned assets with exception mainly of the infrastructure industries have already been privatised).

Figure 4: FDI in percent of GDP

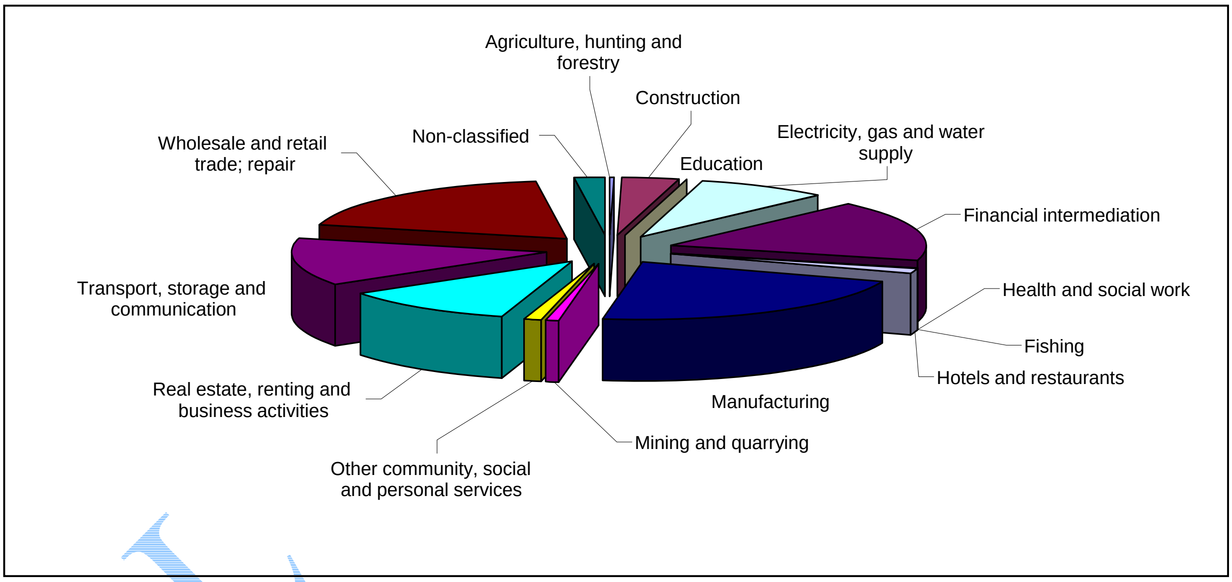


Source: BNB NSI, AEAF calculations

Despite the high growth rates in recent years the FDI have not yet reached the critical mass needed to improve efficiency and competitiveness of the economy. The FDI per capita in Bulgaria is still about four times less than the respective values in EU-25[80]. The sector structure of FDI in Bulgaria remains dominated by the investments in services – which have an average share of 65.5% in the FDI for the period, while the share of foreign investments in industry needed to replace the outdated technologies, is still below the desired levels.

[80] For the period 2002-2004 Bulgaria has attracted on average 205.5 euro FDI per capita compared with 748.9 euro for EU-25 (Luxemburg excluded), World Investment Report (2005).

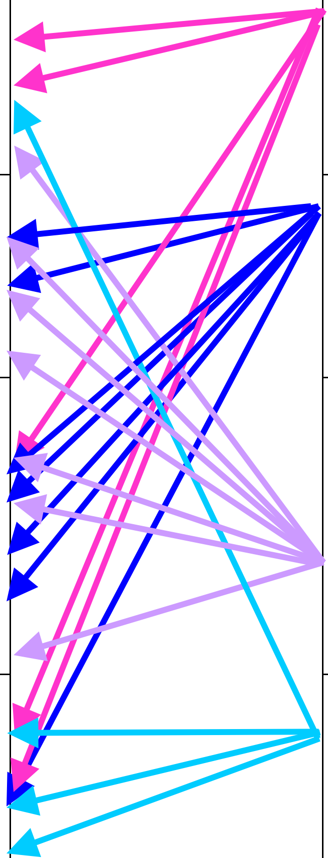
Figure 5: Average FDI flows by industry (2000-2005)



Source: BNB

Nevertheless, the foreign investors are attracted by the potential of future profits in the Bulgarian manufacturing industry in prospect to place production on EU markets. The EU funds are expected to support the development of middle and medium enterprises, thus extending the potential of exports. With the increasing share of investments goods exported, the process of closing trade deficit gap will take place in medium term.

ANNEX 8. TABLE WITH CONSISTENCY BETWEEN NSRF PRIORITIES AND COMMUNITY STRATEGIC GUIDELINES

CONVERGENCE	NATIONAL GOALS	HIGH AND SUSTAINABLE GROWTH / EMPLOYMENT	COMMUNITY STRATEGIC GUIDELINES		NSRF PRIORITIES
			Making Europe and its regions more attractive places to invest and work o Expand and improve transport infrastructures o To strengthen the synergies between environmental protection and growth o Address Europe's intensive use of traditional energy sources		**Improving Basic Infrastructure**
			Improving knowledge and innovation for growth o Increase and improve investment in RTD o Facilitate innovation and promote entrepreneurship o Access to finance		**Improving Human Capital with a Focus on Employment**
			More and better jobs o Attract and retain more people in employment and modernise social protection o Improve adaptability of workers and enterprises and flexibility of labour market o Increase investment in human capital through better education and skills o Help maintain a healthy labour force o Administrative capacity		**Fostering Entrepreneurship, Favourable Business Environment and Good Governance**
			Taking account of the territorial dimension of cohesion policy o The contribution of cities to growth and jobs o Supporting the economic diversification of rural areas o Cooperation (Cross-border, Transnational, Inter-regional)		**Supporting Balanced Territorial Development**

ANNEX 9. INDICATIVE LIST OF MAJOR PROJECTS UNDER OP TRANSPORT 2007-2013

No	Name of project	Main components	Total eligible cost of the project (indicative)	EU funding contribution (indicative)		National funding (indicative), mln. euro	Time table		
				CF, mln. euro	ERDF, mln. euro		Preparation indicative	Start indicative	Completion indicative
1.	**Modernisation of Vidin-Sofia railway line (along Trans-European transport corridor IV)**	Construction works, Signalling, Telecommunications and Information systems, Supervision and Long Term Assistance.	**1,320 mln. euro till year 2013 - 320 mln. euro**	*	*	**	**2009**	**2010**	**2017** **2013**
2.	**Modernisation of Sofia-Plovdiv railway line (along Trans-European transport corridors IV and VIII)**	Construction works, Signalling, Telecommunications and Information systems, Supervision and Long Term Assistance.	**350 mln. euro** **till year 2013 - 125 mln. euro**	*	*	**	**2009**	**2010**	**2015** **2013**
3.	**Renewal of railway sections along Plovdiv-Bourgas railway line**	Rail track renewal and related maintenance of signalling, telecommunications and catenary equipment	**63 mln. euro**	*	*	**	**2007-2008**	**2008**	**2009**
4.	**Modernisation of Sofia-Pernik-Radomir railway line (as part of Modernization of Sofia-Kulata railway line)**	Construction works, Signalling, Telecommunications and Information systems, Supervision and Long Term Assistance.	**100 mln. euro**	*	*	**	**2008-2009**	**2009**	**2011**
5.	**Modernisation of Sofia-Dragoman railway line (along Trans-European transport corridor X)**	Construction works, Signalling, Telecommunications and Information systems, Supervision and Long Term Assistance.	**83 mln. euro**	*	*	**	**2008-2009**	**2009**	**2011**
6.	**Renewal of railway sections along Mezdra-Gorna Oryahovitza railway line**	Rail track renewal and related maintenance activities for signalling, telecommunications and catenary equipment	**160 mln. euro**	*	*	**	**2007-2008**	**2008**	**2010**
7.	**Reaching the technical and operational parameters of the road infrastructure in accordance with the**	New rehabilitation of section along Corridors IV,VIII and IX previously rehabilitated under the Transit Roads Rehabilitation Projects 1 and 2, that are with expiring operational period	**107,625 mln. euro**	*	*	**	**2007-2008**	**2009**	**2014**

	European standards along Corridors IV and VIII with L= 880 km	between two rehabilitations.							
8.	**Upgrading of road I-1 (E 79) Vratza-Botevgrad**	Upgrading the existing two lanes road to four lanes expressway with total length of 31.5 km	**85 mln. euro**	*	*	**	**2007-2009**	**2009**	**2012**
9.	**Construction of bypasses along TEN-T network, Phase I**	Construction of several city bypasses along the TEN-T road network: • Bypass of Montana – road 1 (E-79), 11,2 km long • Bypass of Vratca – road 1 (E-79), 6,5 km long Bypass of Gabrovo – road 5 (E-85) with remaining length of 6,5 km and temporary link – 3,1 km	**80 mln. euro**	*	*	**	**2007-2008**	**2009**	**2011**
10.	**Construction of Struma Motorway**	Construction of sections: • Dolna Dikanya – Dupnitsa – 22 km; • Dupnitsa – Simitly – 37 km; • Sandanski – Kulata – 49 km.	**600 mln. euro**	*	*	**	Feasibility study prepared	**2008**	**2013**
11.	**Construction of Maritsa Motorway**	Construction of section from km 5 to km 72	**210 mln. euro**	*	*	**	**2006-2007**	**2007**	**2010**
12.	**Extension of the Metropoliten Sofia from "Hemus" Hotel to Central Station and Central Bus Station", "Drujba" and new terminal at the Sofia Airport**	Construction works I Stage – extension from Metro Station 13 to Metro Station 17; II Stage – extension from Metro Station 17 to Metro Station 21 to Sofia Airport	**240 mln. euro**	*	*	**	Preliminary Design prepared	**2008**	**2012**
13.	**Improvement of the navigation on the Danube in joint Bulgarian - Romanian parts: from rkm 530 to rkm 520 - Bathin from rkm 576 to rkm 560 - Belene**	Improvement of the navigational conditions in the two critical sections on the Danube river at low water levels (at +107cm the Lowest Navigational and Regulating Water Level).	**138 mln. euro**	*	*	**	**2008-2009**	**2009**	**2012**

** Due to the complexity and importance of each project the indicative allocation of funds from the CF and ERDF will be subject to further clarification in OP Transport. In this relation, the projects will be treated individually.*

*** The allocation between the EU funds and National funding will be different for each project with overall national funding of 20% for CF and 15% for ERDF.*

ANNEX 10. INDICATIVE LIST OF MAJOR PROJECTS UNDER OP ENVIRONMENT 2007-2013

No.	Name of project	Main components	Total eligible cost of the project (indicative in euro)	EU funding contribution (indicative in euro)		National funding (indicative)	Time table		
				CF	ERDF		Preparation indicative	Start indicative	Completion indicative
1	**Kurdjaly waste water and sewage project**	WWTP; Reconstruction of sewerage network; Construction of sewerage network;	**25 237 847.00**	**21 452 169.95**	**0.00**	**3 785 677.05**	**2007 - 2008**	**second half of 2008**	**second half of 2010**
2	**Yambol waste water and sewage project**	WWTP; Extension of sewerage network - 6 000 l.m.; Reconstruction of sewerage network - 7 000 l.m.	**28 440 906.00**	**24 174 770.10**	**0.00**	**4 266 135.90**	**2007 - 2008**	**second half of 2008**	**second half of 2010**
3	**Plovdiv waste water and sewage project**	WWTP; Construction of sewerage network - 15 836 l.m.	**45 477 292.00**	**38 655 698.20**	**0.00**	**6 821 593.80**	**2007 - 2008**	**second half of 2008**	**second half of 2010**
4	**Kocherinovo - Construction of regional waste management centre**	New regional landfill; 3 transfer stations	**34 125 793.00**	**0.00**	**29 006 924.05**	**5 118 868.95**	**2006 - 2007**	**first half of 2008**	**first half of 2010**
5	**Construction of regional waste treatment facilities in Stara Zagora region**	New regional landfill; Development of material recovery facilities (MRF's); In-vessel composting facilities; Windrow composting facilities for green waste; Transfer station; Development of recycling centres;	**36 061 131.84**	**0.00**	**30 651 962.06**	**5 409 169.78**	**2007 - 2008**	**first half of 2009**	**first half of 2011**
6	**Construction of regional waste treatment facilities in Varna region**	New regional landfills; Development of material recovery facilities (MRF's); In-vessel composting facilities; Windrow composting facilities for green waste; Development of recycling centres;	**30 058 873.00**	**0.00**	**25 550 042.05**	**4 508 830.95**	**2007 - 2008**	**first half of 2009**	**first half of 2011**
7	**Closure of the existing landfill for municipal solid waste - Rouse**	Closure of the existing landfill site at Rouse Municipality, Region Rouse.	**25 000 000.00**	**0.00**	**21 250 000.00**	**3 750 000.00**	**2006 -2007**	**second half of 2007**	**second half of 2009**

ANNEX 11. POLICY IN THE AREA OF ENERGY

The Bulgarian energy policy in the context of the new energy policy of the EU and the newly established Energy community

The main priorities of the Bulgarian energy policy are entirely in line with those of the energy policy of the EU for the development of competitive energy markets while preserving the environment and ensuring the security of energy supply. The commitments made by the Bulgarian side in the process of negotiations with the EC under Chapter 14 "Energy" lead to fast introduction of the requirements of the energy legislation of the EU, accomplishment of the needed reforms and the implementation of measures for the liberalization of the energy sector in line with the member states of the EU.

The Bulgarian side actively participates in the EU debate formulating the new energy policy of the Union and supports the priorities and targets laid down in the new Green book "European strategy for secure, competitive and sustainable energy" from March 8th, 2006. The six priority areas defined in it (effective functioning of the competitive common energy market, diversification of the energy supply, sustainable development, innovations, common coordination of the internal EU energy policy), are also inline with the Bulgarian vision for the development of the energy sector, highlighted in the "Conception for the participation of Republic of Bulgaria in the regional energy markets and in the common energy market of EU" and forming the Bulgarian position in the framework of the relationship of EU in the establishment of the Energy community. One of the main accents in the Conception is ensuring the security of the energy supply trough diversification of the sources and routes, and also the creation and functioning of competitive regional and European energy markets. In relation to the efforts are being aimed toward the building and development of relevant energy infrastructure, along with physical capacity to function in the common energy market of the EU and that of the Energy community.

In relation to the above stated, Bulgaria also supports, the based in the new Green book of the EC, for the creation of clear coordinated policy and vision of the EU for ensuring the security and diversification of the supply, and also specifically stated strategic regions and projects for oil and gas pipelines. In relation to this, it is a priority for Bulgaria to strengthen the partnerships with the main producers/suppliers (Russia, Caspian region, Middle East and North Africa), the main energy importers/users, and especially the dialogue with the transit countries, such as Ukraine and Turkey. Bulgaria also clearly defines the necessity of common coordinated energy policy of the countries in the EU and the candidate for membership countries, with an aim to ensure secure and more competitive conditions for the supply, transit and prices of the energy resources.

Bulgaria is an active participant in the process of creating the regional energy market of Southeast Europe (SEE) and the country played an important role in the signing of the treaty for the creation of the Energy Community between the EU and the countries of SEE on 25.10.2005 in Athens, along with the followed ratification, as a result of which the contract came into effect on July 1st, 2006. The creation of the Energy community in practice means creating the biggest in the world integrated competitive energy market with more than 500 million customers, functioning on common regulations. This treaty ensures the coordinated energy policy in the framework of its geographical scope, with an aim to ensure the security and better conditions for supply, transit and prices of the energy resources.

The Bulgarian energy market has a decisive role in the stable energy supply of the SEE region. At different times in the last few years the Bulgarian energy supply covers from 45% to 100% of the deficit in the energy balance of the net importing countries in the SEE, which is a major contribution to the economic and political stability in the region. Bulgaria is also an important country, providing the transit of natural gas for the countries of SEE (Turkey, Greece and FYRO Macedonia) trough well developed transit pipeline network.

On the Bulgarian energy market falls a major part of the investments in the energy sector in the region of SEE. During this year in the Bulgarian energy sector, under implementation are energy projects with secured financial means in the amount of over 3 bln. euro, while till the end of 2007 it is expected the volume of investments to surpass 6 bln. euro, which means that a large part of the investments are provided from private and public companies without any state guarantees.

Keeping in mind the dynamic development of the processes in the energy sector and with an aim to account for the new realities from the participation in the regional and common energy market of the EU, and with the expected actualization of the energy policy of the Community trough the newly prepared by the European commission Green book "European strategy for secure, competitive and sustainable energy", the basic guidelines for actualization of the Energy strategy of Republic of Bulgaria are inline with:

1. Development of the Bulgarian energy sector in the context of the Energy community in the common energy market of the EU.
2. The implementation of the commitments concerning the energy sector, undertaken with the Accession Treaty.
3. Starting the implementation of the main priority energy projects for the Bulgarian country, such as Atomic power plant (APP) Belene, natural gas pipeline NABUKO, petroleum pipeline Bougras – Alexandropolis and AMBO and others, related with the necessity to ensure secure and diversified energy supply for Bulgaria, SEE and the EC, along with the efficient functioning of the energy market in the Energy community.
4. Ensuring competitive price of the energy resources for the Bulgarian economy, in mind the trends of development of the demand and supply of energy resources in the region of SEE, Europe and the world.
5. The implementation of the requirements of the relative Directives of the EU for the preservation of the environment, predetermining the future ways for development of the energy sector.
6. At the same time lowering the energy intensity in all sectors of the economy of the country and the way of life, while better employing the potential of the local renewable energy resources.
7. Optimization of the methods for the realization and the sources for financing of the strategic projects, related with preserving the leading position of Bulgaria in the SEE. Elaborating of models and schemes for attracting investments, employment of flexible financial mechanisms, financial stimulus, absorption of Structural and Cohesion funds of the EU and others.

Policy and specific activities and measures for ensuring energy autonomy, diversification of supply and development of Renewable energy resources (RER)

The basic energy balance of the country is well structured from the point of view of the variety of types of primary energy resources, but at the same time the dependence of imports of the above mentioned is around 70% (40% average for the EU), with a single main supplier – the Russian Federation. The share of the imported energy source in Bulgaria, compared to the total import of raw materials, investments and consumer goods, is approximately 18%.

The only meaningful local energy resource is a low calorific lignite coal with high sulphur content. The nuclear energy sector remains the main factor for the capacity and energy balance of the country in an environment of high technology and efficiency of manufacturing. In view implementation of the engagements for the preservation of the environment and the lowering of the emissions of CO2, SO2, NOx and flying dusts, the country will continue to depend on nuclear power and will develop it in line with the current requirements for dependability, nuclear safety and radiation security.

In order to limit the dependency on imported energy sources, serious efforts are being made in three areas:

- Lowering of the energy consumption for every single gross domestic product of the economy;
- Optimal use of local and renewable energy sources;
- Ensuring the security of energy supply through diversification of energy routes.

The Bulgarian country has prioritized the matters concerning guaranteeing the security and the diversification of energy supply. In relation to this, the Bulgaria is actively working to provide alternative sources of natural gas supply to the country, the region of SEE and EU. The demand for alternative energy sources is also necessary for the avoidance of exceedingly high prices, which would exert additional stress on the national economy.

In the field of electrical energy sector

The creation of the new production capacity of electricity, employing local lignite coal ("Thermoelectric-power plant Maritca Iztok 1") renewable energy resources (Hydrohub "Cankov Kamak") and nuclear fuel (Nuclear power plant NPP "Belene"), as well as the enlargement and modernization of the national electric transmission network (Project "Energy" 2), will contribute to the increase of the security of the electric power supply and the uninterrupted power supply, not only for Bulgaria, but also to the Energy Community, considering the forecasts of the TCTE, according to which, if no new electricity producing plants are being built, there is a real danger of electricity deficit in the region to increase significantly by 2010-2012. Bulgaria is continuing to depend on the development of nuclear energy, which contributes to the availability of security, competition and sustainable development of the energy sector, while strictly following the community standards for nuclear safety.

At the same time, large part of the investment decisions are also associated with the rehabilitation and modernization of existing power producing capabilities (NPP "Kozloduy", "Thermoelectric-power plant Maritca Iztok 2", "Maritca Iztok 3", Thermoelectric-power plant "Varna" and others), in mind the fact, that around 50% of the existing thermoelectric plants are in use more than 30 years, so with an aim to prolong their useful life, increase their capacity and coefficient of efficiency and implementation of the requirements of the energy legislation.

Priorities for Bulgaria are also the energy projects along European corridor No. 8 (Bulgaria-FYRO Macedonia-Albania-Italy), incorporating electricity transmitting connections, as well as the projects for the development and enlargement of the intersystem energy connections between Bulgaria and the countries in the region of SEE – electric transmission network sub station Chervena Mogila (Bulgaria) – sub station Shtip (fYR of Macedonia), electric transmission network sub station Maritsa Iztok (Bulgaria) – sub-station Philipi (Greece) or substation Nea Santa (Greece).

In the field of natural gas

Significant attention is directed toward the discovery of possibilities for ensuring diversity of natural gas supply for Bulgaria, the region of SEE and the EU. Bulgaria is along the main countries participants in the implementation of the priority, even for the EU, project for natural gas pipeline "NABUKO", which would ensure access to the significant natural gas resources of the Caspian region and the Middle East. Also the possibility to build a regional reception (re-gasification) terminal for liquid natural gas on the Bulgarian Black Sea coast is being considered, in order to provide diversification and to ensure the security of natural gas supply for Bulgaria and the countries in the region of SEE. Under discussion is also the project for building a natural gas intersystem connection with Romania, to connect to the natural gas market of the EU and an opportunity for swap transactions with natural gas from North Europe. The Bulgarian side has also prioritized the natural gas projects along European corridor No. 8 (Bulgaria-fYR of Macedonia-Albania-Italy), including the so called Trans-Adriatic natural gas pipeline.

In the field of petroleum supply

The Bulgarian country is actively working to implement the two strategic for the EU and the region projects of petroleum pipelines Bourgas – Alexandropolis and Bourgas – FYRO Macedonia – Vliora (AMBO), since the realization of these is of crucial economical and geo political importance.

In the field of the RERs development, energy effectiveness and environment protection

Significant investments are been implemented in renewable energy sources (RERs) development in line with the requirements of the EU legislation in this area, which leads to decreasing dependence on external sources and environment protection. Notwithstanding reaching the indicative scope of 11 per cent it is needed that electro-energy production from RERs increases up to 4.61 TWh by 2010.

Significant attention is been also paid on building the necessary infrastructure as to fulfil the requirements on decreasing the emission of definite polluters in the atmosphere from big installations (Directive 2001/80/EC). The energy industry is the biggest producer of sulphur dioxide and one of the main producers of nitrogen oxides. The only significant local energy source is low-calorific lignite coals with high sulphur content. In addition after the early block closure of the NPP Kozloduy the share of solid fuel produced energy grows. This along with the importance of energy supply determines the role of mining and heat power stations.

ANNEX 12. LIST OF INVOLVED INSTITUTIONS AND PARTNERS

INSTITUTIONS	PARTNERS
Ministry of Finance	
Ministry of Regional Development and Public Works	Bulgarian Industrial Association (BIA)
Ministry of State Administration and Administrative Reform	Bulgarian Industrial Capital Association (BICA)
Ministry of Economy and Energy	Bulgarian Chamber of Commerce and Industry (BCCI)
Ministry of Labour and Social Policy	Bulgarian International Business Association (BIBA)
Ministry of Transport	Employers Association of Bulgaria (EABG)
Ministry of Environment and Water	Confederation of Industrialists and Employers in Bulgaria
Minister of European Affairs	Bulgarian Union of Private Entrepreneurs "Vazrazhdane"
Ministry of Agriculture and Forestry	Union of Private Economic Enterprise (UPEE)
Ministry of Foreign Affairs	
Ministry of Health	Confederation of Independent Trade Unions in Bulgaria (CITUB)
Ministry of Education and Science	Confederation of Labour "Podkrepa"
Ministry of Justice	Economic and Social Committee
Ministry of State Policy for Disasters and Accidents	
Presidency Administration	National Association of Municipalities in the Republic of Bulgaria
National Assembly	Foundation for Local Government Reform
Council of Ministers	
Mission of Bulgaria to the EU	Centre for the Study of Democracy (CSD)
	Centre for Liberal Strategies (CLS)
Agency for Economic Analysis and Forecasts	Institute for Market Economics
National Statistical Institute	Economic Policy Institute
	European Institute
Agency for State Financial Inspection	Institute of Economics and International Relations
Social Assistance Agency	Balkan Institute for Labour and Social Policy
Agency for Information and Technologies	Open Society Institute
Executive Agency for Fisheries and Aquaculture	Centre for Economic Development
Road Executive Agency	
Executive Agency "Maritime Administration"	Bulgarian Association of Regional Development Agencies
Bulgarian SME Promotion Agency	United Nations Development Programme (UNDP)
Public Procurement Agency	Swiss Embassy, Cooperation office
Tourism Agency	ICT Cluster

Employment Agency	Association Balkan Assist
State Agency for Youth and Sports	Regional Association of Municipalities PAGANE
Anti-Discrimination Commission	Foundation for Entrepreneurship Development (FED)
Bulgarian National Bank	Centre for Environmental Information and Education
Bulgarian National Audit Office	Environmental Association "For the Earth"
	WWFDCP
National Council for Ethnic and Demographic Issues	Association for Sustainable Ecological Decisions "Agrolink"
National Council for Coordination of Infrastructure Projects of National Importance	Association of the Ecologists from Bulgarian Municipalities
	Bulgarian Association for Bird Protection
Commission on Protection of Competition	Bulgarian Foundation "Biodiversity"
Communications Regulation Commission	Association for Sustainable and Environmental Practices
Financial Supervision Commission	
Commission for Consumer Protection	University of National and World Economics
	University of Sofia
Institute of Economics (Bulgarian Academy of Sciences)	University for Architecture, Construction and Geodesy
Bulgarian Institute for Standardization	Technical University
Institute for Public Administration and European Integration	National Association of people with disabilities
Diplomatic Institute	Amalipe Center for Interethnic Dialogue and Tolerance
National Institute of Justice	Interethnic Initiative Foundation
School of Public Finance	
	Bulgarian Farmers Association
	Bulgarian National Forwarders Association
	Bulgarian Association for Alternative Tourism
	Association of Bulgarian Enterprises for International Transport and Roads
	National Craftsmen Chamber
	Club "Economica" 2000
	World Learning
	Twinning assistance under Twinning project BG03/IB-SPP–01 (UK, Italy)
	Management Information System PHARE project (Hungary)