



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

OPINION

on

**DRAFT OF THE NATIONAL REFORM PROGRAMME
OF THE REPUBLIC OF BULGARIA
(2006 -2009)**

GROWTH AND JOBS

(developed at the suggestion of the Council of Ministers)

Sofia, 12 February 2007

On 31 January 2007, the Council of Ministers proposed to the Economic and Social Council to draw up and approve an Opinion on the Draft of a National Reform Programme of the Republic of Bulgaria (2006 -2009) "Growth and Jobs" in compliance with Article 5, Paragraph 1 of the Act for the Economic and Social Council and by Decision No. 61

In conformity with Article 33, Paragraph 6 of the Rules of Procedure, on 12 February 2007, the President of the Economic and Social Council, Prof. Lalko Dulevski, submitted for discussion and approval by the Plenary Session a draft of opinion, previously agreed by the representatives of the Economic and Social Council to the Lisbon Strategy study groups of the European Economic and Social Committee.

The Plenary Session adopted the Opinion.

1. INTRODUCTION

The Lisbon Strategy issues and its implementation represent the basic topics of the Economic and Social Council (ESC) activities. During the last two years, the ESC of Bulgaria took part in the network of national ESCs of EU Member States, created by the European Economic and Social Committee (EESC), aimed at involving the civil society in the realisation of the Strategy goals. The ESC has sent representatives to the EESC study groups on areas of main priority of the Lisbon Strategy revised in March 2005, as well as to the coordination group. The Council has repeatedly expressed its position and has made more than 200 proposals concerning realisation of Lisbon Strategy main priorities and measures and realisation of major strategic issues of the country. The ESC, a year ago approved an Opinion on the Lisbon Strategy. This opinion proposed specific measures, among these the elaboration of a National programme of the government for growth and jobs.

In this regard, the ESC supports the efforts of the government for drafting and approving a national reform programme referred to the Lisbon Strategy aims, priorities and related decisions of the European Commission and the European Council.

2. GENERAL RECOMMENDATIONS CONCERNING THE STRUCTURE AND CONTENTS OF THE PROGRAMME

As a whole, the draft of a National Reform Programme (NRP) proposed for discussion, comprises main directions, aims and priorities submitted to the Member States by the Lisbon Strategy and the European Council later on. The NRP drafted in this shape needs certain restructuring. Despite of the huge scope of information stipulated in, the programme is mostly representing a range of priorities and axes of national operative programmes, as well as a package of analyses and forecasts of several institutions. This is the reason for requiring clearer and more logic structuring of the major goals and measures in completion of their realisation.

Regarding the structure, the Reform Programme could have clearer presentation in closer relation with the four areas of major priority for growth and jobs, approved by the Spring European Council 2005, and it could be also closer related to the main strategic priorities for development of the country during the period 2007-2013, in accordance with the National Strategic Reference Framework.

The Council recommends that in the "Increasing Growth Potential Policies" part and in some other parts should not be enumerated current PHARE projects concerning competitiveness and entrepreneurship promotion, which would improve the logic interrelation of the programme. The Council proposes that the projects should be better included in separate annexes to the NRP, rather than as measures on a national level.

In order to reach better interrelation between separate programme parts, unnecessary overlaps should be avoided. There is a need of presenting larger and more specific information on financial resources from the budget, structural funds and business, committed to the implementation of goals and measures of main priority areas of the programme.

Setting of feasible goals and measures for higher growth and employment, ensured by real resources, activities and measuring indicators, is a significant precondition for effective accomplishment of the programme.

Relations and consolidation between innovation and research policies, energy and resource effectiveness, increasing of small and medium sized enterprises potential, education and training, investments in human capital and labour market modernization based of flexibility and security should be much clearly stipulated in the NRP.

3. MACRO-ECONOMIC POLICY FOR HIGHER AND SUSTAINABLE GROWTH

The ESC recommends that potential synergy between economic growth and challenges faced by the country with regard to the environment and demographic development should find better expression in the programme. The issues regarding global climate changes and goals set up for increasing electricity production from renewable power supply sources, as well as commitments assumed by the country in compliance of “Environment” negotiation chapter, require much clear and precise evaluation of challenges faced by the country and the business, also of the real resources, measures and actions that could be realised to this purpose stage-by-stage. Mechanisms for financing of renewable power supply sources setting, as well as effective measures for administrative barriers reducing, should appropriately fit in the National Reform Programme. The matter of access of small and medium sized enterprises (SME) to environmental improvement projects still remains open. The reason for that is that according to previous evaluations the funds required for putting their activities in correspondence with requirements set up in the ecology area in the period 2007-2013 amount to 3-4 billion euro.

The ESC insists on seeing most precisely and clearly stipulated in the National Reform Programme the challenges concerning aging of the population and aggravation of a series of qualitative characteristics of the human capital. In some of the opinions, the Council has repeatedly expressed its concerns about generated shortage in the public pension fund. According to prognostication balances, this shortage comes up on the horizon till 2050. Concerns have been also expressed about increasing shortage of resources in the public health fund of the country. Expected increase of average life expectancy and public pressure for more resources in health care could turn out to be additional factors with a negative impact on public finance stability and, in a long term period these factors could bring about an increase of the ratio “debt – gross domestic product”. The Council places the issue of additional measures’ necessity for providing higher effectiveness of public expenditures and expected results. Similar issues in countries of developed economy should be carefully analyzed on the basis of pointing out and taking into consideration that the European Commission imposed or should impose sanctions related to the increasing extent of the above mentioned ratio.

Insufficient funding has been defined as a major problem of the health care system in Bulgaria. Despite of setting up ambitious goals, provisioned health care reform should have presumed sound financial resources providing their achievement.

The ESC also considers that issues related to the Bulgarian health care system funding should be solved at the same time as its quick reforming is going on. Concerned, the Council has repeatedly ascertained that the choice and political confirmation of a health care and health insurance model adequate for Bulgaria, has been postponed for so long in time and this is a prerequisite for increasing problems and social tension. Even with more resources, the health care system would not be functioning effectively enough if appropriate reforms should not have been implemented in due course.

Since the beginning of 2000, Bulgaria has started a model of pension system reform with the purpose to provide higher income replacement ratio by a summary pension income (for young people in particular). The three pillar model of the Bulgarian pension system has been supported by appropriate legal decisions, as well as by institutional strengthening and development of the pension insurance companies and the National Social Security Institute (NSSI). During the last 5-6 years, the large number of changes in pension legislation and related acts did not provide sufficient extent of development of the Bulgarian pension model; for that reason social debate and consultation should further continue. At the same time, unfavourable development of the demographic process in the country is additionally affecting the pension system financial stability and the generation of long term deficit in the first pillar. The forecasted ratio of replacement of insured income by pension income, set up in the NRP, gave rise to some very serious issues and necessity of new evaluations. If the expectations are that in 2050 the income replacement ratio in the first pillar will be 35.4% and that in the second pillar – about 10%, then the accumulated ratio of replacement of insured income with pension income from the first and second pillars will remain almost at the level of the ratio of income replacement with pension income in the first pillar in 2006. Although still hypothetically, this can have an effect on the support for the reform – especially as far as younger generation is concerned, and can discourage their interest in participating in the pension system.

In this regard, the ESC insists to see included in the appropriate parts of the NRP some measures, effective enough to provide stability of the pension system and more significant increase of the income replacement ratio. The Council recommends that policies and measures proposed in the NRP should be more carefully evaluated from the view point of expected effect and possibilities for their implementation. For example, the ESC has fully supported the creation of a demographic reserve fund, but to this purpose, definite sources and possibilities for its funding, should be specified in the programme. The purpose of the programme, aimed at increasing the insurance basis through enlarging the scope of secured individuals and increasing the amount of the insured income, should be in accordance with specific measures and policies that would be able to guarantee its implementation. Expectations for improvement of the pension system financial stability from extending of the pension age, should be also more carefully considered, because in practice this measure started to come into implementation from the beginning of 2000 and its effect would expire in a few years only. In a similar aspect, the ESC considers that obligatory registration of labour contracts and introduction of minimum insurance thresholds are measures with already proved effect and these measures could further provide rather maintenance but not improvement of the pension system financial stability.

The ESC calls up for faster and decisive actions in modernization and reform of the social protection system in order to reach necessary financial stability and guarantee for the Bulgarian citizens. All the more that our country is characterized as most advanced in getting on in years in the European Union (EU) and, also by the lowest rates of labour productivity and incomes, a fact that has a negative impact on the revenue part of the public insurance funds. In some of its opinions, the ESC has adopted proposals for measures and decisions in the area of the public insurance funds, part of which have been included in Appendix 1 to this opinion.

Rendering an account of the challenges concerning environment and demographic development, which by Council's evaluations would be rather larger for Bulgaria than the other EU Member States, the ESC insists on making much clear evaluation of necessary growth of the gross domestic product. This growth is needed for getting over these challenges in mid term aspect. The Council supports the implementation of macro-economic stability policy and increase of the gross domestic product envisaged in the NRP, two times higher than the average of the EU Member States.

The ESC, after considering the mentioned challenges and their negative impact on public finances and business, makes a suggestion to look for additional sources of generating annual economic growth of another 1-2% and to include them in the NRP. It would be of use to explore in depth the experience of the Baltic States, which as EU members have reached very high economic growth at the end of 2006. In this respect, the ESC insists on drawing the attention on reducing the informal economy share. The ESC evaluations stipulated in a separate Opinion on the informal economy issues prove that a policy coordinated among the stakeholders and supported by the society could enable the reduction of the informal economy share; thus additional increase of the gross domestic product, mainly the increase of the officially registered employment and revenues in public finances shall be guaranteed. Furthermore, the ESC considers the significant informal economy sector in the country as a source of unfair competition. This issue could be treated from the view point of increase of SMEs competitiveness. In the draft of NRP submitted for discussion, the necessary involvement and measures effective enough for reducing the informal economy share in the country are not present. Once again, the ESC reminds that in some sectors developed in the country, almost one third part of the activities and incomes paid to the workers have not been officially regulated and this is where reserves could be found.

In the opinion of the ESC, another additional economic growth generator could be the much faster increasing of investments in some of the Bulgarian export oriented sectors of the economy. Regardless of the achieved trend of increase of the ratio "investments – gross domestic product", the high relative share of investments oriented to servicing the internal market is still an obstacle for higher economic growth. The analyses of investments by sectors prove the thesis that the impact on the labour productivity of investments oriented to the internal market is weak, whereas the impact of investments in most export oriented sectors is much more significant. The share of the gross value added is also rather higher for most of the export oriented sectors than the level of this indicator in sectors oriented to servicing the internal market. This position has been also proved by the fact that increase of the labour productivity, as a result of the investments in export oriented sectors, is several

times higher than increase of investments in sectors with internal orientation. The ESC expresses its full conviction that a system of goals and measures aimed at achieving necessary restructuring of investments and promoting of the investments in export oriented sectors of the economy should find their place in the NRP besides the increase of the absolute amount and share of investments in the gross domestic product of the country.

Main sectors of the economy that are the driving force for the gross domestic product growth should be brought into NRP foreground and, contribution of the SMEs technological innovation in this process should be much clearly defined. The ESC reiterates its proposal for extending and specifying measures leading to stimulation of the development of economic sectors with proved competitive advantages. These are mainly sectors of bigger share of produced value added and higher labour productivity.

The ESC accepts establishment of conditions and prerequisites for better use of production capacities as a third additional source for economic growth. The analyses prove that enterprises in Bulgaria work at about 2/3 of their production capacity and at the same time the level of employment is relatively low compared to levels in the EU Members States.

The Council considers the ineffective employment restructuring as unfavourable factor for the sufficiently high economic growth. As a result of this fact, a great part of the labour force in the country was directed to these economic sectors where the labour productivity is quite low. Taking into consideration the demographic characteristics of the country and expected trends in forming of the labour force, it is under question if that trend could continue without any serious negative consequences for the economy and business.

The ESC considers encouragement of private investments in infrastructure and public sector as a source for additional economic growth. The NRP, however, did not present activities and measures definite enough for stimulating such investments.

The Council accepts increase of the purchasing power of population as another potential factor for additional economic growth that should find adequate place in the part of the programme related to the income policy.

The issue of the Bulgarian labour force mobility in territorial, sectorial and professional aspect is quite serious. In this regard, the drafted programme does not present more specific measures and indicators supporting this process, which could provide additional opportunities for higher employment and economic growth.

The ESC expresses its consolidated position that the issues of migration and its impact on demography and public finances in the country are still underestimated and adequate solutions have not been found yet. The Council has continuously insisted on founding a separate state institution on migration providing monitoring of that process and required regulating activities. The Council considers that if during last 15-20 years the issues of migration have been related to emigration, since the beginning of the Bulgarian EU membership more serious problems related to immigration in our country shall occur. As a member and being a border of the European Union, our country turned into a centre attracting a number of potential immigrants and by the lack of a state institution and more strict provisions stipulated by law it is highly likely that illiterate and non qualified labour force would enter the country, The probable development of such a process shall put an indisputable pressure on the systems for social protection and public finance in the country.

Some of these systems are still experiencing problems in terms of their financial stability and deficit. At the same time, the trends of labour market during last 1-2 years proved the existence of

deficit of qualified workers and specialists in definite areas. For this reason, the ESC considers that the lack of a system effective enough for a state regulation of immigration in the country shall lead to further deepening of structural problems, discrepancy of Bulgarian labour market and additional tension within the social security systems.

The issue of developing and implementing policy stimulating the return of Bulgarian citizens left our country during the transition period for economic reasons is still vital. The ESC expresses its conviction that due to the experience generated abroad those Bulgarians who return in the country shall be a key factor for overcoming the structural deficit of labour force and shall provide additional sources for economic growth. The Council insists that specific policies and measures should be developed for stimulating and facilitating the settlement in our country of Bulgarian communities previously living in other countries. The Council recommends

that the issues of migration should find their proper place in the NRP and should be related to clearly defined goals, measures and resources for their achievement.

4. POLICIES FOR INCREASING THE GROWTH POTENTIAL

The ESC appreciates the significance of the policy for increase of the growth potential occupying a significant part of the drafted NRP. In general, presented document concerning this issue includes a wide set of problems and directions related to the increase of the growth potential. At the same time, a definite restructuring of the content is necessary and more clear bringing of the sequence of main purposes and related measures for realization. Regardless of the implementation of some indicators in specific parts of the content, the material would win if the relative purposes and measures are coordinated with objectively measurable indicators allowing the provision of monitoring and impact assessment.

The NRP draft took into account all main directions of the operative programme "Administrative Capacity Development" for improving the administration activity and administrative servicing of the business and citizens; however, there were not taken into consideration requirements set by the Lisbon Agenda for a significant extension of the range of services provided by a single counter, as well as the requirement that 50% of administrative services to be offered on-line by 2010. In this regard, the ESC proposes that specific measures should be included to enhance the percentage of electronic administrative services.

The Council recommends more active inclusion of social partners in discussions on developing policies and measures for simplifying regulation regimes and increasing the quality of the administrative service. The ESC suggests that requirements should be introduced for revealing information concerning the monopoly and oligopoly suppliers of public services that would be equal with requirements to public companies in order that transparency and public control are provided. At the same time, the ESC proposes that the program should take into account the development and implementation of the necessary

legal framework that shall provide conditions for significant increase of the percentage of e-trade.

The Council supports the proposal of the employers' organizations, trade unions and other civil society organizations, represented in the ESC, for a sharp decrease of the number of regulating and permitting administrative regimes, as well as the elimination of those administrative regimes not stipulated by a statute or enactment. This part of the program is lacking relative legislative changes and guarantees that shall ensure the necessary equity between the State and the business.

The Council considers that the creation of a common register of economic operators and united cadastral and property register are also prerequisites for improvement of the business area and more clear commitments should be set in the relative part of the programme.

The draft NRP presents the main priorities according to the operative programme "Promoting competitiveness of Bulgarian economy" and "National innovation strategy", but it is necessary that the clusters proposed are directed to sectors with competitive advantages when the choice is based and related to the strategy for development of the business potential. The NRP did not present assessment criteria for selection of clusters. According to the ESC, this would create a precondition for insufficiently effective use of resources since advantage will gain mainly the clusters with capability to absorb funds and not those with a proved export potential.

The draft NRP presents the directions for introducing innovations in SMEs. Up to now the State has established institutional framework, legal and regulatory environment, but has not clearly revealed the access to funding. SMEs suffer a lack of sufficient information, financial and human resources necessary for creating innovative products and implementing informative and communicative technologies. In order to stimulate investments and opportunities for developing R&D, the Council proposes that measures and approaches should be set for providing an easily accessible to SMEs venture capital that shall facilitate the introduction of information and communication technologies. Taking into consideration the role of the capital market as an alternative source of bank financing, the ESC recommends that the Bulgarian legislation regulating the capital market activity within the country should be improved in future in direction of facilitating requirements coming from the public offering status, as well as stimulating listing of the SMEs in the stock exchange market.

The EU practice shows that the micro financing is also an appropriate form of funding innovative decisions in SMEs. In this regard, there could be created a State policy for stimulating micro financing in innovative activity of SMEs in areas lagging behind in their economic development. This would bring for faster overcoming of the accumulated regional disbalances in economic and social development, as well as for overcoming the concentration of production and employment in definite areas in the country.

Some of the main strategic purposes of the Bulgarian government are reaching a sustainable growth and improvement of competitiveness of the economy. Innovations are a vital factor for a long-term economic growth. In Bulgaria the expenses for R&D are approximately half a percent of the Gross Domestic Product (GDP) which in turns leaves the country of one of the last positions by this indicator among EU Member States. In order that the innovation activity of SMEs is stimulated, a mechanism should be developed for promoting the scientific

projects in industry, as well as the interrelation “education – researches -innovations” should be activated for implementation of effective transfer of scientific knowledge into practice. In relation to stimulating the R&D, the ESC recommends that the financing sources from the National Investment Fund should be specified, areas and priorities supported by the NRP should be outlined. This recommendation is drawn by the analyses on implementation of the Lisbon Strategy in the 25 EU Member States where 2/3 of expenses for R&D are provided by the business. For that reason, it is necessary that in the NRP should be stipulated the conditions and incentives for funding the R&D by the private sector.

The environment protection is a fundamental policy for sustainable development that found a place in the NRP. It does not highlight measures for business access to European programs for ecology improvement. To that purpose, the ESC suggests that specified approaches should be indicated for stimulating SMEs to implement technologies protecting the environment as well as to ensure access to the EU structural and cohesion funds.

The stimulation of production and consumption of energy from renewable power supply sources is a priority in the energy sector and is directly related to the protection of environment. In this respect, the NRP should indicate the mechanisms for financing of renewable power supply sources.

The NRP put a stress on creating capacity for entrepreneurship training but the programme lacks a proposal for creating a system for selection of companies training provider and training programmes. In order that the quality of the training is improved, the ESC proposes that a system of verification indicators should be introduced allowing for real results accounting and compatibility with the EU practices. The ESC recommends that training providers such and consultant companies should meet definite criteria developed jointly by the State and social partners; thus, guaranteeing both training quality and its adequacy to employers' requirements.

5. EMPLOYMENT, HUMAN CAPITAL AND EDUCATION

The ESC expresses its unified statement in relation to the key importance and the position of issues with quality of human capital and further modernization of labour market as key factors for growth and overcoming challenges facing the country. The opinions issued by the Council expressed the concern of the institution and proposals made related to demographic issues and consequences for public finances and economy, as well as to issues of the labour force quality, education and qualification.

The Council considers that the commonly approved principal of “flexicurity” in all EU Member States should be implemented more precisely and systematically by the NRP draft. In this aspect, the last part of the NRP draft requires a definite restructuring underlining much clearly the sequence and logic connection of fundamental purposes and measures that guarantee the generally accepted balance between security and flexibility of labour market. This restructuring shall provide much clear understanding and support of the goals and measures set by the business and in terms of the labour interests.

At the same time, the Council proposes that much decisive measures should be set in the NRP for improving the education level and the human capital quality in the country.

The ESC does not accept the forecasted decrease of 5% by 2009 of the children early leaving school which means that by the third year of the EU membership of Bulgaria every seventh child would have had no education. There is a need of additional sanctioning and stimulating measures guaranteeing the implementation of the principal of good parentage and providing a chance for a career

development to every child getting a degree. The Council recommends that effective measures should be set for including into the labour activity those unemployed who reject accepting an appropriate job offered by the labour offices. The evaluation of the reform programmes of Members States shows that some of the programmes include measures providing special conditions for work, entrepreneurship, education and other opportunities to young people who have dropped out of education during the first 6 months of unemployment. Such measures should be also foreseen in Bulgarian reform programme aimed at duly integration of these young people into the labour market. The ESC considers that the measures and indicators set into the NRP should be added by relative measures and indicators for newly expected jobs. For instance, the EU expects seven million newly opened jobs in 2006-2008. Bulgarian NRP should put this priority in one of the first positions.

The NRP did not report the large number of discouraged unemployed people in the country. For that reason, it is necessary that the programme presents actions and measures for integrating persons dropped out of the labour market

The foreseen policies of labour market put a stress on the quantitative stimulation of unemployment without paying the necessary attention to its qualitative aspect. There is a need of a change in the practice of planning and reporting solely of quantitative indicators, related to employment, without reporting quantitative indicators such as qualification and educative parameters of the relative work positions.

In a special opinion on the Lisbon Strategy, the ESC insisted on creating a fund "Investments in youth" for additional guarantees providing funds for education of young people after completing a certain age.

The Council insists that the National Assembly should adopt a national concept on human capital of population by the active inclusion of all stakeholders. This National concept should put to the foreground the leading position of education for the future prosperity of Bulgaria. On the basis of this concept on human capital, there should be adopted a long-term national strategy for developing the education in Bulgaria where the priorities for development of all levels of education should be clearly defined. The National strategy, in the area of vocational training and education, should be implemented on the basis of mid-term national action plans prepared by the Ministry of education and science in cooperation with all responsible ministries after agreement with the civil society representatives. Specific tasks should be stipulated in the national action plans, as well as definite responsibilities of state institutions and social partners.

The Council proposes including in the NRP the necessary measures and goals guaranteeing reorientation of state policy from social aid to social investments in young generations, their parents and families.

The ESC supports the efforts of government for closer binding of wages to real economic results and parameters. In this regard, the ESC insists that the negotiated arrangements

in item 10 of the Pact for economic and social development by 2009 of the Republic of Bulgaria should be included in the NRP.

The Council suggests that income policy should guarantee further decrease of direct income taxation by undertaking fair measures for low and high wages. Progressive taxation through differentiation of rates and consistent increase of the nontaxable wage minimum leads to tax relief for all individuals, although with different relative burden. Through extending and deepening of tax relief, the tax payers will be motivated not to look for other (pseudo)forms of employment, which allow for hiding labour income and/or taking advantage of the more favourable corporate taxation. It could not be ignored that the ESC managed to reach a consensus for bounding the wages growth with inflation and labour productivity reported as a gross value added of an employed person for the previous year. This result from the civil dialogue, as well as a number of other proposals reached by consensus presented in Appendix 1 could find its place in the last part of the NRP.

6. CONCLUSION

As a general conclusion, the ESC states that the draft of NRP contains a broad range of activities and measures included into the national operative programmes. The ESC, however, expresses its position that this document should put in the foreground the priority areas and goals of the Lisbon Agenda. This should be the basis for reaching a bond with the activities and events of the national operative programmes. In this respect, the main focus of the NRP should be reoriented to the goals and priorities of the Lisbon Agenda since left in that form the draft is rather a systematization of activities and measures from national operative programmes.

The ESC reiterates that the NRP should present more clearly and precisely the main goals and measures and the relative indicators should be developed for monitoring the implementation. The indicators should be more clearly defined as criteria for measurement and comparison of the development achieved on separate priority activities and measures. Regardless of the fact that definite indicators are implemented into the NRP, they are insufficient and do not cover all measures and activities proposed. The system of indicators in the NRP should give enough possibility for evaluation of influence from the implementation of these priorities and measures.

The ESC proposes that the necessary mechanisms and forms guaranteeing the implementation of the NRP should be envisaged on this level. In this regard, there is a need to develop an Action Plan with the relevant time schedule which shall clearly specify the commitments put for fulfilling the planned priority measures. In order that the NRP fulfilment is guaranteed, it is necessary to develop the relevant procedures, as well as to designate the political leader (at least at a level of a minister) responsible for the implementation of the NRP.

The ESC expresses its consolidated position that such a programme could be successfully implemented only by a close interrelation and coordination with the civil society organizations. In this connection, it is of a great importance the issue of guaranteeing an objective public monitoring on the fulfilment of goals and measures set in the NRP and if necessary planning corrective actions. The experience of the EU Member States proved that the most successful

implementation of such programmes could be reached under the conditions of strong public support which could be formed on the basis of regulated public monitoring. For instance, in France the monitoring on implementation of the Reforms Programme has been stipulated to be executed by the French Economic and Social Council. In Greece the practice is quite similar where a special observatory has been established for monitoring the implementation of such a programme.

The ESC proposes that the procedures for monitoring the NRP implementation should be regulated when the monitoring itself is executed by the Economic and Social Council with the active participation of all social partners presented.

The Council recommends that a detailed analysis is done on the best practices on development and implementation of NRPs of the EU Member States that have received high rating by the European Commission. Appendix 2 presents systematically best practices of four NRPs that have been highly approved by the European Commission.

The NRP as a mid-term political document defines a significant number of priorities and policies stipulated in national documents and operative programmes oriented to high growth and jobs. In order that the programme is effective and feasible, it is necessary to include indicators supporting the evaluation of social and economic impact of the measures regarding the economic growth, effectiveness of social systems, innovations, R&D, employment.

The ESC insists that the measures and government activities in the NRP, aiming at improving quality of education and training (adapted to the needs of labour market and society needs), should be oriented towards the objectives of the knowledge-based economy. Therefore, to reach these goals there is a need of analyses and evaluation of investments in human resources, as well as life-long learning in the context of increasing the productivity level and labour force quality. In this regard, the Council

proposes that all stakeholders should be engaged in creating a culture for life-long learning. The ESC considers that there is a necessity of creating more effective provisions and incentives for providing resources from the private sector in the context of continuous renovation of knowledge and skills in the background of the dynamic technology changes and innovations.

The ESC appreciates the decision of the Council of Ministers to request an opinion on a key strategic document for the country. This is a step forward in developing the civil dialogue and consultations with the civil society on the economic and social policy. The Council does hope that the dialogue and consultations between the government and the Bulgarian ESC on the strategic economic and social issues in the country shall turn into a permanent active form for reaching the necessary public consensus and further recognition of the civil society role. Despite of the short deadline, the ESC made the appropriate efforts to propose to the government definite and constructive comments and recommendations on the draft of the National Reform Programme (2006-2009). The ESC expresses its readiness for further support and participation in implementation of the goals and priorities of the Lisbon Strategy, as a guarantee for a better future of the Bulgarian civil society.

Specific proposals from different opinions of the ESC by the areas set up as priorities in the draft of the National Reform Programme (2006-2009)

List of abbreviations of the titles of ESC's opinions

LS – Lisbon Strategy of the European Union and the Policy of the Republic of Bulgaria for the Achievement of Competitive and Prosperous Economy

HSWC – Healthy and Safe Working Conditions – Socio-Economic Issues

ID – Enhancing the Effectiveness of Legal Mechanism in Solving Individual Industrial Disputes

PSI – Pension System Issues in Bulgaria

IE – Informal Economy and Measures for Its Reduction

IP – Income Policy – a Basic Tool for Improving the Quality of Life and a Factor for Reducing Poverty in Bulgaria

AC – Challenges Facing the Agriculture in the EU Joining of Bulgaria

NHS – Project on National Healthcare Strategy 2007-2012, Prepared by the Ministry of Health (analyses, evaluation, recommendations)

PI – Problems of Industry in Bulgaria's European Union Accession Process

CDP – Demographic Trends and Challenges to the Demographic Policy of Bulgaria

HII – Current Issues of Health Insurance

CBT – Challenges to Bulgarian Tourism in the Process of European Integration

CEPS – Consequences from the Energy Price Shock and Measures for Its Mitigation

PTA – Problems of Textile and Apparel in Bulgaria

VETI – Vocational Education and Training Issues in Bulgaria

I. MACROECONOMIC POLICIES FOR HIGH AND SUSTAINABLE ECONOMIC GROWTH AND EMPLOYMENT

▪ “State Strategy for the Development of the Population and Its Qualitative Reproduction” should be prepared, debated, adopted and implemented in coordination with an outlook at least till the year 2050. **(CDP)**

▪ On the basis of the Strategy, the parameters of an Emergency Demographic Policy should be worked up for the next several years where focus is to lay on the qualitative aspects and the plan views of the issues – measures for qualitative reproduction of Bulgarian nation; matching the state policy towards the family, parenthood and birth-rate with the moral and material incentives and restrictions from the position of attaining both qualitative amendments in the number and the structure of the population not later than the coming 10-15 years. **(CDP)**

▪ The principles for the setting up of health insurance should record the global principles in the social security. The health insurance should be entirely built on the social security

principle while the current elements of social assistance should be taken out of the health insurance range. Thus the motive of the persons to get insured will go up. **(HII)**

- Legal guarantees should be provided for equal participation of the representatives of the insurers – the representative organizations of the employers, of the representatives of the insured -the representative organizations of the employees and the representatives of the state, jointly with the municipalities in the NHIF (National Health Insurance Fund) management and control bodies. The NHIF management bodies should be charged with control and other functions by which the NHIF shall practically transform into a public institution in compliance with the principles set in the Lisbon Strategy for the active role of the social partners in the management of the public funds and institutions. **(HII)**

- Emergency measures should be taken for the setting up of an effective integrated information system and for introducing the so called “smart cards” for the establishment of the status of each Bulgarian national and user of health services. **(HII)**

- The increase only of the health insurance contribution amount cannot solve the problems with the funding of the healthcare. The rise of the amount of the healthcare insurance contribution without considering the general level of the social security burden shall bring about the reduction of the domestic consumption, shall increase considerably the labour costs, shall drop down the productivity, and then the competitiveness, the incentives for the foreign and Bulgarian investors will go down, which will impede the creation of favourable conditions for sustainable economic growth and the capacities of Bulgaria to contribute to the attainment of the main goal of the European Union, namely transforming itself into the most powerful and highly efficient and competitive economy in the world. **(HII)**

- Reforms in social security system should be carried out, including reforms creating opportunities and motivation for pressure on behalf of the secured persons in regard to the non-payment of security contributions. **(IE)**

- Informal activities have great potential for growth and if conditions are created for their transfer to the official sector, this will not only positively affect the development of the competitiveness of Bulgarian economy, but will also reduce the social burden of the reforms. **(IE)**

- There should be transparency of public finances, the taxation system and the expenditure policy of the state. **(IE)**

- Legislation should be complemented with the special incentives recommended for Europe for remaining of elderly employees in the labour market, respectively reducing to exceptions those standards encouraging early retirement. **(PSI)**

- Maintaining an optimal relative share of pension expenses from the gross domestic product should turn into a key instrument for effective and systematic management of the value of the resources allocated for pension, so that to achieve the preliminarily set parameters for improvement of the quality of pension protection in accordance with the common European goals and policies, which are subordinated to the adequacy of pensions in long-and short-term perspective. **(PSI)**

- The range of secured employed persons and predominately of agricultural producers and workers should increase, in combination with incentives for longer participation in the security process and gradual increase in requirements for access to pension. **(PSI)**

- Permanent effects of reducing security contributions should be analysed in terms of financial viability of the pension system in mid-and long-term perspective. **(PSI)**
- To improve and specify the link: “right” – in cases of risk which occurred objectively (illness, motherhood, old age and especially disability) – and “refusal” – in cases of formal or ill-intentioned “adjustment” to legal requirements as a condition for further actions and measures in favour of adequacy of law. **(PSI)**
- An efficient and flexible tool to improve adequacy of pensions is the pension formula. Achieving a higher income replacement ratio, including through differentiated percentage per each year of secured service in the pension formula in case of remaining in the labour market over the legal age and length of service, is a key priority of its use. The commitments of the country towards implementing the recommendations of the Lisbon Strategy for longer participation in the labour market and for higher income after retirement are also a serious argument for actions in this regard. **(PSI)**
- It is necessary to promote the role and significance of the firmly rooted tradition of one-off Christmas bonus payment, which unfortunately is scantily used as a flexible instrument for real increase in pensioners’ incomes. Using this tradition as a specific instrument to improve the adequacy of pensions (by the possibilities of differentiated approach which it contains) makes it possible not only to reduce the general level of the risk of poverty among pensioners, but also to strongly contribute to overcoming differences between the sizes of pensions granted before January 1, 2000 and after this date. **(PSI)**
- A precise mechanism should be developed for identifying a pension “ceiling”, which needs objectifying in order to be “individualized” to the greatest possible extent. The smooth transition from “ceiling” on pensions to regulation of security income (i.e. restrictions at the entrance of the system and liberalization at the exit) is also attractive because of the double effect – stimulating the participation in the mandatory pension insurance and releasing resources for additional voluntary pension insurance. In this context the issues of methodology for defining the levels of minimum and maximum social security income are of particular importance, especially in terms of consequences of relief “at the entrance” (agricultural producers can be secured at 55 BGN, which gives them symbolic pension rights and engages too much solidarity in the pension system and in the state sphere, as well). **(PSI)**
- Of particular importance for the adequacy of pensions are the relations and ratios between the considerations of the two mandatory pension pillars. Achieving objectively the balance and ratios set in the reform requires the precise application of actuarial methods and analyses for evaluation and definition of security contributions and above all of their impact on the revenue in the solidary system. Current social security contributions for the professional pension funds require particular attention and reevaluation in regards to the different categories of employees – with a view to the different periods of payment of fixed term pensions with the aim of avoiding a possible conflict between the size of the fixed term pension and that of the basic lifelong pension. **(PSI)**
- An obligatory element of the modernization of the system is mastering further reproduction of differences in the replacement ratio and levels of pensions with men and women. Achieving this result in the context of the Lisbon Strategy requires adequate policies and

measures in the labour market for equal opportunity and equal treatment, as well as the extremely unpopular but inevitable smooth and gradual levelling of requirements for access to pension (period of security and age). In this context lies also the solution of issues for equal treatment of men and women in defining the size of supplementary pensions from the second mandatory pension pillar (for equal capital – equal pension). **(PSI)**

- Constant monitoring on the pursued reform policies should be carried out, with the respective analyses and assessments. To this end, it would be good to make use of European experience in establishing standing pension commission (committee) of professionals from respective institutions, administrations, NGOs and organizations of workers and employees and employers. This commission or committee should have sufficient powers and responsibilities, regulated in a manner which makes official and validates the product of its activity (an annual report, for example). **(PSI)**

- The new pension formula or rather “cashing” one of its elements (the formula contains such flexibility) should be reconsidered with a view to achieving an improved income replacement. It is extremely important and necessary to take a step in this direction in order to build trust in the system and the reform, as well as to guarantee the development of the latter. **(PSI)**

- The link between the strategy and the policies in the field of pensions and the National Action Plans on employment should become deeper, more effective and precise. **(PSI)**

II. POLICIES FOR INCREASING GROWTH POTENTIAL

- Efficiency of administration and fight against corruption should be enhanced. **(IE)**

- Public control on the work of administration. **(IE)**

- Administrative capacity should be improved and an integrated information system introduced. **(IE)**

- The administrative barriers to the business should be reduced. **(LS)** The policy of subsidizing unprofitable and non-perspective industries should be suspended. **(LS)**

- Legislative changes introducing equality between the state and business should be carried out. **(LS)**

- A strategy for the infrastructure and transport accessibility should be adopted and executed. **(LS)**

- The creation of production networks based on product or geographical principle should be supported. **(LS)**

- A common register of the economic subjects, single cadastre and real property register should be set up. **(LS)**

- Regulations and bureaucracy should be reduced, creating adequate climate for entrepreneurship. **(LS)**

- Some of the regulatory administrative regimes should be cancelled or relieved and the size of the fees collected with them reviewed. **(IE)**

- There should be developed a unified approach to a complete solution of the problem of the regulatory administrative regimes in the country, including at municipal level, not

allowing increase in the administrative difficulties facing Bulgarian companies because of the fulfilment of EU requirements. **(PI)**

- Better coordination of the legislative process between the institutions. **(LS)**
- Improvement of the legislation quality – through a process of consultations before adoption, better assessment of the impact (ex ante and ex post), as well as by a more correct and precise wording. **(LS)**
- The legislation volume should be simplified and reduced. **(LS)**
- The achievements of the community law should be adopted and transposed in the national one but without useless aggravation in the national legislation. **(LS)**
- Business environment should be liberalized to the maximum extent applying minimum regulations, obligatory for the EU. **(PI)**
- The redistribution role of the state budget should be gradually decreased to about 30 -35% of the GDP by restricting the subsidies and administrative expenditures. **(LS)**
- The subsidized industries should be restructured stage by stage in order to minimize the budget subsidies. **(LS)**
- The technological renovation of economic activity through the “best available technologies”, regulated in the EU, and development of the information technologies should be promoted. **(LS)**
- Tax and social insurance burden should be reduced. **(LS)**
- The principles and options of the public private partnerships (PPP) should be implemented and private investments attracted. **(LS)**
- Actions should be undertaken in order to increase the capacity of the branch organizations of the employers and of the employees for participation in programs and projects under the pre-accession, structural and cohesion EU Funds for the development of the different kinds of tourism. **(CBT)**
- In this relation, the ESC considers it advisable to set up a system for incessant training of the organizations of the employers, of the employees and of other organizations of the civil society for the development, management, execution and monitoring of projects financed with funds from the structural and cohesion EU funds. **(CBT)**
- It is advisable to involve the civil society in the management of the structural funds, which will contribute to a better commitment between the plans and needs of the Bulgarian people and hence will ensure their better utilization, development of state policy for the promotion of setting up clusters in textile and apparel. **(PTA)**
- In order to raise national competitiveness, it is necessary jointly with the representative employer organisations, trade unions and the civil society to work up a “Road Map for the enhancement of the country’s competitiveness”. This national action plan has both to be branch-driven and accompanied by an operation schedule and interim assessment. **(LS)**
- There should be created and implemented a new industrial policy, which should ensure significant reduction and elimination of the lagging behind the EU countries in productivity, competitiveness, income, consumption, technology update, infrastructure, education, science, regional development. **(PI)**
- There should be organized and conducted mass information campaign in the business community regarding the negotiated terms and requirements for the country’s EU accession

by negotiation chapters, issuing specialized and practically oriented collections of specific requirements, texts of normative documents, instructions, specific advice, etc., by sectors, branches and products. **(PI)**

- A national emissions trading system should be developed and introduced. **(PI)**
- It is absolutely necessary to combine environmental investments with modern innovations. Moreover, regardless of the upsurge in the investment and innovative activities of Bulgarian companies, outdated technologies and capacities, not adequately used, still prevail in the industry. **(PI)**

- The Economic and Social Council draws the attention of the Ministry of Economy and Energy to the fact that by 2007 all companies in the sector and the suppliers, distributors and sellers related to them should apply the principles of the System for Risk Analysis and Critical Control Points. In this regard, despite the measures for strengthening the custom vet control and restricting the import of low-quality food products, we recommend that the Ministry in cooperation with the social partners and sector organizations should urgently develop and start the implementation of a National Programme for Support of companies within the food industry in their efforts to reach the European standards and requirements. Specific plans, programs and schedules for step-by-step implementation of the commitments made in the negotiation process under chapter 22 “Environment” should be developed and the solution of the current huge number of issues should be based on a new start of the innovation strategy of the Republic of Bulgaria. The problem of high energy consumption and low energy efficiency of Bulgarian economy should also be considered in the light of modern innovations. **(PI)**

- Urgent measures to neutralize the inevitable negative impact on Bulgarian automobile transport and the transport infrastructure in the country should be undertaken. **(PI)**

- The necessary preconditions should be ensured to exercise strict control and observe European standards and requirements for quality and safety regarding import consumer goods and alimentary products, including textile, as well as not to allow unfair competition in wholesale and retail trade of consumer goods and such which is based on non-observance of labour and social security legislation. Strict observance of norms, rules and requirements of the Consumer Protection Act, the Public Order Act and the relevant enactments. **(PI)**

- There should be a “New beginning for the innovative strategy of the Republic of Bulgaria”, and the measures underlying this new beginning should be such as: **(PI)**

- Implementing transfer and mediatory services for industrial enterprises;

- Making innovation profiles of enterprises, in accordance with which they should form and conduct their own innovation policy;

- Implementing specific measures to stimulate “hunger” for high-technology innovations in industrial companies;

- Re-Establishing the relationship between business and university education and science;

- Pursuing state policy oriented to the “generators” of innovative decisions; . developing mechanisms for financial promotion of university potential;

- Additionally activating the work of the National Council for Innovations to coordinate the activities of all parties interested in the transfer of technologies. **(PI)**

- Amendments and supplements in the Energy Act should be made in order to: **(CEPS)**
 - Set up a Public Council consisting of representatives of business, labour and customers, which will have the right of exerting preventive influence on the draft decisions of the State Energy and Water Regulatory Commission (SEWRC) in respect of the monopoly regulated prices. The Council should be an element of the SEWRC structure.
 - Extend the grounds for replacement of SEWRC members before the expiry of their mandate, in case of evidences available for admitting systematic incompetence, subjectivism and failure to execute the judgements of the judicial bodies.
 - There should be change of the pay-as-you-go principle when fixing the prices of the energy carriers, the energy and heat supply services and the guaranteed rate of return for the Electricity Distribution Plants **(EDP)**.
 - Revision should be made of the general provisions for the electricity supply from the EDP in their part for advance payment of the electric power and the sanctions when readings are below the preliminary stated consumption. **(CEPS)**
 - VAT on the electricity, heat and natural gas should be reduced by 2 percentage points, which is to be the first step towards general decrease of this tax from 20 to 18%. **(CEPS)**
 - Measures for accelerating the liberalisation of the energy market should be undertaken. **(CEPS)**
 - The public private partnership and the use of foreign experience in projects for raising the energy efficiency should be promoted. **(CEPS)**
 - Strategies for energy efficiency of the water supply and irrigation systems should be developed (respectively by the MRDPW /Ministry of Regional Development and Public Works/ and MAF /Ministry of Agriculture and Forestry/). **(CEPS)**.
 - Energy production from alternative sources should be promoted and the regimes for their construction alleviated. The excises on the bio-fuels should be abolished. **(CEPS)**
 - Sustainable development can find concrete expression in the amendment of the economic instruments by means of a: **(LS)**
 - Change in the methodology for computing the basic economic indicators, by taking into account the environmental situation and the main health and cultural parameters of the people in the particular region. For example, the exhaustion of the natural resources should be considered when calculating the gross domestic product. Thus the real and not the imaginary success will be reported;
 - Inclusion in the legislation of a green taxes system, making production more profitable, which do not destroy and do not exhaust natural resources; strong safeguard system of penalties applying the Polluter Pays Principle;
 - New approach in banking directed to environmental investments.
 - A National Transport Strategy should be developed. **(PI)**
 - The transport infrastructure should be improved by means of: **(LS)**
 - overcoming the infrastructure disbalance between the central and peripheral regions of United Europe;
 - building up modern border check points;
 - improving the balance in the development of different modes of transport;
 - eliminating the tight places in the transport infrastructure;

- introducing full technological compatibility for movement on the trans-European transport network;
- implementing high intelligent transportation systems for management, control and particularly for safety in the transport system.
 - Through modern innovations should also be solved the problem of high energy consumption and low energy efficiency of Bulgarian economy. In this sense, the Energy Strategy of the Republic of Bulgaria adopted by the National Assembly on 17 July 2002, which practically lacks realistic viewpoints and measures in this respect, should be updated. **(PI)**
 - It is recommended to accelerate the introduction of market mechanisms and methods of pricing also in power industry. **(PI)**
 - Funds should be provided to stimulate the enhancement of energy efficiency in the enterprises within the operative programme “Boosting Competitiveness of Bulgarian Economy 2007 – 2013”. It is recommended also that the necessary funds be concentrated in a specialised and efficiently managed fund for energy efficiency. At the same time, it is necessary not only to provide for funds to stimulate the development of renewable energy sources, but also to work out, adopt and start the implementation of a National Plan for the Development of Renewable Energy Sources by 2014. The measures according to this plan should be ensured by the necessary financial instruments, including those within the framework of the operative programme “Environment”. **(PI)**

III. EMPLOYMENT, HUMAN CAPITAL AND EDUCATION

- Poverty threshold adequate to the current conditions should be set and the system of social assistance should be adapted to it. **(IP)**
- The poverty line should be used as a basis for the mechanisms in determining the protected minimum payment. **(IP)**
- A mechanism should be developed for the growth of the minimum wage depending on the poverty threshold, labour productivity and its ratio to the average wage for the country. **(CEPS)**
- There should be a tripartite agreement on a national regulator for the minimum growth of wages in the branches of the real sector from 01.01.2006, a regulator accounting for inflation, economic growth and labour productivity in the previous year and the forthcoming changes in the tax and insurance legislation. This regulator will be corrected in the branch collective bargaining depending on economic, financial and social indicators and the specific market conjuncture in the respective economic activities. **(CEPS)**
- A flexible labour market for greater social cohesion should be set up. In order to enhance the mobility of the labour market it is necessary to: **(LS)**
 - promote entrepreneurship and encourage small and medium- sized enterprises by reducing the administrative barriers, including via one-stop servicing;
 - transform the informal employment into formal;
 - stimulate the extension of the labour active life and the policy of active aging by teaching and training the older workers in the new technologies, raising the retirement age and

applying a legal option for the transformation of the employment contract to reduced working time;

- enhance the adaptability to the changing conditions of the labour market: flexibility of the working hours; regulation of the opportunities for overtime labour and flexibility of the collective labour bargaining;

- improve the qualitative indicators of the human capital and life-long learning:

- Education has to be up-to-date and oriented to the future needs of the employers;

- When training the unemployed the main criteria have to be the quality of training and the knowledge acquired by the trainees;

- Institutional assistance should be extended to the branch centres for professional qualification, servicing the small and medium-sized enterprises.

- overcome regional differences;

- adapt university education to the requirements of the market. **(LS)**

- Active measures are needed for limiting unemployment and increasing economic activity by switching from temporary to sustainable employment and combining social goals with economic effectiveness. **(LS)**

- A strategy should be adopted for working with migration by founding a Migration Agency. **(LS)**

- A possible measure of improving the availability of qualified human resources is pursuing a consistent policy for encouraging immigration, especially from the communities of Bulgarian minorities abroad. **(PI)**

- Policies for encouraging the extension of the active labour life and active aging. **(LS)**

- A complete evaluation of the working conditions in the country as of now should be done. The cluster approach is appropriate on the themes of safety and health in small and medium enterprises. **(HSWC)**

- The ESC considers that the dissemination of best practices should be stimulated in various sectors and among different enterprises. A basis for this is the implementation of managing systems of safety and healthy working conditions in accordance with the methodological guidance of the International Labour Organization (ILO-2001). **(HSWC)**

- The civil dialogue requires urgent discussion of measures, commitments of social partners and activities performed by the government and legislative authority for admissible changing of these vital problems connected to the lack of adequate taxation policy stimulating investments in new technologies and improvement of working conditions. **(HSWC)**

- One of the compulsory steps for limiting the occupational injuries and occupational diseases is the effective functioning of committees and groups with regard to working conditions. **(HSWC)**

- A very direct link is needed with the general practitioners of the employees working in the medical services at work. **(HSWC)**

- A serious step forward for a qualitative assessment of the risk at work would be that the control over activity of the medical services at work was executed by the General Labour Inspectorate (GLI). **(HSWC)**

- Despite the harmonization of Bulgarian legislation on the Act for healthy and safe working conditions with the European one, the system for exercising an integrated control should be developed. **(HSWC)**

- The newest EU directives related to working conditions should be transferred into Bulgarian legislation through executive and legislative authority. The enactment of the directives should lead to negotiating the needed minimal transition periods so that the enterprises will not be charged with additional excessive taxes and their future existence would not be questioned. **(HSWC)**
- The capacity of the General Labour Inspectorate, social partners and all administrative and managing organizations in the country, committed to the processes for achieving healthy and safe working conditions, should be strengthened. **(HSWC)**
- The Clinic on Occupational Diseases should be strengthened in terms of its structure, personnel and finances, as well as all other sections working on this issue in the country. **(HSWC)**
- A new National Strategy and National Action Plan on safety and health at work 2007-2013 should be drawn up. **(HSWC)**
- There should be amendments to the Labour Code and the Social Security Code defending the right for working in a healthy and safety environment. The activity on developing the Labour Inspection Act should be renewed. **(HSWC)**
- The policy should be open and transparent by statistic data for working conditions, accidents at work and occupational diseases at all levels both with regard to the local and to the international institutions and organizations of the civil society as a whole. **(HSWC)**
- A National Policy on Education concerning the healthy and safe working conditions should be developed which provide a united system for education and upbringing on safety and health at work at all educational levels, as well as an increase of the qualification of personnel performing these activities. **(HSWC)**
- An Institute on safety and health at work should be established as a part of the National Labour Institute managed on a tripartite principle. **(HSWC)**
- The percentage of co-financing the measures for improving working conditions from the Fund “Working Conditions” should be increased and respectively the Fund’s budget should be significantly augmented. **(HSWC)**
- Specialized Labour Courts should be established. **(ID)**
- The minimum wage should be determined on the basis of social dialogue, taking into account the dynamics of the poverty line and the average salary. **(IP)**
- The social partners should undertake focused actions to commit wages with productivity and to achieve a fair value of labour by means of: **(IP)**
 - developing the bargaining of income at branch level and extending the arrangements in the sector with a view to restricting unfair competition and undeclared payments;
 - extending bargaining in enterprises with the purpose of stimulating labour activity of workers and employees by means of applying modern payment systems which directly account for work results, including new forms such as employee share ownership and profit-sharing schemes, etc.
- The actual inflation rate on the previous year should be used by an yearly discussion of the minimum index of the annual increase in labour remuneration. **(IP)**
- The index of Gross Value Added per employee reached in the previous year can be used both at national and sector levels. **(IP)**

- The relation between inflation and labour productivity and wages will find its full expression in bargaining salary growth for a sector, whereby for industrial sectors it is possible to take into account also the expectations for the dynamics of production and of the employees. **(IP)**
- The minimum standards for labour remuneration for a sector should be bargained and observed. The prospect of sector uniformity or at least convergence of wages is a means of keeping the trained staff and for bringing back those Bulgarians who waste now their qualification outside the country. **(IP)**
- Determining a sector index for salary growth is a good basis for new activity in the field of payment. The dependence of wages on economic results is still to be established in an explicit and formalized form. The introduction of mechanisms for wage forming should become a regulator, consistent with sector regulations and accounting for the peculiarities of company economic and financial results. New development is expected regarding the stimulation of labour activity through payment for achieved results, employee share ownership and profit-sharing – broadly used practices in other European countries. **(IP)**
- Reduction in income taxation should continue, whereby searching for a fair measure both for lower and higher wages. Progressive taxation through differentiation of rates and consistent increase of the nontaxable minimum leads to tax relief for all individuals, although with different relative burden. Through widening and deepening of tax relief, the tax payers will be motivated not to look for other (pseudo)forms of employment, which allow for hiding labour income and/or taking advantage of the more favourable corporate taxation. **(IP)**
- Particular attention should be paid to simplifying procedures, specifying periods and increasing the opportunities for choosing the manner of tax payment, so that the honest citizen does not experience difficulties and bureaucratic barriers. **(IP)**
- Tax relief that supports the implementation of different national policies should be widened. Thus, in order to enhance the quality and adaptivity of the personnel resources, there could be tax relief in case of personal investment in purchasing a computer, foreign language training or improving qualification. **(IP)**
- Family income taxation should be developed and personal involvement in assisting socially disadvantaged groups and people with disabilities should be encouraged. **(IP)**
- The social security burden should be reduced to a level which guarantees the priority funding of the solidary public system of social security contributions. **(IP)**
- The Economic and Social Council supports the agreements in the Pact of Protected Payment and considers it expedient to implement them in 2007, namely: **(IP)**
 - determining the minimum wage for the country after bargaining with the social partners by taking into account the official poverty line and the average wage for the country;
 - committing the size of the minimum pension for length of service and age to the minimum wage for the country by ratio not less than 50:100;
 - committing the size of the social pensions for old age and disability to the official poverty line by ratio not less than 40:100. A system should be created for binding the increase of work salaries to the achieved economic results, as well as for improving the social protection of low income layers of society, on the basis of active social dialogue at national, branch and company levels. **(PI)**

- The social security system should be restructured to ensure concentration of funds and their reaching the specific addressee, as well as to ensure mechanisms and stimuli to bring out the socially disadvantaged from this group and providing sufficient own incomes. A socially acceptable threshold should be established which should guarantee an income ensuring physical survival to a satisfactory extent. At the same time, measures for raising education and qualification level of the socially disadvantaged should be additionally activated, so that there are better opportunities for their social inclusion **(PI)**
- Social policy should be adapted so that better focus of funds and respectively higher effectiveness is achieved. **(IP)**
- A parameterized income policy should be developed and a system of indicators built, by which to supervise and assess its practical implementation. With a view to protecting consumer income it is necessary to introduce legal measures oriented towards limiting and stopping unfair commercial practices. **(IP)**
- The system of social protection should also be committed to the poverty line as a publicly acceptable income threshold which to a satisfactory extent provides the physical survival of the individual. This means that the social assistance should be based on the poverty line and not on some value, which lacks economic ground. **(IP)**
- The guaranteed minimum income should be determined as a minimum of 60% of the poverty line and the ratios for access should take into consideration the needs of the risk groups. **(IP)**
- The funds allocated for social protection should be spent by maximum effectiveness and clear priorities. **(IP)**
- The National Assembly, on the highest state level with the active participation of all parties concerned, should approve a National Concept on the national human capital. This concept shall put at the foreground the leading place of the education for the future prosperity of Bulgaria. **(VETI)**
- A long-term National Strategy for the Development of the Education in Bulgaria with clearly set priority guidelines for further development of all educational levels shall be approved on the basis of the National Concept on the human capital. **(VETI)**
- The National Strategy in the area of the vocational education and training shall be implemented on the basis of midterm National Action Plans, drafted by the Ministry of Education and Sciences in co-operation with all responsible ministries and approval of the civil society representatives. National Action Plans should set short-term tasks and identify specific responsibilities of state authorities and social partners. Monitoring on the National Action Plans completion should be made on the basis of Annual Progress Reports, drafted by groups of experts including representatives of the State, social partners, branch associations, civil society organisations. To that purpose, the National Assembly should also approve a system of indicators for measuring the progress. **(VETI)**
- The Annual Progress Report shall be submitted to a Round Table on Education Issues, specially organised by the Ministry of Education and Sciences for discussing achieved progress, for specifying new issues and for proposing new solutions. **(VETI)**
- There should be a partial introduction of a regulated voucher system at the universities, colleges and vocational schools. **(LS)**

- A competitive environment created in the educational system should be by removing the barriers and administrative impediments for the foundation of private universities. **(LS)**
- There should be autonomy for the state and municipal schools. **(LS)**
- Boarding school training should be widely applied. **(LS)**
- Teachers in the secondary schools and lecturers in the higher schools should be certified the in respect of computer literacy, language competencies and foreign languages proficiency. **(LS)**
- A Fund “Investments in Youth” should be set up **(LS)**
- Education should be really made a national priority. We believe that to this purpose it is necessary to implement the National Strategy for Development of Education, as well as to commit the system for maintaining and promoting qualification to relevant measures in the Operative programme “Human Resources Development”. **(PI)**
- Immediately there should be built tripartite branch councils with the Ministry of Education and Science with the main objective of developing standards of competence by main occupations. **(PI)**
- There should be developed and put into practice a system and mechanisms for stimulating company investments in staff training, in training systems developed by employer and branch organizations, in hiring young experts immediately after their graduation, in integration of education institutions and business organizations. **(PI)**
- The implementation both of the National Strategy for Development of Education and the system for maintaining and promoting qualification should be committed to relevant measures in the Operative programme “Human Resources Development”. **(PI)**

Appendix 2

**GOOD PRACTICES OF NATIONAL REFORM PROGRAMS OF EU MEMBER-STATES,
REVIEWED AND EVALUATED BY THE EUROPEAN COMMISSION**

In regard to the start of the second programme cycle in 2008, the European Commission urges the European Council to recommend to the Member – States to continue to learn from their mutual experience through exchange of good practices and policies, which will be supported by the Commission. Regardless of the fact that some countries have set different priorities and respective measures for their achievement, the analysis of the EU-25 programs shows a certain similarity in terms of their structure. This is a prerequisite for easier reception of the individual programs, as well as for conducting a comparative analysis aiming at evaluation of good practices. At the same time, the national programs of Estonia, the Netherlands, Denmark and Spain deserve special attention as examples of good practices regarding programme structure and envisaged measures. These programs have been very highly estimated by the European Commission, as well.

Estonia

The first strong side of the Estonian programme is its structure. The document is easy to read, with clearly set priorities, measures and activities for their achievement. Special attention is paid to setting clear indicator for completing the measures set in the programme. The identification and introduction of such indicators support the work not only of the monitoring body of the NRP, but also the drafting of the annual report for implementation of the NRP presented to the EC. The implementation report of 2006 includes information on the budgets provided for the implementation of different measures, as well as the part of co-financing of the EU, which clearly shows the way the structural and cohesion funds are used in support of the Lisbon objectives. This approach is recommended by the European Commission.

Spain

The European Commission considers as very good the programme for increase of investments in research in Spain. It includes raise of the state expenditure by 27% in 2005, 32% in 2006 and at least by 25% by 2010 within the framework of INGENIO 2010, which is very well received by the EC. The INGENIO programme includes three programs: for support of the public-private partnership, for co-financing of innovations and for increase in the usage of ICT in the Spain society. The programme is very well structured and contains an exact plan for state subsidiary, for the means from the structural funds and for financing by private companies. The approved projects have started their implementation and the new ones will be funded by the planned annual increase of the total budget.

The Netherlands

An example of good practice is the objective set in the programme of increasing the effective age for exiting the labour market and the measures and indicators provided in this relation – for example, not to provide tax preferences in case of retirement before the age of 65, by

2007 40% of elderly people should work at least 12 hours per week, etc. High praise should be given to the applied standard model for measuring companies' expenditure related to the administrative barriers, the introduction of the so called innovative vouchers, etc. These good practices and initiatives are used by other EU Member-States.

Denmark

Denmark is an example of understandable programme with well integrated strategies, a model for other countries. The combination from mid-term and long-term planning by clear consideration of the interests and positions of all stakeholders, as well as assessment of the effectiveness of the undertaken measures turn out to be a valuable example of good practice in this programme. Attention should also be paid to the policies and objectives aimed at increasing the labour supply through higher requirements for social assistance on the part of immigrants, decreasing the average age of graduates, improved functioning in the labour market through sufficient coordination of implemented policies, etc. An example of long-term vision of the programme is the reached agreement for increasing the age for voluntary retirement by two years in 2019-2022. Another example of efficient policy is the so called "flexicurity" regarding the labour market, which is a combination of flexible and simplified rules for hiring and firing workers by employers, pro-active policies in the labour market and high redundancy payments, but under strict rules for their reception.