



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

**OPINION**

**of**

**THE ECONOMIC AND SOCIAL COUNCIL**

**on**

**“NATIONAL REPORT OF REPUBLIC OF BULGARIA ON STRATEGIES FOR  
SOCIAL PROTECTION AND SOCIAL INCLUSION – 2008 – 2010”**

**(own-initiative opinion)**

The Economic and Social Council included in its Action plan in 2009 the development of an opinion on the Report on social inclusion and financial and insurance adequacy of the social networks. Following the changes in the scope and content of the Report the current opinion refers to the adopted on 25/09/2008 by the Council of Ministers *National Report of Republic of Bulgaria on Strategies for Social Protection and Social Inclusion 2008 – 2010*.

The Opinion is developed on the own initiative of ESC and in a letter N 040/05.02.2009 of the President of ESC its development was assigned to the Committee on Social Policy.

At its meeting held on 20.02.2009 the Committee on Social Policy:

- appointed as external experts: Research Scientist Duhomir Minev PhD (Institute of Sociology at BAS) and Research Scientist Pobeda Lukanova PhD (Institute of Economics at BAS);
- elected Research Associate, Doctor of Economics Lyuben Tomev a presenter – member of ESC from group II – trade unions.

The draft of the opinion was developed and approved by the Committee on social policy at its meeting held on 18.05.2009.

At its plenary session on 29 May 2009 the Economic and Social Council ratified with consensus the current opinion<sup>1</sup>.

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<sup>1</sup> In the process of developing this opinion the following are used:

- Two reports of the European Anti-poverty network by assessment of the National plans for inclusion in EU and Bulgaria:
  - Maria Jeliaskova, EAPN Bulgaria:Response to NAP Inclusion.Questionnaire 2008.
  - Developing security, creating hope. Assessment of EAPN – Europe of National strategic reports on social protection and social inclusion (2008-2010).*Developed by the working group on social inclusion of the European anti-poverty network (EAPN), 30 November 2008.*
- Analytical report, developed with the participation of the social partners and reflecting their position: D.Minev, L.Tomev, D.Draganov. Priorities of the policy for social inclusion in Bulgaria, "Fridrih Ebert" Foundation, 2008

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## ACRONYMS

BAS	-	Bulgarian Academy of Sciences
GDP	-	Gross Domestic Product
GVA	-	Gross Value Added
VAT	-	Value Added Tax
EC	-	European Commission
EU	-	European Union
ESC	-	Economic and Social Council
CM	-	Council of Ministers
NHIF	-	National Health Insurance Fund
NII	-	National Insurance Institute
NAP	-	National Action Plan
NGO	-	Non- Governmental Organisation
NSI	-	National Statistical Institute
GP	-	General Practitioner
EU	-	Emergency Unit

## 1. Conclusions and recommendations

The control over poverty and social exclusion assumes particular importance. The necessity for counteractions to this phenomenon grows and the intervention of all structures of civil society seems to become of greater necessity. This is why the Economic and Social Council of Republic of Bulgaria finds it necessary and of great responsibility to develop certain recommendations – in accordance with the basic conclusions and inferences, drawn in the current report.

- 1.1. To start working on **The Strategy on Decreasing Poverty and Social Exclusion**, which is recommended in the report by implementing new for Bulgaria, but already utilized in Europe, procedures for preparing such a document, including the ones listed below.
- 1.2. It is necessary **to put into practice the recommendations with regard to child poverty in the Report on child care** by giving priority to guaranteeing the adequacy of family earnings, fulfilling the Barcelona goals – for accessible high quality child care, moving towards evaluating child welfare and stimulating children’s rights and support for parents.
- 1.3. To develop **Emergency poverty package** which will create a pillar prioritizing the reduction of poverty, exclusion and supporting social justice through investing in people – in accordance with the EU recommendations for **EU Recovery package**.
  - 1.3.1. Thus *a balanced and sustainable* recovery package will be guaranteed, which besides being aimed at the needs of business and banks, also energetically deals with the influence of the crisis on people, living in poverty and social exclusion.
  - 1.3.2. The central element of the package of measures against poverty should be the *measures for abolishing or restricting the existing poverty generators*.
  - 1.3.3. This means that *an adequate check* is required of the existing financial accounting and the functioning of the tax system, which underlie the massive flows of illegal money and the budget receivables. It will provide enormous resources for dealing with the crisis and in particular – improving the social policy.
- 1.4. To relate the Economic recovery package to the Active inclusion recommendation – thus guaranteeing that the commitments on securing adequate income and access to high quality services and decent job are fulfilled through the Open Method of Coordination.
- 1.5. The above mentioned measures will generate sufficient resources for yet another step – creating an efficient system for maintaining **adequate minimum income levels**.

This step is the backbone of any strategy for recovery and sustainable growth. It is unacceptable to maintain minimum incomes, which are lower than the official poverty risk thresholds.

- 1.6. Of very great importance in this context is the issue of **developing a transparent method** for fixing and revising the adequate income levels which involves the parties interested as well as the relations with relative criteria – especially with the poverty threshold. In this way, using a methodology, which secures participation we achieve not only innovation, but also greater independence of adequate incomes standards.
- 1.7. It is necessary to find long-term solutions (mechanisms) to **identifying the risk groups** in Bulgaria. Until now some of their characteristics were accepted “a priori” and they were offered policies, which are known to be useful in other countries or are based on expert assessment. The participation of representatives of these groups in taking political decisions is not encouraged. The Economic and Social Council can commit itself to creating conditions for participation of such representatives of the civil sector in the consultative process and thus make it possible for the opinion of poor and other people not enjoying equal rights with other to get heard.
- 1.8. There is need to **develop more and better indicators for analysis and assessment of the dynamics of poverty and exclusion** as well as for real social impact (efficiency) of the implemented policies. There is also need for a clearer strategy for monitoring and utilization of indicators in order to guarantee the implementation and inclusion of interested parties. Along these lines it is necessary to develop immediately specific instructions for the implementation of the assessments of social impact by **using broadly the mechanisms of participation of interested parties** in contrast to the implemented “self-assessments” of institutions, formulating the policies.
- 1.9. Carrying out **constant monitoring of the influence which the educational system and health care have upon poverty and social exclusion**. It is high time that the National programme for development of school education is evaluated in terms of the social influence it has on poverty and social exclusion. The same goes for the system of health care and its major political documents. In line with the conclusions in point 9 an analysis of the effect of services of common interest on the state of poverty and inequality should be carried out.
- 1.10. Realizing the existence of many, serious problems with accessibility and patients’ satisfaction with first medical aid which become more and more serious, **we find it necessary to create a system of indicators, which can make possible the assessment**

**and comparison of the differences between the patients' access**, based on geographical, time, organizational and financial, demographic, health and social factors.

1.10.1. The implementation of such a system for analysis and assessment of access of different social groups would facilitate the formation of *strategies and policies for control and intervention* aiming at improving the end results and the efficiency of first medical aid and protection of patients' rights.

1.10.2. We strongly support the guaranteeing of a *basic package of health services for every individual citizen* and we believe that a national health card should be issued after a compulsory consultation with the social partners, the National association of municipalities in the Republic of Bulgaria and the representatives of the patients' organisations.

1.11. Considering the existing high risks, **the pension scheme requires urgent development of long-term strategy**, closely related to the remaining government documents (plans, programmes, strategies), which considering different options of external environment would outline ways of restricting social exclusion and poverty of Bulgarian pensioners through increasing adequacy of the substituting income as well as guarantee the financial stability and autonomy of the system itself.

1.12. **The support of real economy should be directed with a view to lowering poverty and exclusion**, i.e. to key sectors and areas, which have both structural economic importance and significant direct influence on poverty and inequality.

1.12.1. Examples of such sectors are the production, distribution and trade with energy. They influence the functioning of the other sectors and along with that they function as the central component of the so-called *services of common interest*. If sectors, indicated as "services of common interest" are granted financial help, a major poverty generator will come under control. Thus the measures against the crisis will have dual effect – both to support the economy and provide anti-poverty activities.

1.12.2. Firm support should be given to *agriculture* in order to increase production, lower poverty and social exclusion. The basic measures should be directed to "opening" the Structural funds to a great number of agricultural producers. The principle of privileged and selective distribution, which currently underlies the Structural funds – both at national and EU level – should be removed.

1.13. **Changes in the Structural funds system are required** and in the utilization of EU funds as a whole in order to channel in a better way a more appropriate part of the funds to the problems of poverty and social exclusion. The government can take advantage in the most efficient way of the opportunities, provided by the EC new

regulation (November 2008) on changes in the Structural funds in order to respond to the economic crisis in a better way. The main area of concern in developing the Poverty and social exclusion package should be the “opening” of the European Funds through supplying wider access to them for people living in poverty and social exclusion, who will pay the social price of the economic crisis. There is no other alternative, but to do away with the principle “few but big users” of funds. This proposal does not mean that the European funds should be distributed to the poor just because they are poor. The proposal is directed to something completely different – to provide more chances for people to deal with the crisis on their own.

- 1.14. **The creation of new jobs for people in poverty by the people in poverty themselves.** The EU has been trying to find possibilities in this area for a long time and the social policy is seen as a central field. The projects and the organization of the social economy can come to the forefront of creating new approaches to work and creation of new jobs for those people who are farthest from the labour market by broadening services and creating new types of services. However, these have not been adequately aided and provided for with financial resources so that to guarantee the creation of welfare, services and high quality employment. The structural funds provide such opportunities, which for the time being have not been efficiently used.
- 1.15. In the context of the expectations for crisis and increasing poverty **reconsideration of certain components of the tax system** can be recommended – for example, taxing cars which has for a long time remained contrary to market principles. In order to control more efficiently the spreading of poverty over the supply of housing, a similar measure in terms of housing taxation can be recommended.
- 1.16. The surge in insolvency along with the great number of mortgage credits will exacerbate the **housing** issues and those of **poverty prevention**. Currently there are not adequate measures, for example focusing on the support for preserving homes, the construction of social homes or lower rents. The issue of unutilized opportunities for receiving EU resources for improving energy efficiency through investments in home insulation has been underestimated.
- 1.17. **Creating better regulated and better functioning labour market.** The labour markets cannot be a mechanism for social inclusion if there are not adequate policies for that. Currently they are not even close to such a state of the relations and interrelations between the participants in them. If there are enough reasons to reconsider the state of financial markets and in particular – their regulation, then there are even more reasons to reconsider the state of the labour markets from the same point of view.

- 1.17.1. It is necessary to consider fully the specific requirements of representatives of *inequality groups on the labour market* in the common employment policies and in labour legislation. An important issue is strengthening the participation of people with specific and various problems in the common labour market policies and extending their social importance.
- 1.17.2. Nomenclature policies on the labour market, directed at representatives of inequality groups should be enlarged and diversified. There is actual need to apply *differentiated approach* to these groups and specialized policies in order to achieve social cohesion and to do away with prerequisites for social exclusion. The fulfillment of this strategic aim requires suitable architectural environment, application of active methods for work with people in unequal position, using fast and effective reactions to specific problems as well as broadening the implementation of individual approaches to the individuals on the labour market.
- 1.17.3. In a situation of crisis what is necessary is active stimulation of participation in *life-long learning and professional qualification*. Those who are not equal to the others on the labour market most often are the people with inadequate education and professional qualification and do not meet the employer's requirements. Improving these characteristics directly affects the employment of these people. Along with that the dynamic technological progress and the competitiveness of the knowledge economy globalize and spread the necessity of constant education and professional training of the work force as an element of the flexible employment security.
- 1.17.4. The improvement of the *collective bargaining of salaries* in terms of overcoming forms of remuneration discrimination is a requirement of topical character. Its implementation means applying dynamic mechanisms of social cooperation, organization of collective bargaining and improving the content of respective contracts.
- 1.17.5. *Improving territorial cohesion* when working with unequal groups and securing employment is another topical requirement since there are regions with specific problems of poor population (including people with Roma ethnic background), of aging population, and strongly migration-oriented groups of people and other characteristics, which provoke unification. They require particular combinations of different approaches to solving employment problems along with anti-poverty ones.
- 1.18. **Need for progress in planning regional and local activities.** It is necessary to utilize new trends in regionalism and decentralization in order to achieve a more dynamic and consistent agenda through the regional and local action plans. Since most services are planned and provided at local level, the relationship between local, regional and national

levels should be specified and consolidated in the commitment of all relevant actors, including non-governmental organisations and people in poverty.

1.19. The challenges we are facing require adequate research support and effective use of the scientific potential of the country. In this respect it is necessary to include more actively the “Scientific research” national fund in solving specific and practical issues of the above nature. The scientific potential of the Bulgarian Academy of Sciences and of the universities could contribute significantly, aiding not only those who make the policies, but those who should take advantage of the political instruments and bear their consequences.

1.20. **IN CONCLUSION** the Economic and Social Council of the Republic of Bulgaria is convinced that the practical fulfillment of the above **proposals** could create grounds for better **implementation of integrated approach to active inclusion within the framework of one integrated Strategy for fighting poverty and social exclusion** by creating high profile **road map** for activities on national level. It is even more necessary to act in this field because the strength and duration of the economic crisis in which the country is entering is uncertain.

## 2. Introduction

2.1. **The National report of the Republic of Bulgaria on strategies for social protection and social inclusion 2008 – 2010** (further in the text referred to as “the report”) was developed in the conditions of relatively stable domestic and foreign macroeconomic environment. Unfortunately, as it is typical of most similar documents, it does not contain preliminary outlined options of the proposed solutions, comments (evaluation) of possible risks in fulfilling the set out goals, nor does it contain ideas for risk management, aiming at sustainability of actions and results.

2.2. **The changes in the economic and social environment** in this country at the end of 2008, in view of the influence of the world crisis, already require reconsideration of its main goals, priorities, scale, consistency of actions. The changes that have occurred and some negative expectations for the near future call for its update or at least reconsidering the mechanisms for fulfilling the set goals.

2.3. Further, an attempt is made at summarizing some of the **fundamental shortcomings, as well as weaknesses in the content itself** of the report, which could exacerbate under a general unfavourable economic and social situation in employment

and unemployment, education and qualification in relation to poverty and social exclusion.

2.4. We believe that this opinion of the ESC is useful and necessary because within the framework of the **Open Method of Coordination**, in fact, Bulgaria through this new National report presents our policies to the other EU member-states. The objective analysis, based on current information and in accordance with the adequate social and economic situation in the country, is an indispensable condition for a rational approach to achieving common European goals.

2.5. We would like to specify in advance that our opinion is focused mostly on **NAP on social exclusion**, while the other two parts, referring to the **National strategy for pensions** and the **National strategy for health and long-term care**, are subject to analysis only from the point of view of incomes and social exclusion.

2.6. On the one hand a detailed comment of all three parts would be very time consuming and it would involve the participation of a wide circle of experts, on the other – ESC has already had the opportunity to voice its opinion in its special opinions focusing on problems related to the pension and health reforms, as well as related insurance schemes<sup>2</sup>.

### 3. General characteristics

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<sup>2</sup> The ESC has adopted 7 opinions in these areas:

- Current problems in health insurance (07.04.2004)
- Bill on changes and amendments of the Social security code (28.10.2005);
- Draft of the National health strategy 2007-2012 of the Ministry of Health: analysis, assessment, recommendations (25.07.2006)
- Problems of the pension scheme in Bulgaria (12.12.2006)
- Enlarging the opportunities for participating in the insurance system for those born prior to 01.01.1960 (06.07.2007)
- Bill on changes and amendments of the Law on Health (06.07.2007);
- Resolution on updated project of the “National health strategy 2008 – 2013” (18.07.2008).

- 3.1. **The National report of the Republic of Bulgaria on strategies for social protection and social inclusion (2008 – 2010)** contains three main components: National action plan on social inclusion, National pension strategy, National strategy for health and long-term care. In this way the Report is in line with the recommended by the EU structure and may be seen as an important step forward when compared with other similar national documents.
- 3.2. We should specifically emphasize its **European dimensions** in some other fields too:
- 3.2.1. *The report contains greater number and more appropriately used EU concepts.* This is probably the first Bulgarian document which explicitly focuses on social inclusion.
- 3.2.2. *In the process of developing the document a consultative process was applied by consulting NGO, directly involved in issues related to poverty and social exclusion.*
- 3.2.3. *The document is in line with priorities, which are typical of the EU* and is in accordance with plans, which are developed by other EU member-states. The compliance with EU strategies and policies becomes obvious in identifying challenges such as: intergenerational transfer of poverty and social exclusion( in terms of child poverty); active inclusion in the labour market; creating new equal opportunities for the most vulnerable groups (disabled people, Roma people, beneficiaries of social benefits, unemployed with low qualification and literacy, inactive and discouraged people); better management of the social inclusion policies.
- 3.2.4. *A strategic vision exists.* In the document itself, because of the period under consideration, such a strategy has not been developed, but the need for developing and implementing an integrated long-term 8 – 10 year strategy against poverty and social exclusion has been emphasized.
- 3.2.5. *It contains elements of plan* – for example, by setting qualitative dimensions of the goals, which are subject to monitoring (mainly NAP on social inclusion).
- 3.3. What should be pointed out as a common weakness of the document, is the fact that **the three parts are not sufficiently interrelated**, which gives the impression of a mechanic collection of different parts:
- *NAP on social inclusion* is the component with the highest level and is akin to the action plans of other member-states.
  - *The National pension strategy* is more like a report on the undertaken political measures concerning pension levels in its first part, while the second part

resembles a NII report providing (coping) texts from the legislative framework of pension insurance from 1998.

- *The National strategy on health and long-term care* does not contain qualitative goals and does not have a plan-like character, but it is more like a combination of declarations with common positive character, showing the good intentions of those who compiled it.

#### 4. The changed economic context

4.1. It is not very likely that in the process of developing the report, experts were not aware of the dynamic processes in the world economy, of the dangerously deepening financial and mortgage crisis and the possible consequences for the Bulgarian economy. But even if they might have failed to consider this fact, over the past two years expert analysis of Bulgarian and foreign economists have constantly been emphasizing not so much the **possible “imported effects”** but the **created “internal prerequisites”** for the upcoming economic crisis.

4.2. At the end of 2007 and later well-outlined **signs of “overheating” of the Bulgarian economy** were observed.

4.2.1. *After 2001 the gross capital formation increased almost twice as fast as growth in GDP.* The problem does not lie only with rates and volumes, but with the way investments are utilized. They are used to mainly finance construction sites which are not intended for manufacturing. There is no clear-cut evidence for technical, technological and organizational restructuring of the real sector.

4.2.2. *The increase in stocks was four times faster than the GDP growth after 2001 and is a prerequisite for structural imbalances.* The increase in the unsold output is one of the direct evidence showing disturbed relationship between producers and their high credit indebtedness. The higher credit rates in the second half of 2008 further exacerbated the problem.

4.2.3. *The trade balance increased the value of the negative balance.* This balance depends both on products which stimulate inflation and on technical equipment, other investment commodities, resources and materials. There is a very high level of non-utilization of internal opportunities for production mainly in agriculture.

4.2.4. *Increase in differences in the dynamics of GDP and GVA to the advantage of the latter.* Since 2003 the value of the “Correctives” group has started to grow significantly and actually has turned into a driving force, leading to the above difference. The reason

for this change is the increased indirect taxes, which result in providing goods which do not reflect consumers' solvency and aggregate demand.

4.2.5. *Inflationary shocks and rising inflation.* The increase in inflation was an expected event after Bulgaria's joining the EU. The point is that the price changes placed some of the manufacturers in uncompetitive positions and in order to change them investments should be made to increase productivity and production efficiency.

4.2.6. *Unstable balance of payments, which depends strongly on foreign investments and money transfers from abroad.* The deficit is mainly balanced through these investments and this makes its servicing strongly dependent on their inflow. Along with lowering investments there is a decrease in the indices of industrial output and its realization.

4.3. All the above facts exhibit weak internal factors for economic growth in Bulgaria and imbalances in the "overheating economy". In addition, this broad range of domestic problems combines with the influence of the foreign financial crisis. In case of inadequate policies the economy's low potential might lead to crisis in the currently relatively stable financial sector and stimulate a resulting reaction. This is a specific to Bulgaria threat, which should be studied well, managed and regulated – one of the main challenges out country has to face in the next few years.

4.4. Thus the results achieved in the employment sphere have a certain degree of **temporary character and low stability in the long and short term**. In the period to 2010 the economic growth in Bulgaria will not have provided a change in the position of the country as the poorest EU member-state, and unemployment will keep going up leading to the respective increase in the number of poor people as well as the risk of becoming poor. The general economic situation will bring about a decrease in the welfare of the population. The vulnerable groups on the labour market will require greater attention.

4.5. The main progress outlined in the document – the decrease in unemployment, is not entirely the result of the implemented policies, and this progress on its part has hardly contributed to an equal degree to the decrease in poverty. Most probably other factors have had their influence, such as emigration, changes in the registration methods etc. Actually, **both the progress and its factors are no longer valid**. The assessment of the social and economic context, which has been considered, is influenced by another economic situation and what is more, by one old practice (applied in other member-states) to show mainly the "positive" sides.

4.6. As far as the Report is concerned, this leads to **old-fashioned and already incorrect aspects of social realities**. For example, it is said: “sustainable economic growth, increase in employment, high investment level, ...improvement of social and territorial cohesion”. This understanding of the economic and social context is already completely inadequate to the changed situation. Furthermore, instead of focusing on the economic crisis, what is outlined as disadvantages are problems, which seem peripheral and unrelated to the social and economic situation and policies such as: demographic development, poverty among people outside the labour market, unequal access of some risk groups to major services (instead of the much broader problem of restricted access of almost all groups to high quality services), especially education, health care, home provision, utility services, ecological environment, etc. The need for preventive activities and measures has been clearly outlined, but the understanding acquires declarative character both as a result of ignoring the prospects for crisis and the prevailing measures and policies with corrective and mitigating character.

4.7. The National report was prepared prior to the first clear signs of the crisis in the autumn of 2008, but today, its growth, the signs for increasing unemployment, the return of emigrants etc. differ significantly from the situation presented in the report. No longer can we rely on “natural” positive influence of dynamic growth on poverty, and that policies can be reduced to measures taken to support growth and possible corrections of some negative effects. So, **the change in the economic environment questions the validity of the Report right from its starting prerequisites**.

## 5. Adequacy of the level and scale of poverty and social exclusion

5.1. The Report relies on the adopted in the EU indicator for determining the level of poverty and according to this indicator the formal analysis seems perfect. Along with that, however, we could express a number of **doubts in terms of the indicator’s adequacy**.

5.1.1. Significant part of incomes does not provide for meeting the basic demands of their earners and because of that the *absolute poverty* indicator (for certain groups) exceeds the indicator used for relative poverty.

5.1.2. For example, during the years of severe crisis and total drop in the real purchasing power of incomes (1996 – 1997) the *level of relative poverty* was 14.8 and 15.3% respectively, while in 2001 when incomes were restored to a certain extent, the indicator’s value was 15.6%.

- 5.1.3. It is even more worrying that *relative poverty* “not higher than 15%” is considered as one of the quantitative goals to be achieved by 2010, without providing accounts of nominal and real increase in the poverty line.
- 5.2. There are not enough data about **extreme forms of poverty** such as malnutrition and starvation, while other data show that they affect a significant part of the poor. For example, there is a comparatively high and growing share of children, born underweight, which is usually related to the mother’s malnutrition during pregnancy<sup>3</sup>. The objective picture of poverty requires that these (and other) “unpleasant” aspects be shown.
- 5.3. The Report also ignores “hidden for statistics”, but conspicuously **growing inequalities**, which cannot be registered by Gini coefficient or the Polarization coefficient in the conditions of huge and stable “gray sector” (by EC’s assessment it generates approximately 35% of GDP of the country). “The boom in consumption of luxury goods” as well as the growing bank deposits by no means indicate simple enlargement of the people-base using them. Paradoxically, in everyday terms it is the 2 – 3% on top of the social pyramid rather than its bottom, which is often permanently marginalized, that is of increased interest as well as a subject of analysis and assessments.
- 5.4. The conclusion that the **social transfers in Bulgaria are of great importance to lowering poverty** is not precise. Pensions are of such importance, but not social benefits and compensations.
- 5.4.1. *2007 data* show that poverty level prior to social transfers is 40.5%, after adding pensions it sharply drops to 17.2%, and after the remaining social transfers are added it is reduced to merely 14.1%.
- 5.4.2. This model of influence is closest to countries like Romania, Greece, Malta, Cyprus, Italy and Spain and significantly differs from Sweden, Norway, Finland, France, Luxemburg, Denmark and the Czech Republic where the effect on reducing poverty is strong both along pension lines and the social security system<sup>4</sup>.
- 5.4.3. The conclusions can be in the following areas – either social benefits are extremely low, or they do not reach the right beneficiaries, or probably both opinions are correct in Bulgarian reality.

## 6. Identity of key challenges and priorities

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<sup>3</sup> UNDP. Millennium goals for development – 2008, Bulgaria, 2008, p.11

<sup>4</sup> GUIO, Anne-Catherine. Income poverty and social exclusion in the EU25. EUROSTAT, Statistics in focus 13/2005

6.1. **The long-term priorities**, outlined in the previous report, have also been included in the current one, as it should be since they have long-term character. The problem is that defining them in the previous report gives rise to some doubts in two aspects – in terms of the chosen priorities (corresponding to the main causes of poverty) and in terms of their respective formulation.

6.2. The core of the logic of the entire construction has been used in the way the priorities have been determined – the identified reasons should be transformed into adequate policy priorities. **The priorities** outlined in the report are:

- Equal participation in the labour market of the groups in risk of poverty and social exclusion.
- Equal access to services, aiming at preventing social exclusion and its consequences.
- Social inclusion of the most vulnerable ethnic groups.
- Reducing poverty among non-labour force groups.

6.3. It is difficult to answer the question which causes of poverty in particular have determined the choice of these priorities since there is no adequate analysis of the reasons and the resulting from the analysis identification of the main priorities. It can be stated, however, that there are many other important reasons – poverty generators, which have been omitted or defined imprecisely.

6.3.1. Most of all, since the entire structure of the document (total influence on poverty) is based on *two pillars: economic growth and labour market* (jobs), it is absolutely necessary to analyze in detail these two pillars. It is not proper in times of economic depression to base the anti-poverty policies on expectations for economic growth involving labour market and suitable jobs.

6.3.2. The systems, providing the main social services – *education and health care*, are *in a very difficult situation*. The main problem that arises is caused by the bad state of the two systems and lies within the low and constantly worsening quality of the two types of services. This is why, even if a significant progress is achieved in terms of the priority, outlined in the document – “equal access” to these services, there will not be a profound effect since equality will secure access to low-quality services. It is a universal truth that the bad state of these services does not simply generate poverty, but is a serious prerequisite for the rise of “secondary poverty”.

6.3.3. A very important cause of impoverishment are the so-called services of *common interest* (heating, water supply, electricity supply, waste disposal), whose low efficiency and bad management are logically related to the fast and constant growth of the price of services. In many EU countries these processes draw increasing attention, concerns and result in considering measures for coping with these problems. At least it is necessary to analyze and specify the influence of this mighty factor not only on maintaining severe poverty among vulnerable groups, but continual impoverishment of other groups, who do not risk high levels of poverty.

6.3.4. The “*Reducing poverty among non active groups*” priority is not logical and clearly substantiated. It is difficult to answer the question which causes of poverty have determined the choice of this priority; how exactly was this group selected as a target group for special activities for reducing poverty since there are other groups which require similar impact.

## 7. Education and intergenerational transfer of poverty

7.1. The relationship between education and poverty in this report is perceived and represented one-sidedly (“poverty created obstacles to education”), and a fact of very great importance has been omitted – the educational system in its present state does not lead to improvement of future life chances of poor children and it even functions as a **powerful generator of potential poverty**. Such a system deepens the problem of intergenerational transfer of poverty instead of solving it.

7.2. **The reasons for this are complex** but in the report in particular there are several trends in the development of the educational system that are not given enough attention:

7.2.1. *Reduction in the volume of knowledge taught.* It is mostly about qualitative, modern and necessary for the professional career and socialization of people knowledge and skills. It happens often that there is deficit of contemporary knowledge and skills, while old knowledge is outdated and actually unnecessary.

7.2.2. *At the same time the requirements of the higher educational degrees* as well as the postgraduate ones needed for getting better jobs are increasing. This undoubtedly leads to the need for broadening the volume of paid educational services.

7.2.3. *Sports equipment and extracurricular activities for children are very restricted.* According to this indicator Bulgaria is entirely different from almost all the other EU countries. Even the limited opportunities for active sport are commercialized thus strongly limiting the access to them.

- 7.2.4. *There are considerable distortions within the limited volume of knowledge taught.* These distortions restrict and even damage children's social competence and their value systems. We could identify (but unfortunately, it has not been done in the report) a "hidden" programme for distorted socialization of children, which should immediately be removed.
- 7.2.5. In fact, the school does almost nothing to form *civil consciousness, cultivate independence* in their thinking and making their choices, display initiative, practical orientation and ability to take responsibility for their own actions. The formation of "obedient" and dependent on somebody else (the state, parents, relatives, colleagues) individuals actually generates helplessness and poverty in the conditions of market economy.
- 7.2.6. *Clear territorial differentiation of access to education* – specialization and alternatives for choosing schools, the distance to them, availability of convenient and accessible transport etc. The economic expediency over the last years has outweighed the socially reasonable and acceptable decisions.
- 7.2.7. *Support for child education as a financial and value commitment.* Gradually this has been transferred entirely to the family, and poor families cannot afford to fulfill it.
- 7.3. Along with the reverse influence of poverty on education seen mostly in premature dropping out of school, the final effects of the educational system are **a combination between the general decrease in the quality of education and strong early social differentiation of the received education.**
- 7.4. **Concrete data confirming the problem** can be pointed out. The programme for international assessment of students PISA 2006 shows that almost half (48.8%) of Bulgarian students at the age of 15 are under the critical second level of competence for using scientific data and evidence. According to experts this means that half of the 15-year old students cannot analyse data and evaluate adequately the received information and put the received knowledge into practice.
- 7.5. In short, the current state of education influences poor children as a factor generating poverty rather than as a preventive factor against poverty and exclusion. What we find especially confusing and unacceptable is the fact that these problems are largely the result of **officially conducted policies in the field of education.**
- 7.6. Of course, the government document discussed here does not aim at and cannot introduce changes in the educational system, but it can outline its social effects (impact on poverty and exclusion) and it should definitely consider these effects by formulating

policies and rely on that system to achieve positive impact (for example, lower the intergenerational transfer of poverty).

## 8. The specific character of “child poverty” problem

- 8.1. In NAP on social inclusion the fight against child poverty is turned into a high priority political goal and is defined in the following way – to lower intergenerational transfer of poverty and social exclusion. This is a specific approach, which does not mention that the best way to lower intergenerational transfer is to reduce parents’ poverty and all other measures should be in support of this central area – reducing parents’ poverty. Then, lowering child poverty will become part of the common framework of the entire strategy against poverty.
- 8.2. Instead of this, however, direct orientation towards child poverty creates the impression that to some degree this phenomenon can be given special treatment and regardless of the families’ and parents’ poverty (of course, we do not leave out cases of children at specialized institutions – a problem which really has individual importance and requires individual interpretation).
- 8.3. The approach raises doubts, but it was widely accepted in the EU (and 2007 was declared the so-called easy year, focusing on child poverty). As further analyses showed, the approach met with failure in almost all EU countries (with the exception of England to some extent).
- 8.4. In the National Report, however, the approach remains of central importance. We leave aside the issue of the **realism of the political aim**, which is hoping to reduce poverty of children living in poor families without explicitly setting the aim of reducing poverty as a whole (there is even a loophole which can be used for increasing the general poverty).
- 8.5. However, a serious issue arises – if a significant and stable reduction of poverty has not been envisaged, then the reduction of child poverty requires measures, which should separate children from the poverty of parents and thus protect them against the influence of family poverty. This would mean **broad commitment to the development of a whole system of activities, institutions, significant resources** and broad coordination between them in order to provide for the children what was taken away from them as a result of their parents’ poverty – meeting basic demands, a network of child institutions, access to (and use of) basic services, such as education and health care etc. Are the measures proposed similar to these ones?

- 8.6. The measures, considered in the report for achieving the set aim, have broad scope and include different spheres. These measures are important and cannot be underestimated. Many of them are directed at risks, which are peripheral in terms of the core of child poverty – insufficiency of goods and basic services. That is why we can see certain “weakness” of the pursued result – the measures aim at reducing “poverty risk” among children (up to 15%), but not liquidating child poverty.
- 8.7. For the direct reduction of child poverty the report relies on other measures too – mainly creating employment for their parents. In this way the focus is no longer on the obscure aim of terminating intergenerational transfer and measures are directed at the core problem – parents’ poverty. This approach deserves support.
- 8.8. But the issue arises if the increase of parents’ employment is a sufficient means for lowering child poverty? This is uncertain – for reasons, which are well-known. EU report on child poverty clearly shows: member-states with least child poverty are those countries where the risk for poverty as a whole is low, and inequalities are reduced. These are countries which have **invested in families through securing universal services** for the family, including child care.
- 8.9. Social protection is basic for taking families out of poverty. That is why the measures discussed in the report seem insufficient. What is more, in a situation of financial crisis and increasing unemployment, the idea about high employment among parents as a means for lowering child poverty is not very trustworthy. But even without the expected crisis, the increase of employment in this country does not automatically express a corresponding decrease in poverty of the employed because there is permanent existence of the “working poor” syndrome.

## 9. Social services and social exclusion

- 9.1. The analysis of the living standards is not sufficient either, **the constantly increasing prices of services of common interest** (electricity, water, heating, transport) and the discrepancy between them and their dynamics. We would like to remind that as a rule this type of expenses have low degree of elasticity and they have a higher relative share in the total expenses of households, narrowing in this way the opportunities for increasing all other expense items.
- 9.2. Statistical data show that the purchasing power of the average salary and the average pension in terms of these social services over the period 1990 – 2007 decreased

by nearly 3 to 5 times – considerably above the one for all goods and services in the consumer basket as a whole (2.5 times)<sup>5</sup>.

- 9.3. On the one hand, this means limiting the access to social services as a whole, and on the other – even where there are alternatives, i.e. there is elasticity in their use (for example, in the type of heating source that is used), this choice does not result in lower expenses since there is simultaneous increase in price of all energy sources, including the price of solid fuel. In fact, in both cases **the easy transition to social exclusion and poverty** is a natural result of the widening spread between prices and incomes.
- 9.4. The arguments that both access to and the size of the social benefits for heating in winter are regularly updated, might have an explanation, but the fact that the number of beneficiaries is growing hardly discloses a positive tendency towards reducing poverty and social exclusion. The reverse of the medal shows increasing dependence of more and more people on services, which are supposed to guarantee the living standard of the population.
- 9.5. In all EU countries the reforms in the services of common interest (privatization, price liberalization) have become a **powerful factor for generating poverty**, since they lead to significant increase in expenses on these services and budget restructuring of individuals, families and households. For the time being EC still refuses to conduct a comprehensive analysis of the reforms in this sphere.
- 9.6. There is still no answer to the question whether the **poorest country in Europe** can afford the same pressure on incomes and living standard of its population like the pressure exerted in other, much richer member-states.

## 10. Active inclusion

- 10.1. Active inclusion is given high importance as **the second, equal to the others, political aim**. It is adequate to the EU practice, but the three components of the European concept for active inclusion (adequate income, quality jobs, and access to first-class services), which come generally under the term “decent labour” here result in the clumsy and difficult for translation term *employability*, which has a different meaning – increasing the capacity and adaptability of the individual for employment.
- 10.2. The serious problems lie in the fact that the measures are not in line with the (re)formulated aim. Furthermore, they change it or rather – relegate it:

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<sup>5</sup> D.Minev, L.Tomev, D.Draganov. Priorities of the social inclusion policy in Bulgaria, "Fridrich Ebert" Foundation, 2008

- active inclusion is seen only as the active measures on the labour market (the so-called activation, which is something completely different);
  - encompass only people who are furthest from the labour market (working poor, for example, are not placed in the centre of attention);
  - social services are seen only as services necessary for realizing the transition from social benefits to employment;
  - income improvement is expected only as a result of increased employment through activation .
- 10.3. Since the key point in the activation itself is exercising economic pressure to accept any kind of job and the coercion is realized through **cutting social security payments**, the idea in fact boils down to the expectation that cutting payments will lead to an increase in income. This idea will hardly deal a heavy blow on poverty.
- 10.4. It is important to point out that the **measures for the second aim are not closely related to the first one** (fighting child poverty), for the achievement of which it is relied to a great extent on the parents' employment, i.e. the measures for active inclusion. After all it turns out that in order to reduce child poverty it is relied on the active inclusion of parents, which on its part is seen as the so-called active measures for the labour market and they are related to cutting social benefits. It is highly unlikely to fight child poverty (and parent poverty too) through limiting social payments.
- 10.5. With such a structure **most probably neither aims will bring about a decrease in the poverty level**. It would rather result in increased poverty even if the rather favourable economic context from 2008 is preserved. And since this context already belongs to the past, it can definitely be forecast that with the outlined aims and measures for their achievement, poverty in the country will grow, which the document itself does not rule out.

## 11. Labour market and social inclusion

- 11.1. In 2008 the labour market still managed to preserve its general positive development tendencies and take advantage of the preserved macroeconomic stability. **In the period between 2004 – 2008 it enlarged in scale** and led to an increase in the economic activity of the population. The increase in employment was the result not only of the inflow of hired unemployed, but also of the fact that discouraged and other inactive people started work. A high level of employment among women was attained, which actually was the realization of the Lisbon goal of 60% employment rate in 2008.

- 11.2. In the beginning of 2009 the intensity of changes slowed down and they were mainly due to the preserved momentum. The forecasts are that there is upcoming sharp increase in unemployment, which will inevitably **affect the impoverishment of the population**. This pessimistic scenario results from not only the impact of the world financial and economic crisis, but also from the “overheating” of the Bulgarian economy we have observed over the last few years. The latter was discussed by experts, but it was not approved by the politicians, which makes their current reactions in terms of laying-off workers sound exaggerated and irresponsible.
- 11.3. **Labour market problems are gaining speed.** These problems are provoked by the decreasing demand, still poor labour conditions and the existence of discriminatory payment practices, tightened access to financial resources for economic activity (or for self-employment), unsatisfactory quality of certain services in employment and the limited access of representatives of groups in unequal situation to these services (mainly people with disabilities).
- 11.3.1. Despite the achieved rates of employment among women, there still exists a low level of quality of their work. The group of *single mothers* is one of the groups which is exposed to a very high degree to risk of impoverishment and this will strengthen marginalization in the near future.
- 11.3.2. The achieved employment growth is mainly due to *active work with the adult groups* on the labour market, not so much to demand from the real sector. In 2008 40,3% of this growth was due to people between 55 and 64 years. A similar situation appeared in 2005 and 2006.
- 11.3.3. There are grounds for making assumptions that the hitherto prevailing labour market policies provoke *contradictions between generations active population*. Overcoming these contradictions is one of the main principles in the process of social inclusion and cohesion in the EC documents (March 2006). Underestimating the position of the young people among the active population affects its quality and the low adequacy of the requirements of the knowledge economy.
- 11.3.4. The current orientation of employment towards older age groups leads to a *slighter reduction of poverty of households with children*. This is a really disturbing fact considering the problem with child poverty and the need for breaking the chain of its reproduction and spreading.
- 11.3.5. The stabilization of employment in terms of the age structure of the employed will require *stimulation of the participation of parents with children of up to 16 years of age in employment*, as well as enlarging initiatives which secure transition to

employment. These requirements cannot be fulfilled only with the help of the hitherto useful policies on the labour market.

11.3.6. There is urgent need for combining this with opening new jobs in nursery homes and kindergartens; using flexible forms of parents' employment, as well as tightening the measures against irresponsible parenting. So, problems related to the age structure of employed should be solved not only (and solely) in terms of the stability of the pension system, but respecting the requirements of the family social policy.

11.3.7. The rigidity of the core of the continuously unemployed decreased during 2008, but these unemployed retained the relative share of one third of the registered unemployed. It is this group on the labour market that closely correlates with the increasing number of population in high and extreme poverty.

11.3.8. For the time being, when dealing with the group of continuously unemployed the focus is on its ethnic composition and the high share of *Roma representatives*. Here various problems intertwine – problems with employment motivation; lack of professional qualification and/or low education; willingness to do “piece-work”, i.e. in the grey economy; being prepared to live in poverty and weak stimuli for changes in the conditions of ghettoized life.

11.3.9. At the same time separating the problems of the Roma ethnic minority and placing them in a separate group should be treated with the utmost care. There are no laws in the Bulgarian legislation, which stimulate (provoke) *ethnic discrimination*. The majority of Roma people are poor and as the labour market practice shows, they are common to the poor and impoverished population.

11.3.10. *People with disabilities* form one of the risk groups on the labour market because there is very low demand for such people on the part of employers. The registered unemployed with disabilities, however, have better educational and professional structure than the unemployed as a whole. So, we can assume that there is particular stigmatization of people with disabilities on the labour market.

11.3.11. A possible reason for the low demand for unemployed with disabilities lies in the general bad state of the labour conditions and the *limited possibilities ( or impossibility) for their adaptation* to the particular requirements of the disability, even if there is financial support and willingness on the part of employees. All things considered, as a result of the bad access and other reasons a significant labour potential with high quality remains unused, even in periods of desperate insufficiency of qualified labour force.

11.14. The importance of highly qualified specialists for the quality of the labour force and the total labour productivity requires careful attention to providing new jobs for their

unemployed representatives, especially in the current conditions of economic crisis. To this aim a specialized system should be developed, which should care for their labour transitions, as well as specialized professional qualification or changing of qualification for the highly qualified degrees. This will be of importance both to limiting the decreasing living standards of this group and to keeping them in the labour force (and employment), improving the general economic results (all other things being equal) important for reducing poverty.

11.5. The areas of development of the labour market in the short term, which would not lead to poverty and social exclusion, refer to the following:

- Achieving *balance on the labour market* along with preserving the population's economic activity.
- Improving the *qualitative characteristics of the work force* by emphasizing the active policies towards the young people and other prospective demographic groups on the labour market as well as towards prospective professional groups.
- Facilitating the process of employing people at risky positions on the labour market, paying particular attention to those who have been continuously unemployed and people with disabilities.
- Finding socially acceptable ways for preserving the importance of the conducted policies for restricting unemployment, avoiding its sudden unfavourable changes in order to prevent the consequent unfavourable hysteresis effect in the long run.

## **12. Risks that the pension system faces**

12.1. The signs of the economic crisis in the real sector present a serious threat to the cost-covering system of pension insurance. This threat is seen along the lines of: drop in the rate of increase of GDP<sup>6</sup>, decrease in unemployment, slower increase in incomes, including attempts for salary freeze of the budget-funded salaries, accruing outstanding payments to workers and employees and to income tax funds in the conditions of nationwide company indebtedness.

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<sup>6</sup> According to the account of NSI a decrease in the economic growth of only 1 percentage point leads to a decrease in GDP by approximately 700mln BGN, and in the insurance base by approximately 200mln BGN. With the current amount of insurance payments for income tax this means over 70mln BGN less revenue for 2009 for every 1 per cent decrease in GDP. See Economic activity in Bulgaria and its social dimensions over the first decade of the new millennium. An analytical report 2009. CITUB, Sofia, 2009, p.163

- 12.2. The crisis in the real economy poses a threat to social insurance (including pension insurance, too) not only in terms of revenue, but also in terms of expenses. The decrease of the employment coefficient and the increase of unemployment, the threats to jobs, the irregular payment of salaries lead to tension in the expense section of the social security budget in the following fields: increase in expenses on unemployment benefits, including long-term unemployment; active use of all legal forms of early pension and pressure for expanding the scope of those who have right, including lengthening the terms of the previous regimes; limiting the cases of deferred retirement.
- 12.3. In terms of **adequacy of the pension system and its financial stability** the report outlines some concrete conclusions – about the 350 thousand non-insured people, about the policy of gradual decrease of the insurance payment, including the increasing dependency on the government budget, but ultimately these conclusions do not bring about concrete decisions which would provide in the future adequate pensions with financial stability and autonomous system.
- 12.4. The argument that it is not possible to foresee the crisis is not valid because if there were a strategy, there would also be an option for dramatic worsening of the economic conditions regardless of the fact how realistic the option was. **The need for strategy** results from the fact that the current competitiveness of the pension system is related to powerful interests and this is usually a precondition for underestimating the risks in the system.
- 12.5. There are reasons to suggest the insufficient stability of the current system from the point of view **of its correspondence with the structure of the incomes of the population**. The disproportionately wide bracket of low incomes, the thin layer of middle ones and the even thinner one of high incomes does not provide sufficient opportunities for choice by the active people (to make their own long-term plans referring to incomes and expenses over their entire life, to choose strategies for the labour periods and non-labour ones or based on mutual alimony between generations etc.)

### 13. Health care and social exclusion

- 13.1. **The access to adequate health care for all citizens is a priority of any social inclusion strategy.** The right to health care is a human right and nobody can be denied this right on the grounds of their personal income, ownership, place of residence or any other condition. Ever since signing the Treaty of Rome on founding the EU the main

postulate has been the government's obligation to provide equal access to quality services for all its citizens, regardless of where they live.

13.2. **International experience shows that the selected method of health care** should meet the following requirements:

- level of economic development;
- level of social ethics;
- political commitment to health problems;
- a practically tested conceptual model.

13.3. The Bulgarian experience deviates significantly from the above requirements.

**The results from the health reform**, which has been carried out under the strong pressure of the international financial institutions, have become a fact 9 years later – on the one hand, frustration among those, providing the health care services, shortage of qualified personnel and social tension in hospitals and emergency units; on the other hand – total disappointment and helplessness among patients, who ended up in the centre of the labyrinth of:

- “reformed” non-hospital health care,
- “underestimated” clinical paths of the hospital commercial partnerships, and
- “market luxury” of dental services.

13.4. The reform in health care has led to a **considerable financial pressure on households**, especially as a result of the deterioration in the health status of the population.

13.4.1. According to official data from NSI<sup>7</sup> the *relative share of expenses on health care in the structure of household expenses* shows clear tendency towards increasing after the start of the reforms. In the period between 1995 – 1999 the relative share of expenses on health care was within 1,9 – 2,9% of the total costs. In 2000 it rose to 3,6%, and in 2008 it reached 4,8%.

13.4.2. The low incomes of the population hinders access to health care. *This is especially true about poor and vulnerable part of it.* The unemployed who are not entitled to benefits and are not included in the social security system remain out of the group that get their benefits from the government budget or other sources. For most of them the health insurance contribution of 8% and the commercialized medical services are unaffordable.

13.5. **Rather insufficient funds from NHIF to cover the prices of medicines.**

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<sup>7</sup> NSI. A study into families' budget, 2008

13.5.1. According to data provided by the European Federation of the Pharmaceutical Industry Bulgarian patients pay out of their pocket a relatively higher proportion of the price of medicines than patients in all other European countries -56%, i.e. only 44% are paid by NHIF. The average ratio in the EU is 18 to 82%. The government not only did not find a way to increase the funds for medicines or for more efficient spending, but introduced the additional burden of 20% VAT on their price.

13.5.2. *The policy on medicine is accompanied by permanent crises*, related to shortage or lack of life-saving medicines. It is paradoxical for a country, whose Constitution defines it as “social”, to point out “commercial” and “fiscal” reasons for the unequal access to modern treatment and quality medicines. As a rule this limited access (given the low average incomes) leads to secondary poverty and permanent social exclusion.

13.6. Part of the population, in addition to the health insurance contributions, makes **considerable expenses on health services** in the form of:

- *Additional regulated payments* – consumer fee for each visit to the general practitioner, as well as for hospital treatment. This restricts access especially when the treatment involves complex diagnostic tests and multiple visits to the doctor.
- *Additional payments* for non-hospital health care – the fact that there is a limited number of visits to specialists forces patients to pay for the tests.
- The money required for highly specialized and expensive tests are not in line with the demands. There are *waiting lists*, and those who are not in a position to wait have to pay.
- *Additional payment for hospital treatment* – for medicines, supplies, tests, food.
- *Unregulated payments* in the form of donations, “gratitude” etc. According to experts’ evaluations these amount to 1,5 bln. BGN. These are huge additional resources, poured in forcibly and at the same time this is corruption potential which compromises the health care reform as such.

**All of the leads to the conclusion that the poor, if they want to receive treatment, become poorer. In case they deny treatment, they become even more ill.**

## 14. Budgeting and financing problems

14.1. **The financial stability of the public sector** is a serious problem since there is not enough information and so it is not given enough attention. At the moment the public

finances represent one of the main poverty generators. It has been considered that the central problem of anti-poverty policies is the lack of sufficient resources. In fact, things are quite to the contrary – the deficit has been artificially created.

14.2. Public finances have big informal part, through which too much funds are being taken and redistributed, huge flows of illegal money are being formed, which are not recorded and not taxed, thus creating and maintaining poverty. This forms a **significant reserve for additional financing of anti-poverty policies**, especially in the conditions of crisis.

14.3. According to the Report on world wealth'2008 in 2006 the millionaires in the world (10,1 mln people) owned \$40.7 trillion and 1/3 of them, i.e. over 13.5 trillion is “saved” from unpaid taxes. It is certain that **the problem exists in Bulgaria too**, what is more, it has reached unacceptable scale. The money, which is presumed to be hidden, drained or not paid to the tax system only for 2008 is approximately 9.1 bln BGN, which is about 20% of the budget revenue and in addition to this some 15% of the budget expenses<sup>8</sup> is illegally misappropriated.

14.4. **Specific reasons for this situation are:**

14.4.1. The standards for financial accounting are significantly lowered and this results in inaccurate information. This creates opportunities for the rise of huge flows of illegal money and these two opportunities are utilized<sup>9</sup>.

14.4.2. *The tax system* operates on the basis of information, provided by the system of financial accounting. When the financial and accounting information is distorted and incomplete the tax system cannot work effectively. It is not capable of tracing the flows of illegal money (especially “draining” VAT).

14.4.3. One particular problem of the tax system is its inability to deal with the so-called *prestigious consumption*, which has reached unseen until now size. The issue was raised in the EU too, because this is also a key to increasing the production investments and creating new jobs.

14.5. The issue of fully utilizing the European funds is of great importance. In November 2008 the EC introduced a special Regulation, which provided governments with the opportunity to reconsider their “systems” of Structural funds and channel them to dealing with the developing crisis trends. This should also be achieved in terms of

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<sup>8</sup> According to data, provided by Prof Georgi Petrov. See ‘Sega’ newspaper of 16/04/2009, p.9/13.

<sup>9</sup> Prof Ivan Dushanov wrote in this relation An open letter to a number of governmental institutions, but no measures were taken whatsoever.

strategies and policies on lowering poverty and exclusion since the review of the National plan creates the impression that there is limited desire to use the Structural funds mostly in relation to integration on the labour market. This means that the chances for using the Structural funds for more massive stimulation of active inclusion and for implementing wider approaches to social inclusion have been thrown away.

14.6. Despite the several references of NAP to the Regulation of the European social fund – “the potential of the Structural funds to reduce poverty and social exclusion”, there is not enough evidence that this potential was intensified in comparison with the previous years. This framework lacks specificity – **how to finance the goals, through what budgets and by which financial mechanisms**. Where the Structural funds are mentioned, the focus is on the traditional employment measures without the specific effort to develop approaches to meet the needs of those who are farthest away from the labour market.

14.7. This situation may suggest the **lack of information on the opportunities for better use** of the Structural funds to achieve social inclusion and in particular through: “positive” measures for activating, measures, which permit wider integration and empowering of the excluded groups, increasing the capacity of the social NGO, access to quality services (especially for vulnerable groups and underdeveloped regions), approaches to inclusive entrepreneurship and infrastructure, related to social inclusion.

14.8. The Report’s disadvantages and the resulting risks considerably increase as a result of the changed economic situation. The recession already brings about the inevitable consequences – unemployment, poverty and social exclusion. The negative consequences get considerably complicated and multiplied as a result of **the scale of credit indebtedness** and the rising insolvency of the population. There are reasons to assume that the situation might get critical.

14.9. Recession does not solely mean more people without jobs, but also that the first to leave are the uncertain and with low quality jobs, which are not covered by the restructuring packages. Those who keep their jobs will probably end up in **increasingly unstable positions**, under the pressure to reduce salaries and with requirements for greater flexibility. The government will probably have to make up the public deficits caused by packages for dealing with financial difficulties in order to be in line with the requirements of the Stability Pact.

14.10. In the worst scenario the public deficit will be funded through lowering social benefits and protection levels. This, combined with decreased purchasing power, especially for people who live on unemployment benefits and increasing indebtedness,

will most probably put many people in a difficult situation, below the poverty line. These new developments require urgent new actions. They call for recognizing the new economic context and preparing concrete proposals **for social and sustainable counter action to the current crisis**, based on a commitment to reduce poverty.

14.11. The Report contains certain **new governmental measures** for fighting recession. For example, increasing the minimum income and pensions, as well as intentions for improving social protection for everybody. These measures, however, are hardly sufficient, and we can doubt their efficiency as an anti-crisis tool.

14.12. The threat of the negative effects of the current crisis **should not be considered inevitable**. The National Strategic Report and the National Action Plan can be the main instruments used to support this change, but in order to achieve this they should be considered more seriously and urgently improved.

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