



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

RESOLUTION

of

the Economic and Social Council

under the "National Recovery and Resilience Plan"

(developed on own initiative)

**Sofia,
December 2022**

The Activity Plan of the Economic and Social Council of the Republic of Bulgaria for 2022 includes the preparation of a resolution for the "National Recovery and Resilience Plan", assigned to the Commission on Macroeconomics, Budget and Finance.

Mariya Mincheva - member of ESC from Group I, Veselin Mitov - member of ESC from Group II, and Kostadin Kolarov - member of ESC from Group III, were appointed as rapporteurs.

At meetings of the Commission on 16.11.2022 and 28.11.2022 the draft of the resolution was adopted.

At its Plenary Session held on 09.12.2022, the Economic and Social Council adopted the resolution.

1. Conclusions and Recommendations

- 1.1. ESC emphasises that the final version of the National Recovery and Resilience Plan (NRRP)¹, submitted for consideration and approved by the Council of Ministers, compared to the previous version, contains significant changes that were not discussed with the social partners or at wider public discussion. This led to the inclusion of unacceptable commitments, which may have a detrimental impact on Bulgaria's energy security, economy and social environment, and are already causing significant political and public tension, which creates a risk of a complete failure of the implementation of the Plan.
- 1.2. According to the ESC, the political uncertainty at national level, the lack of indications for the formation of a regularly functioning government and the possible new early parliamentary elections create a risk of impossibility to adopt some of the reforms provided for in the Plan, for which legislative changes are required.
- 1.3. The accumulation of delays in the presentation, acceptance and start of the implementation of the NRRP, the missed opportunity to receive an advance payment may lead to the need for debt financing in order to service part of the planned investments. According to the ESC, in view of the deteriorated conditions of the international debt markets, such a scenario should be avoided.
- 1.4. The ESC welcomes the efforts of the Ministry of Innovation and Growth to start the grant procedures under the Economic Transformation Program as quickly as possible. At the same time, the ESC draws attention to the insufficiently fast start of a number of procedures, in which there is already a delay (mainly in the field of the construction of new capacities for the production of electricity from renewable sources and energy storage and in the field of railway transport), which calls into question the timely receipt of funds for the second payment from the NRRP. The ESC draws attention to the need to strengthen the capacity of these administrations, where there is a tendency to slow down in the implementation of reforms and investments.

¹ <https://www.nextgeneration.bg/14>, version 1.5. of 06.04.2022

- 1.5. The ESC accepts the idea of the green transition undertaken by Europe, but at the same time is of the opinion that this should be done in a way, and at a cost acceptable to society, both in the time horizon of the plan and in the long term. The ESC insists on the immediate proposal of alternative solutions, on the basis of which some of the controversial measures in the field of energy in the RRP will be renegotiated with the aim of a smooth low-carbon transformation in accordance with the new geopolitical situation and the war in Ukraine as well as the interrupted supplies of energy sources:
- 1.5.1. The projected reduction in carbon emissions from electricity generation by 40% compared to 2019, covering coal-fired plants in 2025, without providing real alternatives, which currently do not exist, to base and balancing power capacities providing energy for industry and citizens, creates significant risks of unemployment, depopulation of adjacent regions and collapse of gross added value. Regardless of the various plans and scenarios for a just transition of these regions, none of them will be implemented and work effectively within such a short period, while the negatives of a poorly executed plan for the decarbonisation of the energy sector will be felt immediately.
- 1.5.2. The ESC urges the National Assembly on the grounds of its Decision, promulgated in the State Gazette Issue No. 11 of 07.02.2020², to oblige the government to start negotiations with the EC to drop the requirement to reduce energy emissions by 40% in 2025 as compared to 2019.
- 1.5.3 ESC considers that the investment to create a national infrastructure of electrical energy storage facilities from renewable energy sources with a total charging energy capacity of 6000 MWh is unsustainable and unrealistic and proposes that the parameters of the project be revised, and that the provided funds or part of them be directed elsewhere, e.g. for the restoration of the capacities of the Chaira Pumped Storage Hydro Power Plant (Chaira PSHPP) as a real power for electricity storage; and/or for energy storage systems from renewable sources, built for own needs in enterprises; and/or for the development of the electricity transmission or distribution networks in the country.

² <https://dv.parliament.bg/DVWeb/showMaterialDV.jsp?idMat=145765>

- 1.6. The ESC emphasises the importance of accelerating key reforms in the RRP in the area of higher efficiency of the judicial system, reducing the administrative burden on business, increasing the quality and access to education, the transition to a low-carbon and circular economy. Of particular significance is the prevention of further delays in planning and launching the investments under the Plan.
- 1.7. The ESC calls for an urgent initiation of a debate on whether and how Bulgaria will complement its National Recovery and Resilience Plan with a new *RePowerEU* chapter, insofar as this is an opportunity to revise other parts of the plan as well. The ESC reminds of the short deadlines that are expected to be set for the submission of proposals for a new *RePowerEU* chapter after the final approval of the amendments to the Regulation, which is expected by the end of 2022.
- 1.8. The ESC emphasises once again the need to manage the investments and projects under the NRRP to be carried out in accordance with the principles of partnership. Welcoming the fact that the government, by a normative act, accepted the creation of an expert-advisory council to monitor the progress of the implementation of the Recovery and Resilience Plan, the ESC calls for its actual formation and the immediate start of effective activity. The ESC draws attention to the fact that in previous versions of the Plan, a special role of the ESC was envisaged in this regard.

2. Introduction

- 2.1. ESC has been involved from the very beginning in the process of developing and adopting the National Recovery and Resilience Plan. On 1 December 2020, in its opinion³, the Council formulated specific recommendations on the first version of the plan developed by the government, which were presented to the relevant Deputy Prime Minister and sent to the offices of the European Commission.

³ <https://esc.bg/wp-content/uploads/2021/02/opinion-esc-3-70-2020-bg-rev1-4.pdf>

- 2.2. In the month of April 2021, in its resolution⁴, the ESC called on the political forces represented in the Parliament to reach a consensus and submit the Plan for approval to the EC within the set deadline – 30 April 2021, so that Bulgaria can get access to the funds necessary to recover from the pandemic crisis in the shortest possible time - the fall of 2021. This decision was not taken, and the subsequent period of political instability led to a breakdown in the dialogue with civil society, unilateral administrative changes to the planned reforms and investments, delays in the introduction and approval of the Plan. It was officially submitted to the EC for consideration and approval only on 15 October 2021.
- 2.3. ESC emphasises that numerous changes were made in the final version of the Plan, which were not subject to public discussion. The inclusion of unacceptable commitments, which could have a detrimental impact on Bulgaria's energy security, economy and social environment, has already generated resistance that could lead to the overall failure of the Recovery and Resilience Plan.
- 2.4. On 4 May 2022, the Bulgarian plan was officially adopted by the EU Council of Ministers, giving a formal start to its actual implementation. With this Resolution, the ESC presents the view of the organized civil society, in particular of the social partners, on the process of implementing the plan, as well as on its eventual/possible updating by adding a new chapter – *RePowerEU*.

3. Implementation assessment

- 3.1. The delayed development of the Recovery and Resilience Plan led the country to the impossibility of using an advance payment to implement the activities thereunder, and respectively, to support the national budget. This creates a risk of the emergence of a chronic budget deficit. As of the end of November 2022, Bulgaria has not yet received the first payment. It is expected within the next few weeks. A possible delay in the second payment could affect negatively the objective related to fiscal consolidation and membership in the Eurozone as of 01.01.2024.⁵

⁴ https://esc.bg/wp-content/uploads/2021/04/ESC_Resolution-s-korekcia-sled-sesia.pdf

⁵ An example schedule for submitting payment requests is specified in the Operational Arrangements between Bulgaria and the European Commission. In 2023, two requests for payment are foreseen - in the first and third quarters in the amount of a total of 1,472,818 million euros, and the last request for payment is foreseen until 30.09.2026.

- 3.2. According to the ESC, the accumulation of delays in the presentation, adoption and implementation of the Recovery and Resilience Plan and the missed opportunity to receive an advance payment may lead to the need for debt financing in order to service part of the planned investments. According to the ESC, this should not be allowed, as it creates a risk of not complying with the timetable for the implementation of investments and reforms, especially against the background of deepening political instability.
- 3.3. The ESC expresses disappointment at the insufficiently quick start of a number of procedures.⁶ The time from the submitting of the Assessment Plan and its formal approval was obviously not used by the administration to prepare the necessary guidelines and application documents, which delayed the actual implementation of the investments. No funds have actually been disbursed for any procedure yet.⁷
- 3.4. The ESC is concerned about the political uncertainty at national level, the lack of indications of the formation of a regularly functioning government and possible new early parliamentary elections, which create a risk of not being able to adopt some of the reforms envisaged in the Plan, for which legislative changes are required, as and those on which there is a lack of public consensus. According to data from the Information System for Management and Monitoring of EU Funds, from a total of 66 objectives and milestones must be met by the end of 2022 in order to submit the second payment request in the amount of EUR 724,039,480.00, as of the month November 2022, only six have been finalised.⁸
- 3.5. At this stage, the percentage of the agreed funds is 2.78% (BGN 434,558,831.50). The total budget is BGN 15,620,531,000, of which funding from the EU is BGN 13,521,565,000.00, from the National Fund - BGN 2,098,966,000.⁹ The currently agreed funds (reported as EU funding) are partially on three priority axes, as follows: digital connectivity (124,500,044

⁶ C4.I6. Support for new renewable power generation and energy storage capacity.
C8.I2. On-board equipment for the European train management system.
C8.I3. Digitization in rail transport.
C8.I4. Intermodal terminal in the town of Ruse.

⁷ From data from the information system for management and monitoring

⁸ For detailed information, see Appendix 2: second payment.

⁹ Information System for Management and Monitoring, <https://eumis2020.government.bg/>

out of BGN 883,789,000), transport connectivity (217,465,416.38 out of BGN 2,087,083,000), business environment (92,593,371.12 out of BGN 469,774,000).¹⁰

- 3.6. Nine more priority axes for which there is no data in the Information System for Management and Monitoring of EU Funds, for **agreed** funds (EU funding), as follows: education and skills, research and innovation, smart industry, low-carbon economy, biodiversity, sustainable agriculture, local development, social inclusion, healthcare. Part of these projects are planned in the group of activities under the second payment, for which there is a risk of delay due to non-fulfillment of the conditions (reforms, activities, investments, legal acts).

Investments

- 3.7 ESC welcomes the efforts of the Ministry of Innovation and Growth to start the procedures aimed directly at businesses as quickly as possible, in particular under the Economic Transformation Program. The ESC will monitor with increased attention the intensity of implementation of the measures financed through financial instruments, insofar as this was the main criticism when the measures were prescribed:

1. The first procedure, Technological Modernisation, with a total budget of BGN 260 million, is already nearing finalisation. The submitted project proposals exceed the amount of BGN 630 million.¹¹ It should support micro, small and medium-sized enterprises to increase the efficiency of production processes, higher productivity, reduce production costs and optimize the production chain.
2. One month before the end of the application period under the second procedure for the implementation of ICT solutions and cyber security in enterprises, the submitted proposals exceed more than twice the planned resource of BGN 30.6 million. Within this procedure, enterprises can apply for the introduction of ICT services and solutions for digital marketing, platforms, websites and mobile applications, solutions for optimizing management, production and logistics processes, as well as for ensuring cyber security.

¹⁰ For detailed information, see Appendix 3: Implementation according to priority axes - current procedures and financing.

¹¹ According to data made public by the Ministry of Innovation and Growth.

3. The third procedure "Support for innovative SMEs awarded with the "Seals of Excellence" has been announced for public discussion, aimed at Bulgarian enterprises for the implementation of projects awarded with the "Seals of Excellence" by the European Innovation Council in the period 2018 - 2023 under the Horizon 2020 and Horizon Europe programs.
 4. The announcement of the RES and batteries measure for local energy storage for businesses is pending. ESC recommends that micro- and SMEs that have built RES installations for their own consumption be able to receive financing for the purchase of energy storage batteries. As indicated in the project sheet, in self-consumption installations very often, due to uneven consumption, unrealized energy production capacity remains. Adding storage batteries will ensure a more efficient use of the installed capacities, which will lead to a reduction in demand from the electricity distribution network.
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- 3.8. The ESC recommends that a resource be provided for building management capacity in the lower size classes of enterprises (micro- and small), necessary for the effective management of their transition to a digital, low-carbon and resource-efficient economy.
 - 3.9. By the end of the year, the Ministry of Regional Development and Public Works is expected to launch a procedure to support the sustainable energy renovation of buildings in the sphere of production, trade and services, as well as buildings from the tourism sector, which is expected by business and which is one of the few on which large enterprises are eligible. Unfortunately, the currently proposed design of the measure makes it inapplicable to production buildings due to the practically unattainable requirements for these.
 - 3.10. ESC seriously doubts the realism of investment 8 "National infrastructure for the storage of electrical energy from RES (*RESTORE*) installation and commissioning of a national infrastructure of electrical energy storage facilities with a total charging energy capacity of 6000 MWh". As far as the preparation for the implementation of this investment is at a very early stage, the ESC calls for a substantial revision of the proposed parameters, with the intended funds or part of them directed in another direction, e.g. for the restoration of the capacities of Chaira PSHP.

- 3.11. The ESC notes the lack of public information about the government's plans to add a new chapter to the NRRP after the adoption of the amendments to the European regulatory framework related to *RePowerEU*. It is expected that this will happen by the end of 2022, giving Member States the opportunity to reassess the usefulness of some projects and to propose alternative solutions subject to the applicable rules.
- 3.12. The initial proposal of the European Commission to amend Regulation 2021/241 was mainly provoked by the war in Ukraine and the subsequent drastic increase in the prices of energy carriers, the increased demand and the inability to ensure rhythmic supply of gas (piped or liquefied) at an acceptable price. The proposal aims to complement a new chapter - *RePowerEU*, in the national recovery and resilience plans. It can envisage reforms and investments aimed at achieving the following goals:
- ◆ Improving energy infrastructure and facilities to meet the immediate needs of security of oil and gas supply, in particular to support diversification of supply for the benefit of the EU as a whole.
 - ◆ Accelerating the energy efficiency of buildings, decarbonisation of industry, increasing the production of sustainable biomethane and renewable or low-carbon (*fossil-free*) hydrogen and increasing the share of renewable energy.
 - ◆ Overcoming domestic and cross-border barriers to energy transfer and supporting zero emissions for transport and related infrastructure, including railway.
 - ◆ Supporting the above three objectives through increased retraining of the workforce to acquire green skills, as well as supporting value chains in key materials and technologies related to the green transition.
- 3.13. The ESC reminds that the short deadlines that are expected to be set for the submission of proposals for a new *RePowerEU* chapter after the final approval of the amendments to the Regulation, which is expected by the end of 2022. According to the ESC, the lack of discussion of the possibilities for Bulgaria to supplement the NRRP with a new chapter is a signal either for a significant delay in this process or for its lack of transparency.

Reforms

- 3.14. The ESC supports the reforms planned in the "Innovative Bulgaria" pillar related to education and skills, but there are concerns that the "Reform of pre-school, school education and lifelong learning" does not highlight those elements that would develop and strengthen one of the key competences for lifelong learning (2018) – entrepreneurship. Without the affirmation of an entrepreneurial culture (values) and the formation of entrepreneurial thinking and skills among all those involved in the educational process - from school leaders to the students themselves, it would be doubtful to expect significant results in achieving the stated goal of the policy and successfully dealing with the described challenges.
- 3.15. According to the ESC, the reform "Implementation of a general policy for the development of scientific research, innovation and technology for the benefit of accelerated economic and social development of the country" focuses primarily on the problem of "trust and improvement of relations between scientific circles and business", without providing for measures, which address the specific reasons for the lack of trust and the weak connections between scientific circles and business, namely: the lack of sufficient research capacity adequate to the needs of innovation in business, and the lack of legal and organisational solutions in the higher education system that create motivation to strengthen trust and connections between the scientific community and business. In order for the reform presented in this way to be effective, it is necessary to finance the building of the entrepreneurial capacity of higher schools - a critical factor for the transformation of the results of scientific research into innovations.
- 3.16. The ESC considers the reforms aimed at scientific research and innovation and, in particular, the Program for accelerating economic recovery and transformation through science and innovation, to be particularly important for the economic and social development of the country. According to the ESC, the status of "research higher education institutions" should be specified in a way that is flexible and stimulates competition between higher education institutions. The current model of "research higher education institutions" does not correctly measure the differences in individual professional fields. It favours undeservedly weak professional fields just because there are professional fields

related to the exact sciences or STEM in the same university. There should not be cases where the same professional field has stronger scientific results in a higher education institution that is not research, but the other receives funding only because of the general status of the higher education institution in which it is located.

Overcoming regional imbalances in research and innovation development is set as part of the common actions. The intended support for the activities of the already established Centres of Excellence and Centres of Competence is very important, but covers a very small part of the real regional needs.

- 3.17. According to the ESC, some of the reforms covered in the "Green Bulgaria" pillar are already causing social tension in view of the energy crisis that Europe is going through, the instability of prices and the security of supplies, especially for industry. For example, such are the liberalisation of the electricity market, the creation of a Roadmap to climate neutrality, as well as the decarbonisation of the energy sector with commitments to present scenarios for the withdrawal of coal power by 2038 or at the earliest by 2030 and the reduction of carbon emissions from the energy sector by 40% by 2026 compared to 2019.
- 3.18. Some of these reforms will be difficult to implement in the conditions of political instability and the lack of sufficient awareness of citizens, such as the liberalization of the electricity market. An important but insufficient step is the draft legislation introducing the concept of "energy poverty", which aims to identify and support the most vulnerable groups.
- 3.19. The most heated debate continues to be caused by Reform 10 "Decarbonisation of the energy sector", according to which in 2025 carbon emissions from electricity production need to be reduced by 40%, taking into account the baseline levels of 2019. The reform appears unexpectedly and not agreed with civil society in the final government version of the Plan, published only on 06.04.2022 and presented for approval by the EC. The reform calls for amendments to the Climate Change Limitation Act, which will also create a clear plan to phase out the use of coal-fired power plants by 2038 and set a regulatory cap on their carbon dioxide emissions. applicable from 1 January 2026.

- 3.20. Taking into account that the production of electricity from capacities related to fossil fuels reaches in certain periods of the year up to 60% of the total electricity produced in Bulgaria, the ESC insists on taking immediate steps to offer alternatives and renegotiate the RRS in its part concerning electricity production and the reduction of carbon emissions from electricity production by 40%, taking the baseline levels from 2019, so as to prevent the destruction of a large part of the production capacity producing electricity.
- 3.21. ESC emphasises the fact that upon fulfillment of the commitments made for decarbonisation for Stara Zagora, Kyustendil and Pernik districts, Stara Zagora district alone will lose gross added value in the amount of BGN 877 million per year, if mitigating measures¹² are not taken, which to a large extent degree renders the economic effect of implementing the NRRP meaningless.

4. Publicity and partnership

- 4.1. In both of its acts related to the National Recovery and Resilience Plan, the ESC emphasised the need to manage investments and projects under the NRRP in accordance with the principles of partnership. This would allow the participation of the social partners in a transparent way in decision-making. This will ensure an adequate and timely process of control and feedback between the interested parties.
- 4.2. The ESC expresses satisfaction that with Degree of the Council of Ministers No. 157/2022, it is foreseen that the Deputy Prime Minister for the management of European funds will create an "expert-advisory council" in order to monitor the progress of the implementation of the Recovery and Resilience Plan. The Council is based on the principle of partnership and provides an opportunity to exchange information and ideas to achieve high efficiency of reforms and investments from the Plan. The ESC calls for the actual formation and immediate start of effective activity of the Council.
- 4.3. According to the ESC, it would be useful to create a module in the ISMM, allowing comparison of the implementation between the NRRP and other strategic documents and

¹² Draft Plan for Territorial Transition of Stara Zagora Region.

programs in the relevant directions. This would increase the transparency of the process of allocation of public funds.

/signed/

Zornitsa Roussinova

PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL