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National Development Plan of the Republic of Bulgaria over the 2007-2013 period

Agency for Economic Analysis and Forecasting

DECEMBER 2005

1. ANALYSIS OF THE CURRENT STATE

1.1. Introduction

The purpose of the NDP analysis of the current state is to describe the socio-economic development of the country and to identify the main socio-economic problems and bottlenecks hindering development. In parallel with the analysis, a comparison is sought with the dynamics of tendencies and processes in EU, which could allow at a later stage an identification of the main areas of disparities between Bulgaria and the EU to be addressed by the operational programs.

First, the analysis treats the overall macroeconomic framework of the socio-economic processes in the country: the macroeconomic stabilization following 1997, the sustained and relatively high GDP growth, the deepening of the financial market, and the trends on the labour market and business environment. A comparative analysis between Bulgaria and the average values for EU for some main macroeconomic indicators is also presented.

Second, the productive sector is taken under consideration – the relatively underdeveloped sector of SME's, the restructuring of natural monopolies (in sectors such as energy, rail transport etc.), the week relationship between business, education and science and the high energy intensity of GDP.

The regional aspect is also added to the analysis of the considered economic and social processes. The regional and intra-regional specifics concerning the income, employment and quality of infrastructure are studied. Distinct tendencies of the "center- periphery" type and considerable intra-regional disparities in the country regarding the local economy and urban development are observed.

Another specific area reviewed in the analysis is agriculture and the rural areas. The main problems of the sector are stated - low level of specialization and low productivity of agricultural farms. The specific problems of the rural areas that considerably affect their development in an economic, social and environmental aspect are taken into account. Specifically for Bulgaria, the development of the rural areas is a significant matter, insofar as considerable part of the territory and employment in the country are bound with agriculture activities.

The analysis of the current state of the basic infrastructure considers it as an essential element both for the development of local and national economy and for ensuring high quality of life. Specific attention is paid to the areas of transport and communication infrastructure, water supply, sewage and water treatment infrastructure as well as to the state of environmental issues: waters, air, soil and biodiversity. Also a review of the waste management in the country is done. There are considerable needs for modernization and enlargement of the existing basic infrastructure.

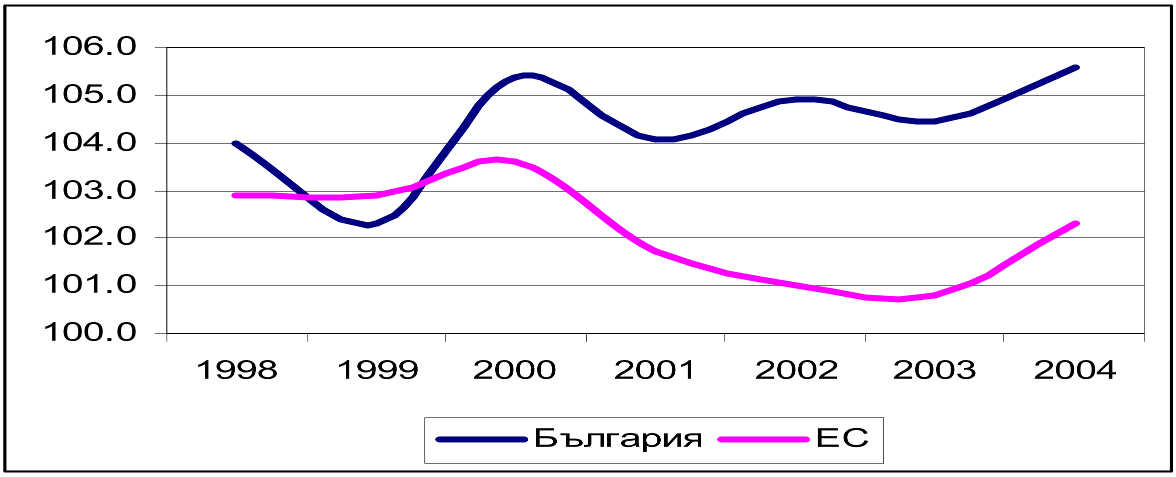
Social issues and human resources development is another essential component of the analysis. During the last decade Bulgaria is characterized with sustained negative population growth, accompanied by aging of population and depopulation of some areas of its territory. Notwithstanding the relatively good education level, there is a distinct trend of drop in the quality of secondary education. A major part of the Bulgarian enterprises has not yet developed long-term programs for enhancement of the vocational training of their employees. The exploitation of the economic potential of cultural heritage in the country is inefficient. There are acute social problems concerning people with disabilities, drug addicts, ethnic minorities, homeless people and other vulnerable groups, and certain gender equality issues. It is necessary to secure additional financing for social interventions and to improve the coordination among the existing institutions.

1.2. Macroeconomic Framework

1.2.1. Economic Growth

In the years following the introduction of the currency board, the GDP registers a sustainable tendency of increase. The registered average annual real growth (4.4%) considerably exceeds the growth of the European economies, which facilitates the convergence of Bulgaria with the EU.

Graph 1: GDP growth in Bulgaria and the EU



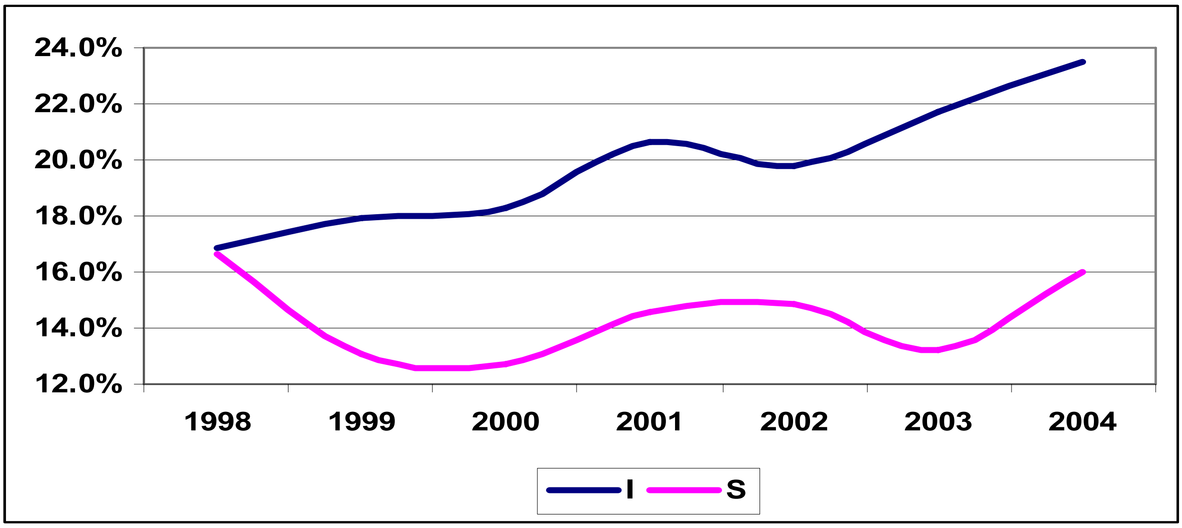
Dark blue: Bulgaria, pink - EU

Source: NSI, AEAF, Eurostat

Demand. The internal demand was a major factor of growth during the 1998-2004 period. Throughout the years of the reviewed period, the final consumption demand grows in real terms at rates that are higher than those of the value added. The drastic devaluation of the local currency, which contributed towards a high real growth of the net exports in 1997, does not act as a factor stimulating growth in 1998. The war in Kosovo in 1999 temporarily closed the commercial roads to Western Europe and exports dropped significantly for this reason. Its consequent recovery during 2000-2004 was accompanied with a pre-emptive increase in imports; therefore the net export has a negative input in the GDP.

The most dynamic component of the internal demand is the investment demand. Whereas in 1997 the investment in fixed capital stock constituted 11% of the GDP, in 2004 their share in the overall demand rose to 20.9%. The main reasons behind the increase of investments are the macroeconomic stability and the lengthening of the horizon for decision-making on the part of entrepreneurs and households. However, the investment activity in Bulgaria is lower than that of most economies in transition. The main reasons behind this are the lower rates of saving and the shallow financial market, which do not mediate efficiently between business and households, who are the net creditors of the economy.

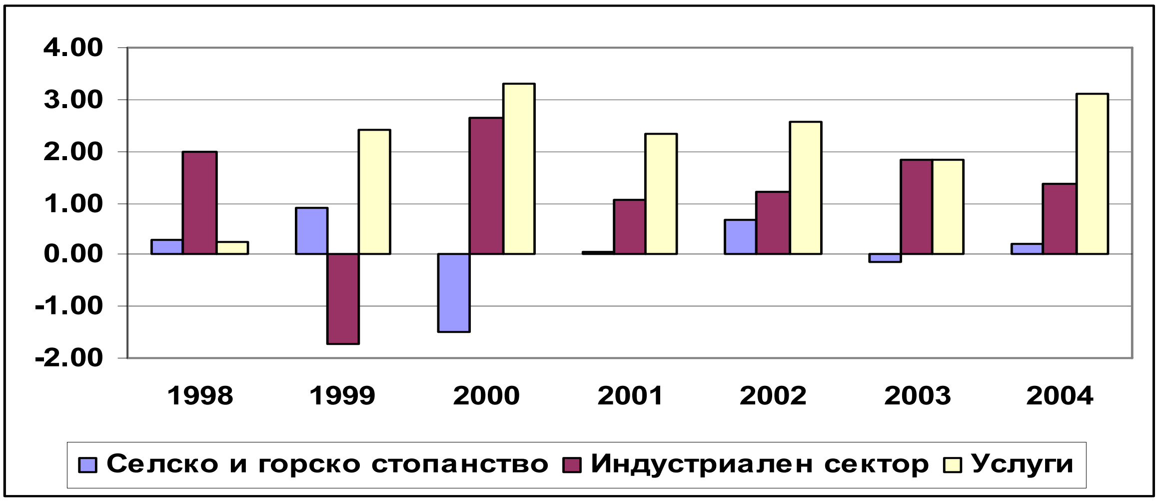
Graph 2: Gross investment and saving toward GDP (%)



Source: NSI, AEAF

Supply. In the course of the last few years, services are the most dynamically growing sector. This is mainly due to the successful development of the private sector in sectors such as communications, finances and tourism, as well as to the recovery of growth in the privatized companies.

Graph 3: Input of the economic sectors into the GDP growth



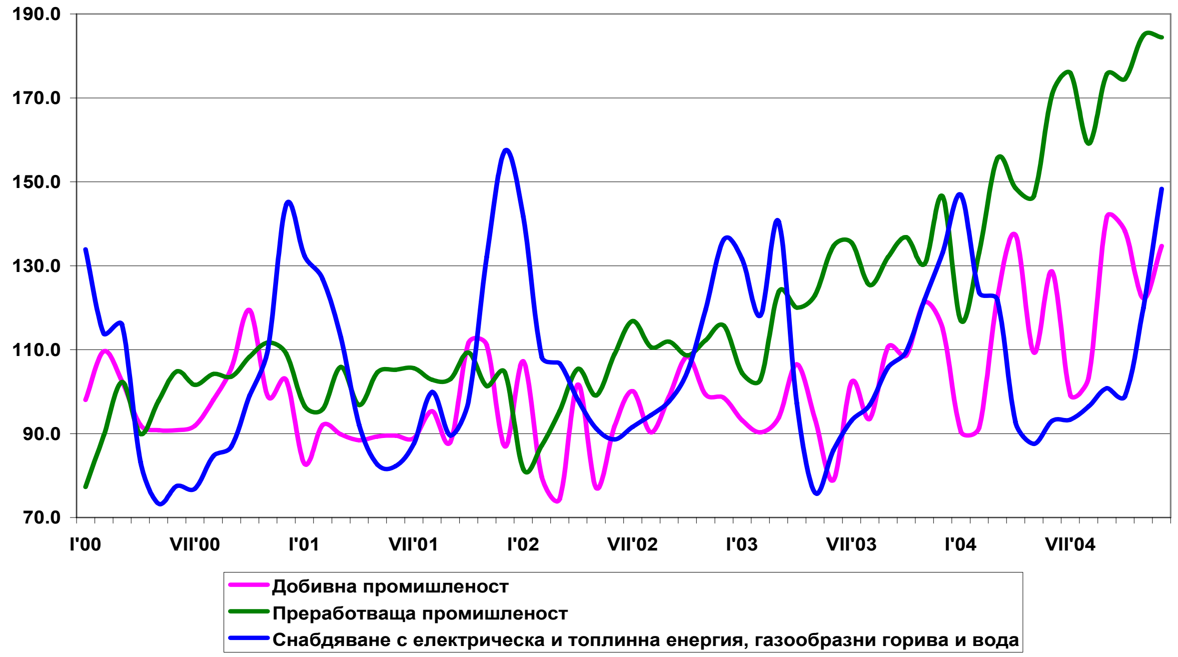
Blue tab: agriculture and forestry, red tab: industrial sector, yellow tab - services

Source: NSI, AEAF

The Agriculture sector is extremely ineffective. The industry produces some 10% of the GVA while more than 20% of the employed persons work in it. The main problems infront of the sector's development are the fragmentation of the assets in numerous small farms and the absence of a liquid land market, for which reason the banks are very conservative as to the endorsement of loans to farmers. The role of the official financing – by the state or through international programs – remains very significant for the sector.

The most dynamic industrial component in the course of the last few years is the processing industry, which registers two-digit rates of real growth on an annual basis, which indicates the restoration of part of the positions lost on the international markets.

Graph 4: Index of sale in industry, 2000=100



Pink curve – Extracting Industry, green curve – Processing Industry, blue curve – Supply of electricity and heat energy, gas fuels and water

Source: NSI, AEAF

The largest relative share (0.47) in the processing industry is the sales of the light industry, followed by the production of the basic industry (38%). Lowest is the share of the industrial branches producing investment goods - 15% of the overall total volume. Among the sales designated for export, the products from the basic industry prevail – 0.46, followed by consumer goods – 37%, and investment goods - 17%.

Within the structure of the produce the production of food and drinks stand out (20-22%), refined oil products (15-18%), production and foundry of metals (12-13%), production of chemical substances (8-10%), production of machines (7-8%), production of textile and clothing (7-8%), equipment and household appliances (6-7%), production of electric and optic equipment (4-6%), etc.

Characteristic for the industrial sector are the high share of low-level-of-processing goods in the produce, heavy reliance on the import of raw materials, hence on the fluctuation of prices on the international markets, and a mainly high-labor-consumption type of industrial production. Among the branches with biggest growth are the largest consumers of energy resources from the private sector. The corresponding shares of the value added are low for the leading economic activities (food, drinks, refined oil products, metal foundry) and higher for the remaining ones. This structure mirrors a low level of profit in the leading sectors, hence a limited ability for investments directed at increasing productivity, and a low growth potential for the overall exports in the long term.

1.2.2. Inflation

Following the establishment of the currency board, inflation fell sharply but remained relatively higher than the average for the EU. This is due to a number of factors. Increase of the administrative prices, which constitute some 20 percent of the consumer basket, is still a significant pro-inflation factor. The inflation accumulated from the introduction of the currency board to December 2004 is 61.6%.

Another important factor for inflation is the high-energy consumption of the economy. Bulgaria consumes a considerably larger amount of primary energy for a unit of GDP compared to the other economies in transition[1]. The high-energy intensity of the economy holds the internal prices strongly dependent on the crude oil prices on the international markets [2]. The increase in the price of the non-trading goods because of the “Balasa-Samuelson” effect [3] also contributes towards the inflation being higher in Bulgaria as compared to the inflation in the EU.

Graph 5: Inflation during the 1998 – 2004 period

[1] See Bulgaria’s Energy Strategy (http://www.doe.bg).

[2] For example, the increase of inflation in 2000 was largely caused by the increase of the crude oil prices

[3] Choukalev, Georgi. “The Balasa-Samuelson Effect in Bulgaria”, S., 2002.

Average annual inflation, prec. yrs.=100

Source: NSI, AEAF

During the 1998-2004 period the Real Effective Exchange Rate (REER) went up by 24.3%[4]. The rise of the BGN value in real terms is in a very large extent (over 80%) due to the growth in the prices of the non-trading goods and services ("Balasa-Samuelson" effect). The higher inflation, which is at the core of the real rise of the BGN value, is so far not undermining the competitiveness of the Bulgarian manufacturers, as it does not lead to a pre-emptive increase of the working salaries towards the growth of the productivity of labor. An actual overestimation of the national currencies on a similar magnitude is observed in other candidate-countries, regardless of the selected administration of the exchange rate.

1.2.3. Labour Market

Economic activity. The economic activity of the population aged 15 to 64 amounts to 61,9% in 2003, which is some 10 points below the average level for the European Union (EU-25) - 69,3%[5]. At the same time, the quotient of economic activity total for the population aged over 15 is not much different than the value for the countries who already got their membership into the EU, with the exception of Latvia and Estonia. The levels of activity of the young people (aged 15-24) and of the mature people (aged 55-64) are low compared to that in united Europe[6].

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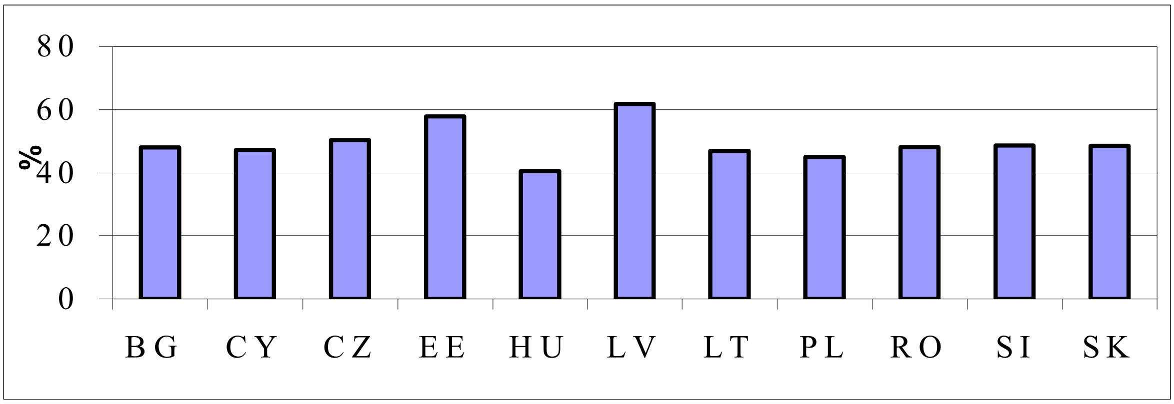
[4] Calculated through the ICP.

[5] Calculated as a mean value for the Union's member countries.

[6] In 2003 (fourth quarter), the quotient for the first group is 27,1%, whereas for the second it is 34,8%. For 2003 in united Europe, the average quotients for young people are 45%, the highest level being in Holland (73%) and the lowest in Hungary and Lithuania (30%). For the mature the quotient is 43,7, whereas they represent a third of the active population in Austria, Belgium, Hungary, Italy, Estonia, Malta, Poland and Slovakia, but 72% in Sweden and 63% in Denmark.

Source: Employment in Europe – 2004, p. 25; Study of the Work Force, NSI.

Graph 6 Economic activity of the newly acceded EU countries, Romania and Bulgaria, 2002.



Source: NSI, EUROSTAT

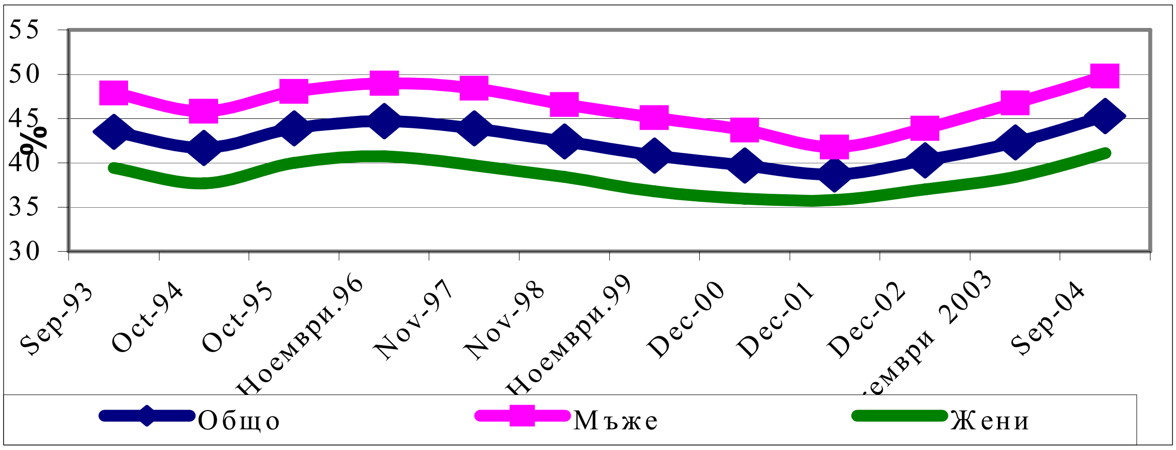
Traditionally, the economic activity effectively correlates with the educational level. For example, during the fourth quarter of 2004, economically active are 73,9% of the persons having higher education, 65,3 of those having secondary education, 29,8% of those with elementary and 17,8% with those of primary or lower, with a total level of economic activity standing at 50,8%.[7]

Employment. The level of employment for the persons aged 15-64 only stands at 52.5 % in 2003. This is some 10-percentage points lower than the average values for the European Union (62.9 %) for the same year. Evidently, despite the positive changes, the macroeconomic stabilization does not yet lead to employment levels commensurate with that of the EU countries.

The employment quotients for men are steadily higher than those for the women.

[7] Source: NSI.

Graph 7 Employment quotient total for the population and by sex (in %)



Nov'96, Nov'99, Dec 2003

Dark blue curve – Total, Pink curve – Men, Green curve - Women

Source: NSI

The persons aged 35-44 maintain the most stable employment positions (See Table 4 in Appendix). Although the employment of persons in the advanced age groups maintains low-value quotients, it gradually increases from past years, mainly due to changes in the retirement age for both sexes. (see Graph 5 in Appendix). The employment quotients for mature men are nearly twice as high as those for women, particularly for persons aged over 45 Nevertheless, the comparison of the employment of the persons aged 55-64 (30 % in 2003) with the indicator for EU-25 - 40.2 % indicates that it remains very low in our country.

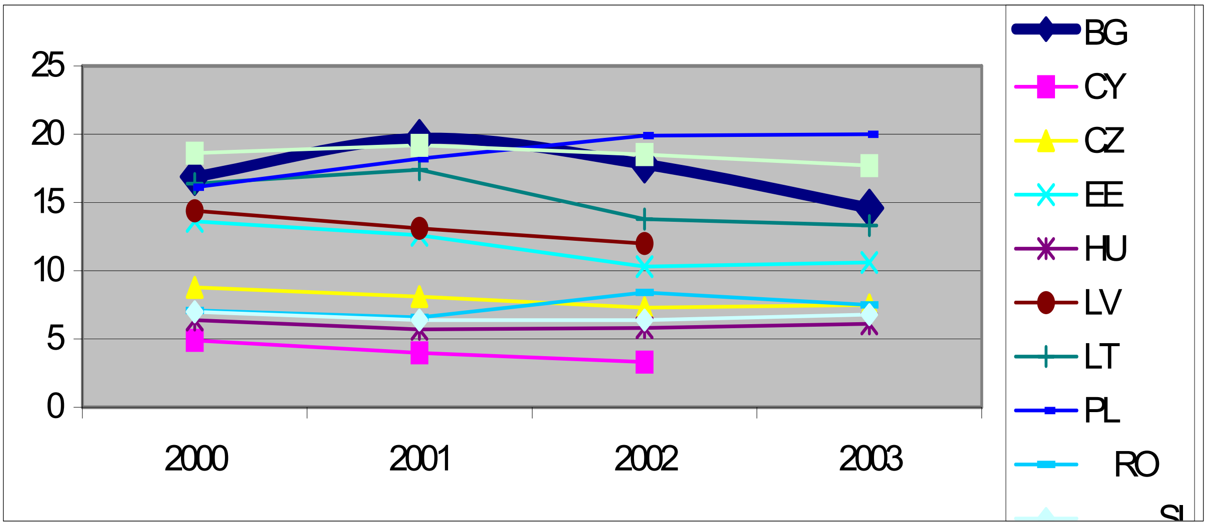
No employment indicators (economic activity and unemployment) are maintained for the Roma population and other ethnic minorities. This is a democratic approach, which aims at avoiding the intentional segregation of these groups and their problems from the population. According to social survey data, though, the employed Roma are twice less compared to the Bulgarians, whereas the unemployed are threefold more.[8] On the market of labor the Roma have the most inauspicious characteristics (see Table 6 in Appendix). On the overall, every fifth able-bodied Roma is unemployed and does not rely on labor income (see Table 7 in Appendix).

Unemployment. After 2001 the number of unemployed is on the decline, whereas in the end of 2004 (fourth quarter) the unemployed are 391 thousand, and the unemployment quotient is

[8] The Roma People – the Other Dimension of the Changes, Publication of "Partners-Bulgaria" Foundation, 2004, pp. 29- 33.

– 11,8%. Despite the considerable reduction, the unemployment level is still higher than the average for the EU member countries, which stands at 9.1% in 2003. It is an encouraging fact that the unemployment level is higher in Poland – 19.2% and Slovakia – 17.1% in comparison with Bulgaria.

Graph 8 Unemployment quotients in newly accpeted EU countries (2004), Bulgaria and Romania



Source: NSI, EUROSTAT

During the last 10 years, a sustained uneven distribution of unemployment is observed with regard to socio-demographic groups. Permanently hit by unemployment are the group of young people, of persons with primary education or lower, of Roma people, of handicapped persons, and in separate periods of time – women and the persons aged over 50. Vulnerability has a multifaceted nature and is manifested both with regard to a higher risk of losing the job and the lower chance of second securing of employment, therefore – a higher probability for falling into the "trap" of long-term unemployment and the work force dropping out due to discouragement.

Naturally, given the observe low demand dynamics on the labor market in 1997 – 2001, the number and share of registered people unemployed for more than a year is rising and reaching critical heights. Although this tendency is suspended in 2003, during the first nine months of 2004, more than half (59.3%) of all unemployed in the country are permanently unemployed (see Graph 8 in Appendix). In 2003, permanently unemployed are 7.1% of the work force, whereas the average value of this indicator for the European Union stands at 4.0%.

Equal opportunity for men and women. Traditionally, the share of men in the work force and their economic activity are higher. However, the difference of economic activity quotients of men and women are around 10 points, i.e., they are 1.5 times lower than this difference is in EU-15[9].

In 2003, the level of employment among men amounts to 52.4%, which is considerably lower than the average value for EU (73%). Following a very sharp decline in the employment levels among women, mainly in the first few years of the transition (from 87.6% in 1989 to 48.2% in 1993), the tendency for decline has been reversed when in 2003 this level stood at 49 %. Nevertheless, this indicator remains low compared to the employment level for men and the average value of female employment in the EU member countries (where it amounts to an average of 55 %).

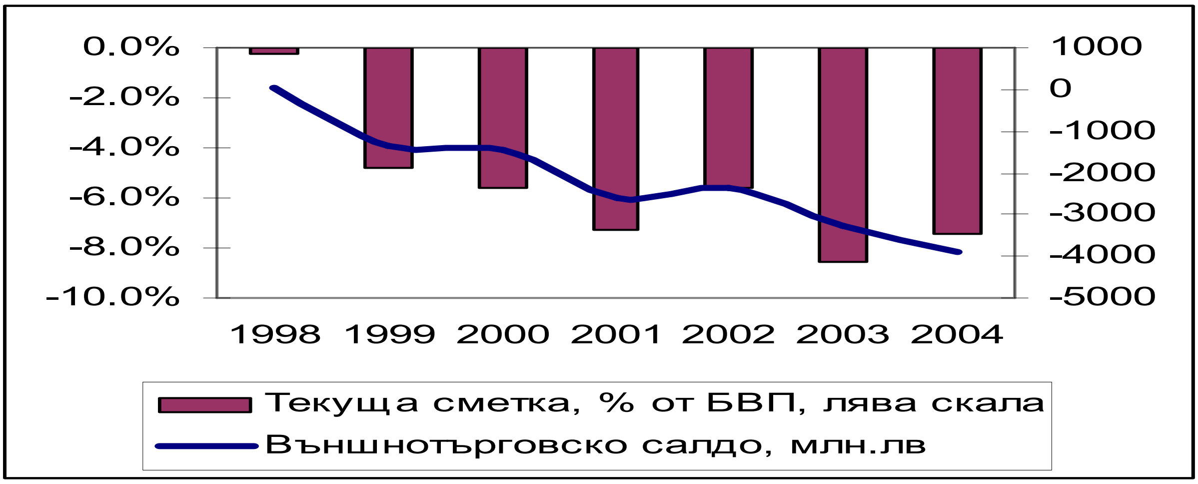
1.2.4. External sector

Whereas in 1998 the deficit on the current account of the balance of payment amounted to just 0.5 per cent of the GDP, in 2004 it reached EUR 1447.1 mil.. or 7.4% of the GDP, which is close to the levels at the start of the transition. The main reason for the deterioration of the current account is the increase in the goods trade deficit, which indicates insufficient competitiveness of the economy. In 1998 it amounted to EUR 381 mil., whereas in 2004 it rose over 8 fold to reach EUR 2718 mil.. There is an opposite tendency in the services sector - the positive balance has increased over 2 fold (from EUR 353 mil.. in 1998 to EUR 724 mil.. in 2004.), which indicates the capabilities and the comparative advantages for improving the competitiveness of the economy. The improvement of the services balance is due primarily to the increase of income from tourist services

[9] In 2003 the difference of economic activity quotients of men and women stands at 16,2% (the economic activity quotient being 77,4% for men and 61,2% for women).

Source: Employment in Europe – 2004, p. 25.

Graph 9: Current account and foreign trade balance



Dark red columns – Current account, % of the GDP, left scale

Blue curve - foreign trade balance, BGN mil..

Source: NSI, AEAF

The increase of the goods trading deficit during the last few years is due to a large number of external and internal factors. Among the more important external factors are the East Asian and Russian crises in 1998, the war in Kosovo and Yugoslavia in 1999-2000, which closed our trade routes to Western Europe, as well as the recession of the global economy following the events on September 11, 2001 in the US. Among the important internal factors is the slow restructuring of the enterprises and the related drop in the exportation of large groups of goods such as metals, chemicals, cigarettes, etc.

Bulgaria is strongly dependent on the quantity of Foreign Direct Investment, both for financing the deficit on the current account and for investment in modern technologies and management of the enterprises. Foreign direct investment (FDI) in Bulgaria during 1998–2004 period stand at about EUR 7.7 bill. During the 1990’s the largest part of the FDI were aimed at the industry, trade and the financial sector, and considerably less towards telecommunications, agriculture, and infrastructure. Following the establishment of the currency board, the foreign investors penetrate fastest in the banking sector and the telecommunications, where the most significant privatization transactions were registered. During the 1998 – 2004 period, 26.3% of the FDI have come via privatization, whereas 73.7% are green field investments or in enterprises with foreign stake. This exemplifies the role of macroeconomic and financial stability and the consistent improvement of the business environment as factors for foreign investments. Nevertheless, the country still attracts just a small part of FDI compared to other Central and Eastern European countries.

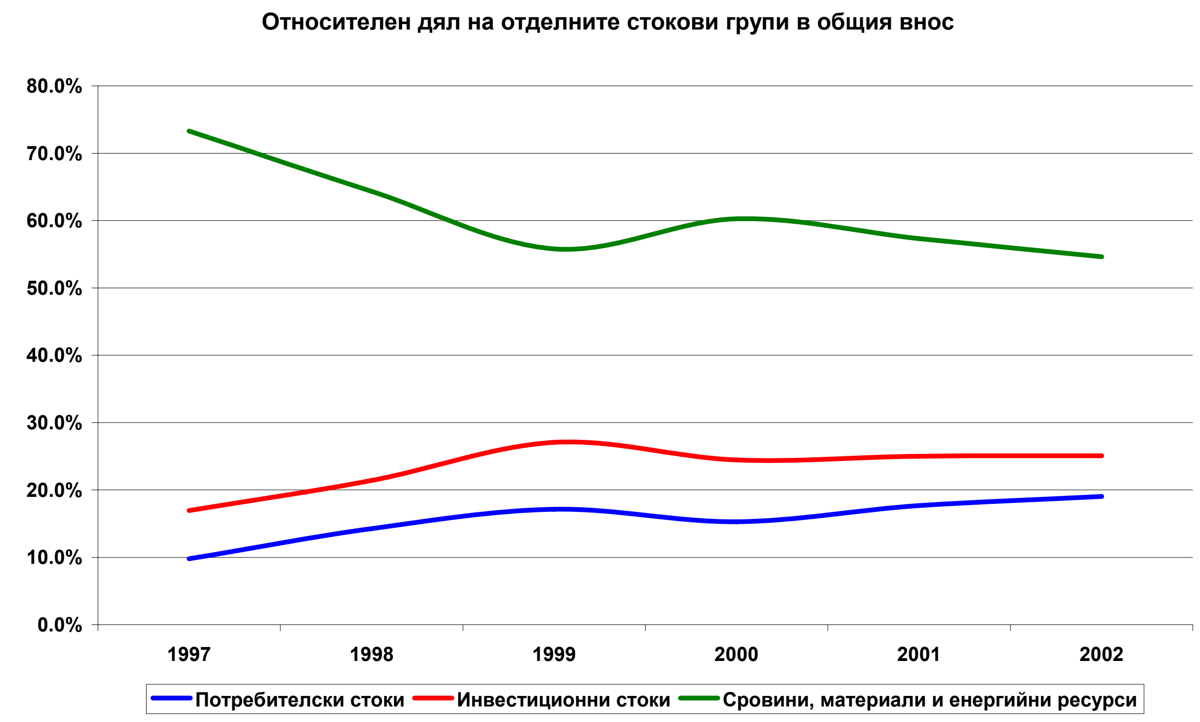
Table 1: FDI in Bulgaria and CEE countries

Per capita FDI, USD	**2000**	**2001**	**2002**	**2003**	**2004**
Bulgaria	136	113	123	234	308
Czech Republic	486	550	829	246	436
Estonia	283	402	212	675	698
Hungary	277	396	304	235	423
Latvia	174	56	109	130	281
Lithuania	108	128	205	52	225
Poland	242	148	107	107	160
Romania	46	52	51	83	…
Cyprus	1,096	1,196	1,358	1,281	1,536
Croatia	245	350	253	445	243

Source: EUROSTAT, AEAF

Resource dependence of Bulgarian production

Bulgaria is a small country, relatively poor in mineral resources, raw materials and energy sources. At the same time, the inherited production structure of the country requires high availability of energy resources. Thus, for example, in 1997 over 73%[1] of the goods import of the country constituted raw materials and energy resources. Following 1998, parallel with the executed structural reform, a sustained tendency is evident for the reduction of the overall share of this group in the total import of goods into the country. An additional factor reinforcing this tendency is the fast increase in the import of consumer and investment goods because of the increased income of the population as well as the flow of foreign investment into the country. Nevertheless, by the end of 2002 the import of production resources still constitutes over 54% of the overall import of goods into the country. The imported raw materials and energy resources register a 35% growth in terms of US dollars for the period following 1997. The resource dependence of Bulgarian production could jeopardize the competitiveness of the economy due to the strong dependence of the national production on the international situation and specifically – the prices of the main raw materials and energy resources.



[1] Source: BNB

Relative share of the individual groups of goods in the overall import

Blue curve - consumer goods; red curve – investment goods; green curve – raw materials, materials and energy resources.

Capital flows and potential risks for the balance of payment

The deficit on the current account of the balance of payment, which is escalating as a result of the establishment of the currency board, is financed entirely through transactions on the financial account whereas the overall balance of payment is invariable positive and the Central Bank's reserves are increasing every year. Nevertheless, there is tendency in the structure of FDI (which form the larger part of the financial account) for a reduction of the overall share of investment in stocks, shares and securities, with an increase of the share of the liabilities assumed (commercial credits, financial loans and issued debt securities) by the companies operating in the country that are owned by foreign persons. Considering the almost completed privatization process and the traditionally low amount of the reinvested profits, this FDI structure is risky for the economy and raises the challenge to finance the current account of the balance of payment without diminishing the currency reserves of the BNB. Also added should be the increasing indebtedness of the private sector towards *creditors outside the country – for the last three years a considerable part of the financial account of the balance of payment was formed precisely through this channel*

In their entirety, the outlined tendencies stand out as a potential threat facing the Bulgarian economy.

млн.лв	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Current Account	-54.2	-1147.8	-1489.1	-2154.5	-1810	-2943.9
Financial Account	84.2	1397.6	1757.1	1476.7	3604.4	3474.5
Direct investment in reporting economy	942.6	1515.7	2157.9	1766.9	1916.7	2452.5
Equity capital in reporting economy	883.4	928.3	1631.2	1200.5	1222.8	1239.8
Other capital in reporting economy	-28.8	647.1	403.8	552.7	521.1	1035.4
Reinvested earnings in reporting economy	88	-59.8	122.8	13.8	172.7	177.3
Portfolio investment assets	-227.4	-381.4	-110.3	-48.3	444.3	-135.4
Portfolio investment liabilities	-202.3	18.1	-264.9	232.4	-637.4	-231.9
Other investment assets	102.1	-97.6	-669.3	-228.4	648.9	272
Trade credits: assets, net	0	-1.1	236.3	0	-3.2	0
Loans: assets	30.1	20.6	-15.3	35.5	-35.4	-57.5
Currency and deposits: assets	64.1	-92.1	-873	-210.4	652.1	353.3
Other assets	7.9	-25	-17.3	-53.5	35.4	-23.8
Other investment liabilities	-530.7	374.7	650.6	-224.8	1288.3	1154.9
Trade credits: liabilities, net	-74	202.9	286.4	-254.3	398.7	-162.4
Loans: liabilities	-321.4	136.1	131.8	-378	314	612
Currency and deposits: liabilities	-133.3	80	145.8	92	191.9	506
Other liabilities	-2.1	-44.2	86.6	315.5	383.8	199.2

млн. лв – BGN mil.

1.2.5. Financial sector

Good indicators regarding liquidity, capital adequacy, and efficiency characterize the commercial banks. The main factors influencing the state of the banking system are the macroeconomic stability, established competitive environment in the sector as a result of the executed privatization with the involvement of strategic investors, and low interest rates on the international financial markets. In 2004, the balance sheet total of the banking system amounted to BGN 24,917 mil.

In the last few years, the credit expansion is the main tendency in the development of the Bulgarian financial sector. The share of credits granted to non-financial institutions and other clients, as a share of the overall sum of the assets, exceeds 53.6% by the end of 2004. This indicator is on the rise in the last few years but its value is still lower compared to that in other countries. The increase of the investment credits is favorable for the growth of the economy, because it contributes towards the higher economic growth. The observed tendency is indicative of the lower risk characteristic for the economy. The share of the consumer credits is also rising and contributing towards the increase of the domestic demand, thereby creating a potential for a larger growth of the GDP. In 2004, the share of the consumer credits reached 19.5%. The depth of financial agency may be studied through the credits granted to the private sector as a share in the GDP. In 2004, this indicator amounted to 36.9% for the country and is moving towards the average for the Central and Eastern European countries.

The non-banking financial institutions develop dynamically at stable positive rates but on the overall, the financial system is still dominated by the baking system. The reason behind this is the relatively recent evolvement of these financial agents in the redistribution of the financial resources in the economy.

Table 2: Depth of financial agency, percent of the GDP

	XII.2001	VI.2002	XII.2002	VI.2003	XII.2003	VI.2004
Bank assets	41.1%	39.9%	45.0%	46.5	50.3%	55.8%
Assets in the pension funds	0.6%	0.8	1.0%	1.2%	1.5%	1.7%
Insurance bonuses	1.6%	1.7%	1.9%	2.00%	1.9%	2.2%
Market capitalization of the equity market	3.7%	4.1%	4.3%	5.2%	7.8%	7.3%

Source: CFS, BNB, AEAF

1.2.6. Public finances

As a result of the restrictive fiscal policy, the deficit of the consolidated budget dropped to about 1 percent of the GDP during the 2000-2003 period. The main motivation of the fiscal restriction is the avoidance of double deficit in the economy: a deficit on the current account of the balance of payment and a fiscal deficit.

Table 3: Revenues and expenses of the consolidated budget (BGN'000)

	2000	2001	2002	2003
Revenues – total	11,065,142	11,837,431	12,523,333	14,069,716
Percent of the GDP	41.40%	39.80%	38.70%	40.90%
Non-interest expenses	10,250,994	10,990,810	12,019,897	13,344,872
Percent of the GDP	38.30%	37.00%	37.20%	38.80%
Primary balance	814,148	846,621	503,436	724,844
Percent of the GDP	3.00%	2.80%	1.60%	2.10%
Interest expenses	1,083,338	1,105,755	712,834	723,911

Expenses – total	11,335,332	12,096,565	12,732,731	14,068,783
Cash balance	-269,190	-259,134	-209,398	933
Percent of the GDP	-1.00%	-0.90%	-0.60%	0.00%

Source: MF

The indirect taxes (value added tax, excise duties and customs tolls) have the largest contribution into the tax revenues of the consolidated budget: approximately 40 percent. Revenues from corporate tax and the income tax on physical persons constitute some 18 percent of the revenue. Consequently, the tax burden is much heavier on consumption, rather than on the capital and the work force. The policy of the government is oriented towards diminishing the direct taxes and the maintenance, even increase, of some excise duties due to harmonization with the rates in the EU. Bulgaria has committed to reach the EU excise duty rates on hard liquor and mineral fuels until accession date, and as regards the excise duty rates on cigarettes – until 2010. At the same time, in 2004 the government decreased the corporate tax from 23.5 percent to 19.5 percent, whereas in 2005 the corporate tax will be further reduced to 15 percent. The combination of large internal demand, growing import, and low norm of saving is favorable to the budget: high consumption increase revenues from taxes on consumption. This hints that shifting the driving power of growth from internal consumption to export and increase of savings will lead to a lower growth of tax revenues and to the undesired necessity to cut down on some budget expenses and/or increase some tax rates. It is not an unlikely scenario. The primary surplus (revenues-non-interest expenses) is a measure of the degree of fiscal restriction. Restriction was strongest in 2000. Decreasing the primary balance in 2001-2003 is an indicator for loosening the budget restrictions. Decreasing the fiscal restrictions today often leads to the necessity to increase them in the future. Raising the interest rate, for example, will lead to the necessity to limit non-interest expenses.

The financing of the budget deficit is performed with revenues from privatization and issuing of debt. Recovering the deficit via money printing is impossible in a Currency board. There is a visible tendency for increase of the state debt maturity. Whereas by the end of 1999 the short-term GS (government securities) (with a maturity of up to a year) constituted 42.5 percent of all GS in circulation, by the end of January 2005, the short-term SG were 2.37 percent. In addition, both the profitability of SG, as well as the difference in the profitability of short-term and long-term SG, have diminished considerably: by the end of 2000, the average weighted profitability of 3-month securities stood at 4.68 percent, and the 5-year securities – at 9.24 percent; in the end of 2004 they were respectively 2.37 percent and 4.48

percent respectively. The simultaneous decrease of profitability and the spread between short-term and long-term debt is due both to the overall lowering of the interest rates, as well as to the better liquidity of the state debt.

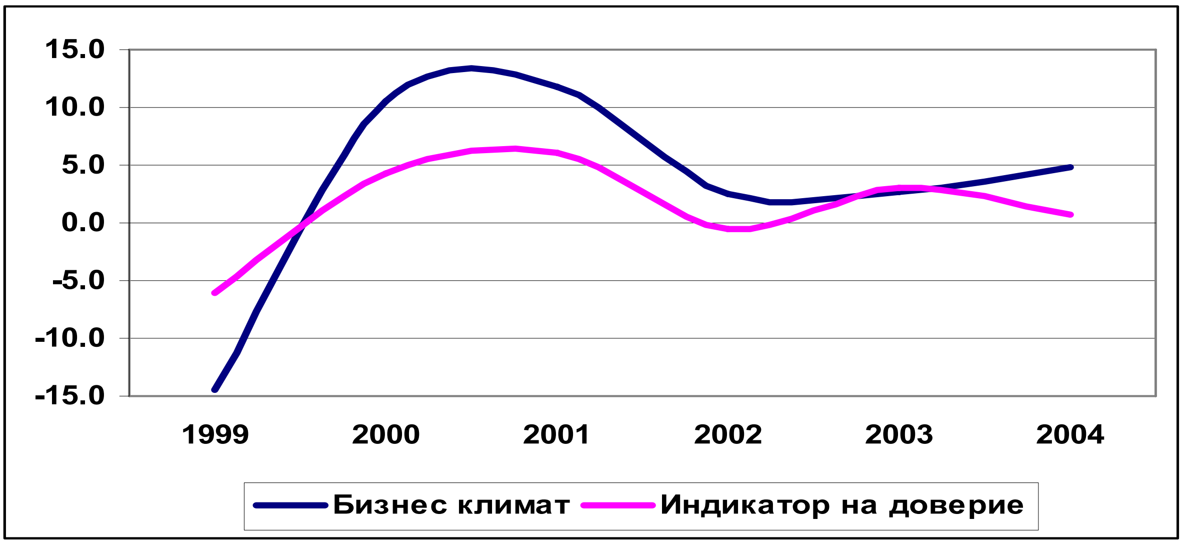
The most important challenges facing the public finances concern the transition from a one-year, expense-oriented budget to a multi-year program budget wherein the revenues and expenses are motivated by the execution of long-term programs. The elaboration of a multi-year, program-oriented budget is a necessary prerequisite for the efficient implementation of the operational programs.

Public finances in Bulgaria are rather centralized. The relative share of municipal expenses in the expenses of the consolidated budget was 15.4 percent in 2004. This suggests that the capacity of the municipalities to co-finance investment projects of local significance is limited. The average investment expenses of a municipality in 2004 were around BGN 1 mil.. Joining several municipalities in the implementation of a common investment project is a necessary prerequisite for the successful municipality involvement in opening up the structural funds of the EU.

1.2.7. Business environment

During the last few years the business environment in the country is improving according to the polls carried out by the NSI (National Statistics Institute). Bulgarian entrepreneurs in the industry note that the business climate is improving. The growing provision of orders and the optimization of company stock contribute towards that tendency.

Graph 10: Dynamics of the overall business climate and the confidence in the industry indicator (change compared to previous years)



Blue curve – Business climate, pink curve – Confidence indicator

Source: NSI, AEAF

Concurrently, a decreasing tendency of obstacles for industrial entrepreneurs is evident. The income growth in the country ensures growing internal demand to the companies; the credit expansion of the banks in the last few years considerably eases access to financial resource; an ever smaller part of entrepreneurs define the economic environment as insecure. On the other hand, the strengthening of competitive pressure and the shortage of qualified work force increase their impact as factor impeding industrial growth.

Table 4:Obstacles before the industrial enterprises, change compared to previous years

OBSTACLES	1999	2000	2001	2002	2003	2004
Insufficient internal demand	6.3	2.2	-2.0	-2.0	-6.9	-4.3
Insufficient external demand	7.1	-6.4	1.6	4.1	-0.2	-5.6
Competitive import	2.6	-1.4	2.5	4.1	2.2	0.7
Shortage of work force	-0.8	0.3	-0.1	0.0	3.7	4.4
Shortage of raw materials and resources	-0.8	-1.7	-2.1	-2.5	3.3	-0.4
Shortage of energy	0.3	-0.3	1.3	-0.5	0.7	-0.6
Financial problems	2.0	-4.3	0.6	5.3	-4.6	-3.6
Uncertain economic legislation	0.5	2.6	1.5	3.1	0.3	-1.9
Insecure economic environment	1.2	-1.0	1.7	5.4	-2.7	-7.7
Others	1.3	-1.4	1.6	-1.7	0.4	2.8

Source: NSI, AEAF

1.2.8. Comparative macroeconomic analysis

The table below shows some basic macroeconomic indicators for Bulgaria in 2003, whereas, for purposes of comparison, the respective values for Romania, European Union (EU-15), the most economically backward member countries (so called “Cohesion countries”), as well as the least developed newly accepted countries are also shown.

Table 5: Bulgaria's economy in 2003 – a comparative analysis

	България	Румъния	Гърция	Португалия	Испания	Латвия	Естония	EU-15	EU-25
GDP per capita in Purchasing Power Standards (PPS), (EU-25 = 100)	29.7	29.6	80.9	74.7	97.8	41	48.5	109.2	100
Growth rate of GDP at constant prices (1995) - percentage change on previous	4.3	4.9	4.5	-1.1	2.5	7.5	5.1	0.8	0.9
Gross fixed capital formation by the private sector as a percentage of GDP	16.7	19.3	21.8	19.2	22.1	22.9	25	16.7	16.8
Annual average rate of change in Harmonized Indices of Consumer Prices	2.3	15.3	3.4	3.3	3.1	2.9	1.4	2	1.9
Net borrowing/lending of consolidated general government sector as a percentage	-0.1	-2	-4.6	-2.8	0.4	-1.5	3.1	-2.7	-2.8
General government consolidated gross debt as a percentage of GDP	46.2	21.8	109.9	60.3	50.7	14.4	5.3	63.3	64.3
Annual percentage change in total employed population	3.5	-0.1	1.4	-0.4	1.8	1	1.5	0.2	0.3
Unit labour cost growth	-1.4	n.a.	-2.5	1.1	-0.5	0.7	2.1	-0.3	-0.3
Total unemployment rate	13.6	6.8	9.7	6.3	11.3	10.4	10.2	7.9	8.9

Bulgaria, Romania, Greece, Portugal, Spain, Latvia, Estonia, Eu-15, EU-25

Source: EUROSTAT

Data indicate that, following the anticipated accession of Bulgaria and Romania into the EU in 2007, the two countries will be the least developed member countries of the Community. It is also notable that despite the macroeconomic stabilization achieved (expressed through a balanced budget, low level of the public debt to the GDP and a moderate rate of inflation), the rates of bringing Bulgaria closer to the Community remain low and the country is considerably lagging behind the 10 newly integrated member countries in this respect. Significant factors for the relatively slow convergence of Bulgaria's economy are both the low extent of utilization of the labor resources and the insufficient private investment and refreshment of national capital.

1.3. Productive sector

1.3.1. Small and Medium Enterprises[10]

1.3.1.1. Main economic indicators for SME

During the last few years the small and medium enterprises sector is increasingly establishing itself as an important factor for providing employment in the country. The data from the last few years for Bulgaria indicates that this group of economic entities has the largest development potential, whereas they register a preemptive rate of productivity increase and of the surplus value added towards the indicators for the economic on the overall. A continuing problem for SME is the lagging behind in absolute values, under the above indicators, in comparison with the large enterprises, as well as towards the SME in EU-25.

The significance of small and medium enterprises in the country's economy is on the rise. In 2002 the total number of enterprises in the non-financial sector stood at 202 309. The number of small and medium enterprises in 2002 stood at 201656 or 99.7% of all enterprises, whereas the average number of employees in the individual groups in 2001 stands respectively at 2.1 for the micro-enterprises, 19.5 for the small enterprises, 69.6 for the enterprises with 50-100 employees, and 153 for the enterprises with 100-250 employees.

In the last few years the SME secure more than half of the employment in the non-financial sector, whereas their share rises to 66.5% during 2002. The micro-enterprises offer some 25.9% of the employment, but the most significant rise is in the input of the small enterprises, which reaches 18.9%.

The SME share in the gross domestic product of the country increases to 14.8% in 2002. A positive tendency is observed for a faster growth rate of the value added of the SME compared to that of the economy. In 2002 this growth is 13.4% for the SME and 5.5% for the economy. The lowest growth of the value added is observed with the micro-enterprises (6.5%), whereas the highest is with the small enterprises (20.1%). As a percent of the GVA of the non-financial enterprises, the SME produce 46.9% of all groups of enterprises, with average values of 57% for the European Union.

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[10] The analysis involves the non-financial enterprises in sectors S to K of the NCEA

The main problem for the SME remains the low productivity of labor. The SME produce on average twice less value added per employed person in comparison with the large enterprises. In 2002 the overall productivity of labor for the SME is 5.9%, whereas it outstrips the productivity of labor for the entire economy - 4.7%, but remains too low. A major problem is the poor integration of high-tech in the production process, as well as the insufficient knowledge and use of the latter high-tech on the part of the staff.

The productivity of labor quotient for the Bulgarian SME in comparison with the newly accepted EU member countries is 2 to 7 times lower, and some 15-30 times lower than the EU-15 countries. The average number of employees at a micro-, small or medium enterprises is relatively identical for all EU countries and Bulgaria, which indicates that the persons employed in Bulgarian SME are low-paid and at the same time, the value added they create is insignificant.

Table 6: Structure of main indicators for non-financial enterprises in 2002,

Types of enterprises	**Number of enterprises, %**	**Number of employees, %**	**Value added by basis prices**	**Productivity of labor (BGN'000)**
Micro (up to 10 employees)	91.1	25.9	11.8	3.1
Small (11-50 employees)	6.8	18.9	14.8	5.4
Medium (51-100 employees)	1.1	9	7.6	5.9
Medium (101-250 employees)	0.7	12.7	11.4	6.3
Large (over 250 employees)	0.3	33.5	54.4	11.1

Source: Report on the SME 2002-2003

In 2002 the SME share in the **Foreign Direct Investment (FDI)** in the non-financial enterprises is 27.65%. The large enterprises have attracted considerable more foreign investment – their share in the FDI is 72.35%. The nominal growth of FDI in the large enterprises is 2.5 times higher than the growth of FDI in the SME.

In the branch distribution of the SME the commercial and processing industry enterprises are prevalent with respectively 40.2 and 28.6% of the work force of the SME employees, whereas the same create 32.4 and 26% of the value added in the sector.

Table 7: Structure of SME with up to 100 employees by economic activities

2002	**Number of enterprises, %**	**Persons employees in the SME from the**	**Value added, %**

		sector, %	
Total	100	100	100
Extracting industry	0.1	0.3	0.5
Processing industry	12	28.6	26
Production and distribution of electricity, gas and water	0.04	0.1	1.5
Construction	4.1	7.2	5.1
Trading, repair of automobiles and house appliances	55.4	40.2	32.4
Hotels, hostels and public catering	10.2	7.9	10.2
Transport, warehousing and communications	7.7	6.7	8.7
Real estate operations and business services	10.4	9.1	15.6

Source: Report on the SME 2002-2003

The SME are still inadequately represented in foreign trade. In 2002 the share of the private SME in the overall exports reached 47.6%. The medium enterprises are the ones to most dynamically expand their export (with a share of 28.9% of the overall export), which identifies them as the most competitive from the SME group on the international markets. A major obstacle before those SME intending to carry out exports is the lack of certification of production to meet the quality requirements valid in Europe.

Table 8: Share of the private SME in export and import (sectors S to K) for 2002.

2002	Micro	Small	Medium	Total SME	Large	Total
Export in BGN’000, %	1,042,092 8.80%	1,171,056 9.90%	3,422,129 28.90%	5,635,277 47.60%	4,900,721 41.30%	10,535,998 88.90%
Import in BGN’000, %	2,132,299 13%	3,099,454 18.80	4,813,378 29.20%	10,045,131 61%	3,773,925 22.90%	13,819,056 83.90%

Source: Report on the SME 2002-2003

With regard to the SME distribution by regions, the sizeable territorial disproportions in the characteristics of small and medium business in Bulgaria are maintained. Territorially, the most attractive region for the development of small business is still the Southwestern Planning Region, with all premises present for this tendency to be perpetuated in the mid-term. Over 50% of the enterprises, employment and activity of the SME are concentrated in just two of the 6 planning regions – Southwestern and South Central.

Table 9: Structure of main indicators for the private, non-financial micro- and small enterprises (1-99 employees) planning regions in 2002, (%)

	No of enterprises	No of employees	Value added by basic prices
North-Western	4.7	4.3	2.3
North Central	15.8	15.1	11.8
North-Eastern	15	14.4	13.6
South-Eastern	11	9.1	7.1
South Central	22.8	22.2	18.6
South-Western	30.8	34.9	46.6
Total SME	**100**	**100**	**100**

Source: Report on the SME 2004

1.3.1.2. Financing of SME

The facilitated access of SME is of crucial significance for establishing viable enterprises. A number of surveys identify access to financing for a starting business among the major problems of this sector. According to data from an ASME survey, despite the credit growth in the latter years, 71% of SME believe the interests on the granted bank credits to be high. The required security for the bank credits is yet another problem – half the SME consider them high in terms of amount. Another 27% of the entrepreneurs claim the security is acceptable in terms of amount but the type of the security required presents problems.

The alternative sources of financing are in a primary state of development, too. No national Guarantee Fund has been established yet to guarantee the SME loans. The opportunities for state assistance for the sector are still underused as well. According to data of the Centre for Economic Development, during the last three years barely 7% of the entrepreneurs have been involved in projects of the government and the local authorities.

1.3.1.3.Regulatory Regimes and Business Environment

The regulatory and administrative environments for the business are an essential priority of the EU in the context of the Lisbon strategy. According to the report of the World Economic Forum, out of 102 countries, Bulgaria ranks in the last 20% on a number of main indicators of regulatory burden. It ranks 91st on the time allocated by companies for overcoming bureaucratic impediments, 90th according to entrepreneur grading on the transparency and predictability of politics, 89th in terms of effectiveness of the tax system, 87th on favoring certain companies in the implementation of the regulations. According to data of Vitosha Research, in 2004 over 80% of the companies depended on some sort of permits, the average necessary number of licenses being 2 per company. The largest impediment is the required permits issued for each particular transaction.

1.3.1.4. Quality of the company activities and strategies

An important factor for the competitiveness of the companies is related to upgrading the level of strategic market management of the companies, the instrumental marketing planning, raising the requirements for the work and qualification of the management teams in the companies and organizations, encouraging and increasing the access of local producers to quality consulting services in the field of business strategies. International comparisons reveal a significant backwardness of Bulgarian companies with regard to the quality of the company strategies and activities. According to data from the Report on Global Competitiveness 2004-2005, Bulgaria ranks 86th on this indicator, thus lagging behind compared to 2003.

Table 10: Index of quality of company activities and strategies

Country	Index of quality of company activities and strategy
Slovenia	27
Czech Republic	31
Lithuania	37
Slovakia	41
Turkey	44
Poland	47
Hungary	48
Latvia	51
Cyprus	59
Malta	60
Romania	61
Bulgaria	86

Source: The Report on Global Competitiveness 2004-2005

1.3.1.5. Process of innovation implementation

The implementation of innovations into the SME is still considerably lagging behind in comparison with the group of the large enterprises. According to a survey conducted by the NSI on the innovational activity of the SME during the 2000-2002 period 89.3% of the SME have not introduced innovations, stating as the main reason the inauspicious market conditions. A large part of the turnover of SME remains targeted on the domestic market, which is characterized by insolvent demand. 97.1% of the enterprises fall within the category of companies that export no more than 10% of their produce.

The institutional sources of information are least utilized by the enterprises. Just 24.3% of the innovator companies have received information on innovations from the scientific-research institutes and just 25.7% from universities and institutes.

1.3.1.6. Institutions assisting the SME

According to data from the Regular 2004 Report of the European Commission, the institutional structure for assisting the SME is not sufficiently developed. The main administrative unit – the Agency for Small and Medium Enterprises at the Ministry of Economy - lacks sufficient capacity to perform its assigned functions – planning and implementation of an effective policy for development of the sector.

According to data of the Centre for Economic Development, about half of the SME are not familiar with the services supplied by the business centres. A prevailing number of companies, registered in remote regions state that no such structures exist in their regions. This leads to the conclusion that the territorial distribution of NGO's supplying services to the business, is not optimal. There is also a lack of coordination between organizations working in contiguous areas for assisting the SME.

1.3.1.7. Policy for integration into the Common European Market

A considerable problem for the Bulgarian SME is the lagging behind of their preparation for joining the Common European Market. According to data from the 2002-2003 SME report, over 45% of all enterprises have undertaken no actions related to their preparation in this regard. Hardly 1/3 of these enterprises take interest in target programs for assisting the SME. A minimal number of SME have also conducted an evaluation of the expenses necessary to meet the European requirements (just 5.8% of the enterprises).

Also unsatisfactory is the interest shown by SME in certification for implemented quality (BNS ISO 9001:2000) and environment (BNS ISO 14001) management systems, and eco-labeling, information on the essences, procedures and benefits from their implementation. The extent of implementing environmentally sound, technologies, the attainment of congruity and knowledge of legislation in the area of environment, is also low. The reasons are two-faceted – lack of knowledge on the requirements for introducing quality- and environment management systems, and lack of willingness for investment in this regard.

Table 11: Certificates for ISO 9001:2000 Quality Management Systems for the 2001-2003 period

Country	**2001**		**2002**		**2003**	
	Total	Incl. ISO 9001:2000	Total	Incl. ISO 9001:2000	Total	Incl. ISO 9001:2000
Bulgaria	469	38	629	246	1,147	842
Romania	1,670	87	2,463	767	3,189	2,052
Poland	2,622	232	3,091	914	4,127	3,216
Czech Republic	5,627	320	8,489	1,125	8,960	2,565

Source: The ISO Survey of ISO 9001:2000 and ISO 14001 Certificates - 2003

Table 12: Certificates for Environment Management Systems ISO 14001 for the 1998-2003 period

Country	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Bulgaria	0	0	0	6	10	17
Romania	1	1	5	15	45	96
Poland	15	72	66	294	434	555
Czech Republic	42	60	116	174	318	519

Source: The ISO Survey of ISO 9001:2000 and ISO 14001 Certificates - 2003

1.3.1.8. State policy for the promotion of SME development

In April 2002 a National Strategy for Promotion of SME Development for the 2002-2006 period was adopted, its principal goal being the creation of a favorable environment and conditions for the development of a competitive SME sector. Some of the priorities of the National Strategy are simplification of the administrative and legislation environment for the SME; improvement of the financial environment; support for innovations and technological development; enhancement of the SME competitiveness on the European markets; improvement of the access to information services; promotion of the entrepreneur spirit and skills; creation of conditions for the balanced regional development of the SME. According to the evaluation of the 2002-2003 SME Report, the national policy as regards the SME is consistent but not sufficiently active and effective. The National Strategy has outlined the areas that need intervention well. The main problem is the poor financial securitization of its execution as no budget funds have been expressly allocated for the implementation of the outlines measures.

1.3.2. Restructuring of natural monopolies and privatization

Deregulation of the natural monopolies is a major factor for improving productivity and speeding up the restructuring of the economy. Following an almost 10-year period, the process of divestment is near its end. During the last few years, statutory premises were set up for liberalization of the infrastructure branches, establishment of independent regulators, restructuring of monopolist enterprises, the gradual opening of the markets was initiated. Despite the effort committed, there are still numerous limitations to entry into individual sectors for competitors to the monopolist companies.

As at 28.02.2005, 88.23 % of the total assets, subject to short-term divestment, have been sold, as well as 58.27 % of the assets in all state-owned enterprises. Privatization in the main branches of the economy – industry, agriculture, construction, transport and services – is almost finalized, whereas in 2003, the share of the private sector reached 64.1% of the total GDP.

In 2004, the transaction for the sale of 65% of the monopolist on the fixed telephone services market was finalized. Earlier this year, the remaining share of the company was sold through the stock exchange to private investors. Following the passing of a new Telecommunications Act in 2003, and of the Ordinance on the terms and order for mutual connection of telecommunications network, favorable conditions were created for development of competition and encouragement of investment in the telecommunications market. Regulated is the scope of the universal telecommunications services and the mechanism for financing thereof, which guarantees their rendering in an environment of full liberalization. Up to now, the Communications Regulation Commission has issued 15 licenses for rendering fixed telephone services.

With regard to railroad transport, the new legislation, which took effect 2002, officially removed the monopoly over passenger transportation and cargo haulage, whereas the railroad infrastructure remained public state property and is managed by a state enterprise. A serious problem for the liberalization of the sector is the insufficient transparency and the lack of market orientation in the determination of the fees for access to the railroad infrastructure, whereas the infrastructure fees are among the highest in Europe, which heavily precludes the entry of new players on the market of this type of transport service.

In 2004, the staged liberalization of the electricity market started with rendering to 22% of the consumers the right to conclude direct contracts with the generators, whereas the accomplishment of full liberalization is expected by mid-2007. During the same year, the seven electricity distribution companies, which were acquired by leading companies in the electricity sector, underwent successful privatization. In 2005, forthcoming is the finalization of 3 transactions in the electricity generation sub-sector.

The restructuring of the monopolist in the processing and production of tobacco products – Bulgartabak Holding AD - is significantly slowed down. The consequences thereof are the outdated production equipment, decreased competitiveness on the international markets, and decapitalization of the enterprise. The perspectives are unfavorable for the company also because of the country's accession into the EU and the related liberalization of customs tolls and the increase of the excise duty rates for cigarettes.

1.3.3. Innovations

According to the economic theory, innovations are the leading factor for maintaining a sustained economic growth in the long term. A long-term problem facing the country is providing incentives for the companies to invest in scientific-research and development activity, as well as the low level of the business-science-education cooperation in this regard. Another significant problem is the poor involvement of SME in the process of innovation implementation. The growing investments in information and communication infrastructure, as well as the growing number of university graduates with scientific-technological majors represent positive signals for development in this area.

For most of the countries that are catching up with their innovations development, the critical level of investments, beyond which a significant jump in the innovation activity can be expected, is 25-30%. The forecasts of the AEAF (Agency for Economic Analysis and Forecasts) envision that during the 2007-2013 period Bulgaria will reach the level of investment that will compel the elaboration of a purposeful policy and incentives for setting up a knowledge based economy.

The main goal of the Lisbon Strategy, to which Bulgaria will have to adhere as well, is the attainment of SRDA (Scientific-Research and Development Activities) amounting to 3% of the GDP, 2% being SRDA expenses of the business[11]. The SRDA expenses of the business are an important indicator, which quantifies the assessment of the businesses for the risk/profitability ratio of the innovations investment. According to data of the European innovation scoreboard 2004, Bulgarian enterprises are much less active in the area of innovation (they account for 35% of the total SRDA expenses for 2002) in comparison with the average level of participation of the EU-25 enterprises, which cover 85% of the individual countries' expense for innovation, as opposed to 15% state participation.

Table 13: SRDA expenses as % of the GDP

		1998	1999	2000	2001	2002
Bulgaria		0.46	0.45	0.41	0.37	0.4
EU-15		0.68	0.67	0.68	0.68	0.69
EU-25	public	0.67	0.66	0.67	0.66	0.67
Bulgaria		0.11	0.12	0.11	0.1	0.09
EU-15		1.2	1.25	1.27	1.3	1.3
EU-25	private	1.16	1.22	1.24	1.27	1.27

Source: European innovation scoreboard 2004

1.3.3.1. The business-education-science relationship

Despite the high percentage of university graduates in an active age – 21%, which conforms to the average level for EU-15, the quality of education does not fully meet the requirements of the business, which leads to problems for secondary school and university graduates seeking employment. The number of scientists employed by the business is exceptionally low

[11] According to Eurostat data, in 2003 the SRDA expenses have reached 0.5% of the GDP

– 6.7%[12]- lowest among all candidate countries, given that the average values for EU 25 amount to 47.3%. This fact reveals a considerable discrepancy between available potential and actual utilization of human resources in the area of innovations and the still very low demand for qualified experts in the engineering and scientific majors by the enterprises. Concurrently, the number of university graduates in scientific-technological majors is on the rise[13] – 11.7% - over the average level of the newly received EU member countries - is a signal that the country gradually builds a potential for creation of new technologies and products, which is still very under-exploited.

At a primary stage of its development is the supply and utilization of education services for retraining and continuing professional training to make up for the discrepancy between demand and supply on the labor market. According to Eurostat data, in 2004 hardly 1.3% of the active age population underwent a continuing professional training, the average levels for EU-15 being 10.1 %, and for EU-25 - 9.4%.

A continuous problem is the inefficient system for financing the state-run scientific units, which does not stimulate the market orientation of scientific researches and the implementation of their results in industry.

1.3.3.2. Process of innovation implementation into the SME

The implementation of innovations into the SME is still considerably lagging behind in comparison with the group of the large enterprises. According to a survey conducted by the NSI on the innovational activity of the SME, during the 2000-2002 period 89.3% of the SME have not introduced innovations, stating as the main reason the inauspicious market conditions. A large part of the turnover of SME remains targeted on the domestic market, which is characterized by insolvent demand. 97.1% of the enterprises fall within the category of companies that export no more than 10% of their production.

The institutional sources of information are least utilized by the enterprises. Just 24.3% of the innovator companies have received information on innovations from the scientific-research institutes and just 25.7% - universities and institutes.

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[12]European innovation scoreboard 2003

[13] Measured per 1000 persons from the population aged 20 to 29 current to 2003, European innovation scoreboard 2004

1.3.4. Development of tourism

1.3.4.1. General overview of the development of tourism

The tourism branch is traditionally important in the economic development of Bulgaria. Our country is acquiring an ever-growing international renown with its combination of natural and cultural heritage and a rich and attractive network of natural and cultural resources. Despite the positive messages for development of tourism in Bulgaria in the latter years, the major continuing problems are the visibly seasonal and territorial concentration of tourist activity, as well as the underdevelopment of alternative forms of tourist activity. The prevalent image of our country is that of a cheap destination and of the insufficient level of diversification of the tourist product, as well as the provision of additional tourist services, which lead to the increase of the value added The adoption of a strategy outlining the main lines of development of the branch has been slowed down. Also lagging behind is the improvement of the local infrastructure, as well as the training of experts for the branch.

The revenues from international tourism have a visibly rising ascending tendency. During the 1997-2003 period they increased by 51.8%, and the positive balance from tourist activity - with 28.3%. This tendency is keeping pace in 2004 as well, with the revenues from international tourism expected to exceed USD 2 billion (with USD 1.66 billion for 2003).

Table 14: Tourist services, (USD millions)

	1997	1998	1999	2000	2001	2002	2003	2004*
Trips: credit	1 092.6	966.3	931.7	1 074.2	962.7	1 153.7	1 658.2	2349.4
Trips: debit	-384.6	-519.2	-526.4	-538	-455.5	-533.4	-749.8	-965.8
Trips: net	708	447.1	405.3	536.2	507.2	620.3	908.4	1383.6

** assessment for 2004.* *Source: BNB*

According to data from the National Statistic Institute, in 2004 there were a total of 188 385 beds in the country. They were provided by 1 281 accommodations. Currently, 80 per cent of the beds are concentrated in 20 municipalities, which occupy barely 9 per cent of the country territory, whereas over 80 per cent of the revenues come from sea tourism (some 50% of the beds are in the Black Sea resorts). The small number of 5-star hotels and the limited involvement of international hotel chains are indicative of the prevalent rendering of low quality and cheap services. The functional conditions in many 2- and 3-star hotels appear strange and unattractive according to international, often even regional standards. Modernization is a priority for many novel hotel owners but the short seasons and low return do not secure easy access to credits. Concurrently, Bulgaria maintains the "cheap destination" status quo and is mainly preferred by tourists with lower income. Presently, a tourist spends a only 43 dollars per day, whereas worldwide the average per diem expenses of a tourist exceed 80 dollars. The average income from a vacation of a foreign tourist in the country is 520 dollars, whereas worldwide this indicator is 675 dollars. It is necessary to reach a balance in the share of revenues from main and additional services – presently 70 per cent of the revenues come from the main services – hotels, food, and transport. Just 20 per cent of the money comes from the additional services. The quality of tourist services supplied on the market in most regions is not always at the required professional level. Currently, there is no standardization system for the quality of products and services in the area of tourism. The attempts to organize qualification courses in this regard are few.

1.3.4.2. Factors for the development of tourism

Resources

Bulgaria enjoys a moderate climate, coupled with a favorable Mediterranean influence. The general profusion and great variety of water resources, including spa, ensure a multitude of diverse opportunities for rest and recreation. Our country boasts a rich and attractive network of natural and cultural resources, which includes nine sites – seven cultural and two natural – included in the UNESCO List of World Heritage, natural and cultural places of interest, as well as protected areas, which account for 5% of the country territory. This variety of resources is concentrated in a relatively small territory allowing access to many different sites over a short time span.

Infrastructure and services

The transportation problems and, primarily, the state of the airports are among the first to be solved with a view to development of the sector. It is necessary to carry out a major modernization of the airports in Plovdiv, Bourgas and Varna. The traffic to the seaside airports has increased by more than 40 per cent, and the expansion of their capacity is a must in order to successfully develop sea tourism.

Gradually, a more complex infrastructure is being developed. Since 1998, a system for reservations via Internet is operating, servicing the best hotels in the seaside and mountain resorts. Furthermore, some easily accessible Internet sites of Bulgarian tourist agencies exist, offering reservations and all kinds of services in all areas (seaside and mountain holidays, hunting, etc). Nevertheless, the database servicing the national information and reservation systems is incomplete. Still, there exists no reliable, precise, and updated information system for services, goods and sites related to tourism development that would be easily accessible to the public.

Human resources

Research and cooperation in the area of training remain limited. Out of twelve educational institutions, only the college in Albena has international programs. A clear relation between the education supplied and the needs of the branch is missing. Thence stem the problems with the lack of professionally trained personnel (both on the servicing personnel level and the medium and upper management level) for all areas of tourism.

Marketing and advertising

The further successful development of tourism in Bulgaria is related to active advertisement of the country. Presenting Bulgaria as an interesting tourist destination is among the priorities of the Tourism Agency. In 2005 the staged set-up of a national tourist information system in Bulgaria will begin. The system is expected to provide full information on the country – natural, cultural and historical places of interest, hotels, tourist agencies, restaurants, pubs, and attractions, offering information in different languages. The national tourist information system is expected to be a part of the National Tourist Information System, which exists presently. In this way the advertising element in its activity will be strengthened. The Ministry of the Economy maintains a registry of the hotels it has categorized, the accommodations and restaurants, as well as the licensed tourist agencies. This information will also be integrated in the upcoming national tourist, information system.

Company strategies

The past summer season confirmed some of the major problems related to the quality of company strategies in the branch. The companies do not utilize the advantages of marketing sufficiently. Vast investments are made in hotel construction, but thereafter the owners and managers do not carry out consistent marketing research on the opportunities for utilizing the sites and for client evaluations. No preliminary study is carried out as to whom the specific services offered by the hotels are intended for. The conduct of active marketing research and the elaboration of strategies could ensure lasting competitive advantages to the companies.

Financing of tourism

A large number of donation programs and projects provide funds for institutional development, elaboration of products, marketing and advertisement, and development of the business in this sub-branch. Some donors provide capital for projects and services. The funds under the PHARE, SAPARD, and ISPA programs are channeled towards the goals of sustainable tourism and the diversification of the tourist product. Despite the good intentions and the new legislation in the area of tourism, hardly any incentives are offered to the owners of small, family tourist companies. The access to primary capital is exceptionally difficult, the knowledge and skills for elaboration of even the simplest business plans for obtaining credit are very limited.

NGO in the area of tourism

There are a large number of non-governmental organizations in the area of tourism and environment preservation, which form a broad network and a lobby group. Although the capacities of most organizations are not very considerable, with the coordination and communication among them not being at the necessary level, the very existence on a national, regional and local level is an important factor for the future of tourism. The required professional qualification and ability to monitor the actual alternative tourist practices is still missing, which has a negative impact on confidence in them on a local level.

1.3.5. Energy consumption of GDP and energy efficiency

The issues of increasing energy efficiency and promoting energy saving and the implementation of energy saving technologies represent one of the gravest challenges in the current and the forthcoming period of development of our country. All fundamental documents concerning our accession into the EU – the Regular Report on the Progress of Bulgaria in the Accession Process 2003, The Road Map for Bulgaria, and the Partnership for Accession – stress the necessity for purposeful practical steps for decreasing the energy intensity of the Bulgarian economy.

Our country has strong energy dependence, importing over 70% of its necessary primary energy products. More than 20 % of the GDP are expended for that purpose. The high-energy intensity is an obstacle before speeding up economic growth because of the lowered competitiveness of Bulgarian goods, products and services, the added expenses for importing primary energy carriers and the necessary investments for building new energy capacities.

Eurostat data on the relative energy consumption, measured in terms of primary energy resources for a unit of GDP (tons of oil equivalent/1000 Euro), indicate that the Bulgarian economy consumes circa nine times more energy resources compared to EU25.

Table 15: Relative energy consumption of the economy, measured as a quantity of primary energy resources for a unit of GDP(tons of oil equivalent/1000 Euro)

2002	Energy consumption (tons of oil equivalent/1000 Euro)
EU (25)	0.21
Bulgaria	1.78
Poland	0.65
Romania	1.27
Slovakia	0.96
Slovenia	0.34
Hungary	0.57
Czech Republic	0.93

Source: EUROSTAT

Creating some 30% of GDP, the industry is the highest consumer of primary energy carriers, fuels and energy, whereas it consumes 38.2% from the end energy consumption, the average level for EU-25 being 28%. The largest energy consumers in the sectors (according to data from the NSI) are: the ferrous metallurgy – 22%, the chemical industry – 28%, production of articles from non-metallic mineral raw materials – 16% and the food, wine and tobacco industry – 9%. Obsolete and energy consuming technologies and equipment are present in most branches of the economy. The specific energy consumption for producing a unit of produce is approximately 15-30% more, and in some cases even higher than that in the EU countries.

1.4. Regional development

1.4.1. General overview of the regional development

In January 1999, the President of the Republic of Bulgaria approved by a decree the limits and administrative centres of the current 28 regions. They correspond to the Eurostat's Nomenclature of Statistical Territorial Units (NUTS) 3 level. The centres of 6 planning regions corresponding to NUTS 2 level were designated by Decree No. 109 of 28 May 2004. The territory of the planning regions aggregates the territory of the component regions.

The central south region, including Kardzali, Pazardzik, Plovdiv, Smolian, Stara Zagora and Haskovo, features the largest territory (24,8% of the territory of Bulgaria). From administrative point of view, it comprises the largest number of municipalities (74 out of total 264 as of 31 January 2003), settlements (1 511) and towns (63). The "population density" is the sole indicator on which the central south region (70,7 inhabitants per square kilometre) yields precedence to the southwest region where the average density is 103,9 inhabitants per 1 sq. km. The leadership of the southwest region is due to the capital city of Sofia on which territory (the smallest among all regions – 1,2% of the national territory) there are 896,2 inhabitants per square kilometre. The region features the largest number of population - 1 208 930 inhabitants as of 31 December 2003.

The northwest region, including Vidin, Vratza and Montana, is the smallest one both in terms of territory (9,6% of the national territory) and population (512 593 inhabitants). It features the smallest number of settlements (395) and towns (23).

The network of settlements is relatively uniformly developed throughout the national territory. However, the network of large towns playing the role of fulcrum of the general social and economic development is not equally developed. About 70% of population is concentrated in 30 out of total 264 municipalities with a population between 25 000 and 99 999 inhabitants and 9 municipalities with a population over 100 000 inhabitants (among which Sofia with over 1 000 000 inhabitants). The other 225 municipalities have a population below 25 000 inhabitants, which represents 30% of the total population of the country. Over 4 000 settlements out of 5 532 have a population of less than 500 inhabitants.

The central regions (the central north and central south regions) feature an even distribution of towns with 2 centres having a population of about 100 000 inhabitants and 7 towns having a population between 25 000 and 99 999 inhabitants. The distribution in the southeast region is not so even and there is only one centre with over 100 000 inhabitants. The urban structure in the northeast region consists of four towns with a population between 25 000 and 99 999 inhabitants and only two centres with a population over 100 000 inhabitants. There are no towns with over 100 000 inhabitants in the northwest region, but only four towns with a population between 25 000 and 99 999 inhabitants.

This territorial distribution of the network of settlements gives rise to problems of the "centre-periphery" type and determines the existence of great intra-regional disparities (between the regions and municipalities within the planning regions) and minor inter-regional disparities (between the planning regions).

Notwithstanding the general picture of relative backwardness of Bulgarian regions as compared to the 25 EU Member States, issues and problems of clearly pronounced regional dimension definitely exist in Bulgaria. In principle, the most important among them are the migration of population from small towns and non-urban centres, as well as the emerging disparities mainly between the principal towns and the less urbanised regions. The re-establishment of less urbanised regions will largely depend on the good results achieved in the renewal of towns. Finally, the development of towns and the establishment of good links with their adjacent less populated areas will lead to positive effects in regions, which are currently in considerable decline accompanied by depopulation processes.

In this context, the efforts in the field of regional policy should be focused on the achievement of sustainable and balanced development of planning regions by initiating positive changes and focused interventions aimed at giving a positive impetus for development through the provision of quality settlement environment and services, qualified human resources and relatively good infrastructure networks intended to establish the potential basis for improving the links between the main centres and their adjacent areas in order to achieve efficient and integrated regional development.

1.4.2. Planning regions and the EU regions

Planning regions come close in terms of size (measured through the number of population) to the average parameters for NUTS II regions in the EU. They are characterised by a relative balance (the ratio between the largest and the smallest region in terms of population is 4,1) with only Sweden (4,4) and Austria (5,8) featuring close although higher ratios.

The GDP growth observed as a whole in the Bulgarian regions over the last 7 years (3-7%) is higher than the average growth of EU-15, which for a third year in a row was below 1% in 2003. Despite the constant GDP growth in the country the disparities between Bulgaria and the EU Member States remain significant. GDP (PPP) per capita in 2002 was 29% of the average value for the EU-15 and based on this indicator the country ranks last among the EU Member States.

Bulgarian regions are economically the weakest regions as compared to EU. In 2002, the GDP per capita in the strongest Bulgarian region, i.e. the southwest region, was 36% of the average value for EU-15 and 39,8% of the average value for EU-25, respectively. The figures for the other planning regions vary between 22% (the central south region) and 24% (the northwest region) of the average value for EU-15 and between 24% and 26% of the average value for EU-25, respectively.

The regions in Bulgaria, as compared to other regions in EU, also fall among those at the bottom of the list. GDP in these regions varies between 31% and 36% of the average GDP in the regions covered by Objective 1 (as defined for the period 2000-2006) and between 35% and 40% of GDP of the 25 least developed regions covered by Objective 1.

However, no fundamental disparities in terms of GDP per capita exist between the Bulgarian regions themselves: most of the regions have a GDP per capita of 22-24% of the average value for Europe. No other country features such cohesion at NUTS II level, which would be very acceptable in case of higher national level of development.

1.4.3. Population and demographic processes

The population of Bulgaria run to 7 801 273 inhabitants as of 31 December 2003. The Southwest planning region features the largest number of inhabitants – 27% of the population in the country. This is due to the fact that this region covers Sofia (the capital) region, which population accounts for 15,5% of the population in the country. Plovdiv, Varna and Bourgas regions, whose administrative centres rank immediately after the city of Sofia, come next in terms of this indicator. The northwest region is the smallest one accounting for only 6,6% share of population. It comprises the smallest national region in terms of population, i.e. Vidin region with 1,6% share of population.

The population of Bulgaria has decreased by 482 thousand people or 6,8% as compared to 1997. The significant difference is due to the reported external migration of population.

Kardzali and Vratza regions feature the largest decrease of 24,3% and 17,2%, respectively, the smallest decrease being reported in Sofia region. Sofia (capital) and Varna regions are the only regions reporting a positive growth of population of 1,5% and 2,7%, respectively.

Persisting negative trends in the development of demographic processes bring about major changes in the age structure of population. The process of ageing of population is deepening. The factor of age dependence is influenced by the ever more growing share of aged population at 65 and more years. The highest values of this indicator are observed in the northwest region (56%), where Vidin and Montana regions are the country leaders with 58,6% and 58,1%, respectively. The lowest values are observed in the southwest region (41,9%) and Sofia (capital) region (38,3%). The decrease of the population at the age of 15 to 65 years results both from its natural migration and emigration. The reproduction of the population within this age segment is limited also by the decrease of the population aged up to 15 years.

The natural growth over the period 1997-2003 was negative in all planning regions. The highest negative values, which were almost twice higher than the average for the country (-5,7‰), were maintained in the northwest region (-11,8 ‰) followed by the central north region (-8,6 ‰). The other regions featured lower values of negative natural growth than the average for the country. The maintenance of these values resulted from the ageing of population and its changed reproduction attitudes, the latter being largely due to the low standard of living.

The intensity of internal migration over the period 1997-2003 was about 22,5% (418 thousand people), however it is tending to reduce (19,5 ‰ in 2003). About 2/3 of migrants are within the age range of 10 to 39 years. The negative values of internal migration have increased or maintained in most regions as a whole, the southwest region being the only one where the net migration has been positive and has constantly increased its intensity (from 2,4 ‰ in 1997 to 7,6 ‰ in 2003). The latter region attracts the internal migration flows because of the existence of major opportunities for diversified employment and the dense network of educational infrastructure (especially as far as higher education institutions are concerned) in the capital city.

1.4.4. Social characteristics and life conditions

A trend of decrease of economically active population was observed over the period 1997-2003. The annual average number of economically active population in the country was 4 746,5 thousand people in 2003. The highest factor of economic activity was observed in the southwest region (53,3%), its value being 55,0% for Sofia region. The lowest factor value (42,2%) was reported in the northwest region.

The annual average number of employed in the country was 2 834 thousand people in 2003, while the employment factor was 42,4%. The highest level of employment was reported in the southwest region (47,3%), such level being 48,2% for Sofia (capital) region. The lowest values of the employment factor were observed in the northwest region (35,3%), and in particular in Vidin region (31,1%).

Planning regions are characterised by a high level of unemployment although a trend of constant reduction has been observed since 2000. The level of unemployment in regions other than the southwest region has been maintained above the average values for the country. The highest level of unemployment in 2003 was reported in the northwest region (23,4%). The traditionally low level of unemployment in the southwest region is due to the influence of Sofia city where the unemployment is about 4-5%.

The comparison of average cash income per household member in the planning regions showed a great variation in 2003. The highest average income per household member was observed in the southwest region - BGN 1 862. The southeast region ranked second with BGN 1 650. The lowest average total income per household member was reported in the northwest region – BGN 1 452. The analysis of the structure of total income per household member in the regions shows that such income constituted mainly wage (51,4%) and pension (26,5%) income. The southwest region featured the highest share of wage income (53,6%), while the northwest region featured the lowest share of 47,7%. The lowest share of pension income in 2003 was reported in the southeast region (24,7%), while the highest share of such income was reported in the northwest region (29,6%).

The review of the structure of expenditure in 2003 by planning regions shows much slightly perceptible difference as compared to the structure of income. The most perceptible differences were observed with respect to the expenditure for household farms: from 5% for the northwest region to 1% for the southwest region.

The trend of households' spending mostly for food has been maintained over the whole period in all planning regions. The inhabitants of the southwest region had the highest expenditure on food in 2003 (38%), while the inhabitants of the central north region had the lowest expenditure on food, but on the other hand they accounted for the largest share of expenditure on housing, water, electric power and household fuel supply (16,5%). The lowest value of this indicator was reported in the southeast region (14,3%). There has been no great variation from region to region with respect to the expenditure on leisure activities, entertainment, cultural recreation and education. However, the inhabitants of the central north region allowed themselves to spend most money (4,2%) in 2003, while those who allowed themselves to spend the least were the inhabitants of the northeast and southeast regions (3,8%).

1.4.5. Education and health care

The number of educational institutions in the country has been reduced over the period 1999-2003. Their total number was 3 370 in the academic year 2002/2003. The central south region features the highest concentration of educational institutions (869), while the lowest number of such institutions is observed in the northwest region (265). On the other hand, a trend of increasing the level of education of the population in Bulgaria has been observed, which has been demonstrated by the increased share of population having secondary or upper level of education. Such trend has been observed in all planning regions and was characterised by the typical for most of the indicators polarisation between the southwest region (29,5% of population had higher education in 2003) and the northwest region (16,5%). The other regions showed similar features (over 17%), i.e. considerably lower percentage as compared to the average for the country. The number of persons having secondary education has been increased in all regions. The level of education of rural population is lower than that of the urban population. For this reason, the areas and regions with a larger share of rural population feature also a larger share of groups with lower level of education.

Comparisons made with the EU show that the share of population having a secondary or upper level of education in Bulgaria is 71,7%, which is above the average level for EU (68%), while the share of active population having higher education is equal to the average indicator for EU (21,8%) and higher than that of the newly acceded countries, which is considered to be extremely low (14,8%). At the same time, the metropolitan regions of countries like Great Britain, Belgium, Finland, France, etc. feature a higher concentration of population having higher education (about and over 35%) as compared to the southwest region. The other

Bulgarian regions have better indicators than many regions of Greece, Italy, Austria and Portugal, as well as the regions of almost all newly acceded countries, but at the same time they are lagging behind the level of education in the developed regions in the EU.

The start of the health reform in July 2000 marked the beginning of fundamental changes in the structure and activities of health care network. Despite the difficulties of methodological nature some general trends may be outlined. In 2003, the largest number of medical institutions providing health care services was reported in the southwest region (382), and in particular in the region of the capital city of Sofia (254). The smallest number of such institutions was reported in the northwest planning region (97). The bed space in hospitals has been constantly reduced since the introduction of the health reform, the number of beds reaching 49 171 in 2003. The southwest region is the best provided with beds (14 391), while the northwest region is the worst provided one (2 760 beds).

1.4.6. Regional economy

The total gross domestic product (GDP) generated in the country in 2003 was worth BGN 32,335 million. The share of the southwest planning region accounted for 38,7% of that amount. This region comprises Sofia (capital) region where the largest part of the national economic activity is concentrated and therefore it accounted for 29,2% of the generated GDP. The smallest relative share of the national GDP was generated in the northwest region accounting for 5,2%. Vidin region, which forms part of that region, had the lowest contribution among regions to the national GDP that accounted for some 1%.

The highest level of GDP per capita in 2003 was reported in the southwest region (BGN 5 952 per capita), which is by 44% higher than the average level for the country (BGN 4 109 per capita). The levels reported for all other regions were below the average level for the country, the lowest one being reported in the central south region (20% lower than the average level for the country). Sofia (capital) region reported the highest value of this indicator among regions, which was 93% higher than the average value for the country. Vratza, Stara Zagora and Varna regions reported 11%, 9,5% and 4,6% respectively of GDP per capita higher than the national level. Kardzali region ranked last among regions based on this indicator with 36% below the national level.

In 2003, the shares of economic sectors were maintained at the proportion reported in previous years. A trend of increasing the share of services in the gross value added (GVA) has been observed over the period 1996-2003 with a parallel decrease of the share of agricultural sector, while the industrial sector has maintained more or less the same relative share. These trends are most pronounced in the southwest planning region where the share of services in Sofia (capital) region was 71% of GVA generated in the region in 2003. For the whole southwest region, the share of agricultural sector for the same year accounted for only 4% of GVA, while the share of services accounted for 66%. The largest share of agricultural sector was reported in the central south region (15% of GVA generated in the region). This region comprises Plovdiv region where the share reported for the same sector was 15% of GVA generated in the region. Stara Zagora, Plovdiv and Varna are the most developed industrial regions where the reported share of industry in GVA was 50%, 29% and 28%, respectively.

The structure of economy in all regions is characterised by the largest and still tending to increase relative share of services. An exception of this trend makes the southwest region where such share has been reducing since 1999 (due to the more dynamic development of the industrial sector). The most dynamic industries in this sector over the last years were communications (as a result of the fast development of the mobile communication market) and financial services. In the central north, northeast and southeast regions, the sector of services has been developing since 1998 at a rate close to the average for the country, while the rate of development in the northwest and central south regions has been lower than the average with the southwest region featuring the highest rate of development.

The universities, scientific institutes and units of the Bulgarian Academy of Sciences, agricultural institutes, as well as the few departmental research structures left are the traditional research centres in Bulgaria. The network of research centres in the country covers a large number (as compared to its size) of universities (42) and autonomous colleges (9) where 211 272 and 14 801 students, respectively, studied during the academic year 2002/2003. The southwest, central north, central south and northeast regions are characterised by a higher concentration of universities and colleges as compared to the southeast and northwest planning regions. There is no university centre in the northwest planning region, while only one such centre exists in the southeast region. Notwithstanding the relatively high number of educational and research centres, there is no quality transition to applied research activities and transfer of innovations and technologies to the other sectors.

Information and communication technologies (ICT) offer new opportunities for companies and regions and constitute an important factor for regional competitiveness influencing the speed of changes in the regions and the territorial distribution of economic activity. A stable growth of the Internet market in Bulgaria has been observed over the period 1997-2003. According to data reported by the Ministry of Transport and Communications, the value of Internet services grew from USD 5,2 million in 1997 to USD 56,8 million, i.e. 10 times. That process has been accompanied by a growth in the number of computers per 100 persons of population. The number of servers also has been increased parallel to the number of computers, i.e. from 6 800 in 1997 to 28 700 in 2003. The main conclusion that may be drawn is that all regions in the country are seriously lagging behind in terms of technological growth potential, preparedness for use and use of ICT. Overcoming the backwardness in terms of technological development, economy of knowledge and information society is of crucial importance for the development of regional economies and for the achievement of intensive growth in the next years to come.

1.4.7. Infrastructure situation

The territorial distribution of high-class roads is of crucial importance for the mobility of population and transport accessibility to high quality services. The prevailing part of such roads in the country has been constructed on the territory of the southwest, central south and northeast planning regions (22,0%, 21,7% and 20,0% respectively of their total length). This fact is explained with the location of the particularly important centres of the network of settlements, i.e. Sofia in the southwest planning region, Plovdiv in the central south planning region and Varna in the northwest planning region, which has been the reason for the forestalled construction of highways and first-class roads in the said regions. The smallest portion of first-class roads in the country has been constructed on the territory of the northwest region (5,3%). The first-class roads coverage of the national territory is not uniform – the East-West destinations are better developed as compared to the North-South destinations and the services in the peripheral areas have been deteriorated.

Such territorial development of the road network determines also the possibilities of the population to have a transport access to the centres where certain types of services are provided (health, educational, cultural, etc.). Over 80% of the population in South Bulgaria and 90% of the population in the southwest region have the possibility of having access to such services within 90 minutes, while the access in North Bulgaria is more difficult with only 60% of the population in the northwest planning region having the possibility of such access within 90 minutes.

As of 2002, almost 98,8% of the population in the country was connected to the centralised public water supply system, however this percentage was lower in the northwest and central south regions (96,7% and 96,9%, respectively). Although 9 water reservoirs, 190 town and village water supply networks and systems, over 100 small drinking water supply facilities and 40 additional supply facilities for regions in critical situation of drinking water supply have been constructed and reconstructed after 2000, 88% of the population in Gabrovo region (central north region), Pernik region (southwest region) and Smolian region (central south region) suffer water supply restrictions. The relative share of the population of the country as a whole suffering water supply restrictions is 21,6%, the most critical being the situation in the northwest region where about one half of the population (45,5%) does not enjoy constant water supply. In the central north region, this problem concerns one fourth of the population, while the indicators in the central south and southwest regions are close to the average level for the country. Least problems of this kind are observed in the eastern parts of the country (the northeast and southeast regions) where the relative share of the population suffering interruptions in water supply is quite lower than the average level for the country (14,4% and 13%).

1.5. Agriculture and rural areas

For the last few years, a decrease has been observed in the overall share of the agricultural sector in the GVA – from 13.9% in 2000 to 10.9% 2004. At the same time, the relative share of the employed in the agricultural sector remains high – approximately 25% according to preliminary data for 2004. On an average basis, the relative share of the employed in the agriculture is 5.2% for the 25 EU member countries, whereas the relative share of agriculture in GVA is 2.1% according to data for 2003. Therefore, the low efficiency stands out as the main problem for the sector.

Table 16: Structure of GVA by economic sectors (%)

	2000	**2001**	**2002**	**2003**	**2004**
Agriculture and forestry	13.9	13.4	12.1	11.6	10.9
Industry	30.1	29.6	29.1	29.7	30
Services	56	57	58.8	58.7	59.1
GVA	100	100	100	100	100

Source: NSI

Table 17: Persons employed in agriculture, hunting, forestry and fishery

Employed/Years	**2000**	**2001**	**2002**	**2003**	**2004** preliminary
Total	2,980,108	2,968,069	2,978,562	3,166,499	3,236,387
Agriculture, hunting, forestry and fishery	781,566	766,796	769,094	806,613	807,694
Relative share	26.23	25.83	25.82	25.47	24.96

Source: NSI, AEAF

In comparison with the European countries, the gross value added/gross production (GVA/GP) ratio in the sector remains relatively low, this is an indicator of the incomplete restructuring.

Table 18: Efficiency of the agriculture and forestry sectors (GVA/GP RATIO) of the Bulgarian economy during the 2000-2004 period

Agriculture and forestry	43.4	42.8	43.4	43,8	43
Agriculture	43.7	43	43.7	44.2	43.4
Forestry	32.2	32.6	32.9	31	30.8

Source: NSI, AEAF

1.5.1. Structure and profile of the agricultural farms

According to the agricultural farms census in 2003, their number in Bulgaria stands at 665,548, looking after over 2,9 million hectares of utilized agricultural land (UAL). They are distributed by status as follows: 6,954 are legal persons and sole proprietors, who look after some 2 million hectares of utilized agricultural land or 70% of the UAL of the farms in the country, or an average of 291,2 hectares. 1,992 of these are cooperatives and till 40% of the UAL or an average of some 587,0 hectares. The farms of natural persons are considerable in number 658,594, but they look after barely 30% of UAL, i.e. an average of 1,3 hectares.

Table 19: Structure of farms and amount of UAL - 2003

Legal status	**Farms**		**Total UAL**		**Average size (hectares)**
	number	%	1‘000 hectares	%	
Natural persons not registered under law	658,594	99.0	879.7	30	1.3
Legal persons and sole proprietors	6,954	1.0	2,024.8	70	291.2
including agricultural cooperatives	1,992	0.3	1,169.3	40	587.0

Total	665,548	100	2,904.5	100	4.4

Source: MAF, "Agrostatistics". Census of the agricultural farms in Bulgaria` *2003*

The significant problem is the low market orientation of a major portion of the agricultural farms. Two types of farms stand out:

- Professional farms producing exclusively for a market;
- Small agricultural farms, producing mainly for own consumption and selling just part of their production on the market.

The farms of the first type strive to increase their competitiveness with the goal of entering EU market. They seek opportunities for investment with the goal of reaching European requirements to hygiene and quality.

The second group, the so-called semi-market farms could hardly be classed as economically viable. These farms rarely make investments because they lack the financial resource and confidence on the part of the banks. According to estimation of the Agrostatistics Directorate in the Ministry of Agriculture and Forestry, some 200,000 farms are semi-subsistence, i.e., they produce mainly for own consumption, and sell just a small part on the market.

Another grave problem of the agrarian sector is the low level of specialization of the farms. This leads to low efficiency, low level of implementation of new technologies, and low competitiveness.

Approximately 54% of the agricultural farms are stock breeding ones and a large part of them have a low level of specialization, i.e. the mixed stockbreeding prevails. Specialization is more explicit with plant growing – the farms specialized in the breeding of particular plants are common. From the viewpoint of specialization, the natural persons are specialized in cattle breeding, whereas the legal persons and sole proprietors – in plant growing.

A significant problem is the fragmentation of the agricultural farms. The partitioning of the land, a result of the conclusion of the process of restitution of property, creates impediments to the development of a modern and efficient agriculture. The market oriented and economically viable agriculture requires the availability of land property concentration for both utilization and ownership.

1.5.2. Inefficient and unsustainable utilization of natural resources.

A serious problem facing Bulgarian agriculture is the inefficient and unsustainable use of the natural resources.

Soil erosion is one of the main irreversible, degradation processes in Bulgaria, which is manifested through the decrease of the soil potential, loss of fertility and water pollution. Some 80% of the cultivated lands and 15% of the forest ones are subjected to water erosion, and 37% to wind erosion. Some 50% of the irrigation fund of the country is threatened by irrigation erosion. The average annual losses from water erosion are some 136 million tons of soil annually. Another major source of irretrievable loss of soil is the "soil isolation (sealing)", as a result of the increase of the share of settlements, transport infrastructure and cropping areas. It leads to full degradation and permanent loss of soil functions – loss of fertility, congestion of the soil horizons, changes in the aerial and water regime. Availability of abandoned agricultural land is an atypical fact for the EU countries. In 2003 **the uncultivated lands increase**[14] from 292 thousand hectares in 2000 to 456 thousand hectares 7,89 % of the PSSP. In some regions this percentage is even higher, particularly in regions with pastures, which are not well kept because of decrease in the number of animals. The presence of fast growing species is a sign of their degradation.

1.5.3. Rural areas

Within EU legislation and practices there is not a common definition for rural areas. Each Member State uses its own national definition determing rural areas. The definition of the Organization for Economic Cooperation and Development /OECD/ is used for the purposes of the Community Strategic Guidelines for 2007-2013 programming period and in the comparison analysis within EU. According to this definition a territory on municipality level with population density below than 150 residents per sq. km is determined as rural area. Based on this definition it is stated in Draft Community Strategic Guidelines for Rural Development, that 90 % of the whole country territory which have a population of 70 % of the total Bulgarian population is defined as rural areas.

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[14] **Uncultivated lands** – include the perennial plants and fallow lands, uncultivated for more than three years, which can be put into the sowing circulation with the use of few funds.

According to the specific definition used in the National Plan for Agriculture and Rural Development 2000-2006, under SAPARD Programme, the following criteria is used for the definition of rural areas: *"municipalities within whose territory no city or village with more than 30 000 habitants exists , and the population density is below than 150 residents per sq. km."*. According to this definition out of the total 264 municipalities in the country, 231 are situated in the rural areas. The rural areas encompass a territory of 83.7% of the entire territory of the country and have a population of 41,9% of the total Bulgarian population. According to this definition the total number of cities and villages within rural areas is 4125 which means that significant part of the Bulgarian cities and villages are not defined as rural areas /approximately 20 % - mainly villages/.

Reflecting the abovementioned during the process of implementation of SAPARD Programme a matter is brought up to determine a new common definition for rural areas. In connection with this within "Programme for Rural Development" for the 2007-2013 programming period, new criteria for rural areas will be defined.

1.5.3.1. Demographic processes and levels of employment and unemployment in the rural areas

A clear tendency is visible in the rural areas for aging of the population, as well as processes of outgoing migration from the rural areas to towns and cities, which leads to the depopulation of certain regions (Strandja-Sakhar and Rhodopi).

In 2003 the natural population growth per thousand persons is -5.7% for the country, whereas this indicator is much higher in the rural areas and amounts to -12.2%. The share of the persons aged over the active age in the rural areas is significantly higher than in the urban areas (27,5% for the rural areas as opposed to 20,8% in the urban areas). An involvement of the predominantly elder population in the agriculture is observed in these regions. Nearly 65% of the farmers in the rural areas are aged over 55, barely 16,3 % are aged below 45. The large share of the aged population employed in agriculture in the rural areas may influence their development negatively, particularly as regards the new ideas for the diversification of the activity of their farms.

A conclusion can be made that the unfavorable demographic structure in most rural areas may lead to negative social, economic and environmental consequences.

The observed migration processes are most dynamic for the younger population, which is due to the limited opportunity for attaining employment in the rural areas. The unemployment quotient in the rural areas stands at 20.27% (2003, Employment Agency), and is considerably higher than in the cities. It should be noted, that large dissimilarities exist between the individual village municipalities. Unemployment there ranges from 6% for the Sandanski municipality up to 45-46% in the Dulovo, Samuil and Kainardja municipalities. Concurrently, the population in the rural areas is at a lower educational level than in the urban areas. Just 3% of the population has higher education as compared to 12% of the urban areas. 37% of the rural areas population has secondary school education as opposed to 60% in the urban areas. The low educational level of the rural areas population has a negative effect not only on the development of modern and efficient agriculture, but also limits the chances to launch activities outside agriculture.

The National Human Development Report "Rural Areas – Overcoming Development Disparities" reaches the conclusion that employment in agriculture is not sufficient to solve the problem with unemployment in the rural areas. The data provided indicates that areas where employment in agriculture is high, are also characterized by high unemployment. And vice versa, areas with a low share of persons employed in agriculture and a higher share of persons employed in services, maintain a low level of unemployment in the rural areas. According to data from the same report, the average level of unemployment in the five areas with the highest share of village population is 24.7% or twice as high a level compared to the five areas with the highest share of the city population (12,3%).

Table 20: Employment by sectors and unemployment in rural areas

	Relative share of Employment in Agricultural Sector 2001	*Relative Share of Employment in Services 2001*	*Relative Share of Employment in Public Sector 2001*	*Unemployment Coefficient in Rural Areas Dec 2002*	*LT Unemployment Coefficient in Rural Areas Dec 2002*
	Top 5 regions with highest share of employment in Agriculture				
Silistra	*54,3*	*29,6*	*18,5*	*29,3*	*73,2*
Razgrad	*49,5*	*30,2*	*19,7*	*31,9*	*67,2*
Vidin	*48,5*	*36,4*	*23,9*	*20,5*	*96,8*
Targovishte	*45,8*	*32,4*	*23,7*	*48,1*	*72,9*
Montana	*44,1*	*33,8*	*23,1*	*15,4*	*84,1*

	Top 5 regions with lowest share of employment in Agriculture				
Bourgas	*21,2*	*51,6*	*27,8*	*24,4*	*58,6*
Kiustendil	*20,9*	*40,8*	*33,4*	*19,9*	*80,5*
Gabrovo	*20,2*	*36,4*	*22,0*	*23,2*	*36,7*
Varna	*13,7*	*59,5*	*30,8*	*15,6*	*60,6*
Sofia - City	*2,2*	*74,0*	*32,7*	*19,0*	*69,7*

Source: UNDP/National Human Development Report, 2003.

The conclusion made by the report is that the development of agriculture in the rural areas does not contribute towards diminishing unemployment since a large part of the farms are natural economy ones and do not generate jobs.

The economy in the rural areas is much more dependent on agriculture as a main source of income in comparison with the other parts of the country. According to data from the census of agricultural farms in Bulgaria, conducted in 2003 by the MAF, nearly 78 % of the employed in the agriculture work in the rural areas. Just 24% of the employed in the rural areas are employed full-time, which illustrates the need for diversification outside agriculture and for creation of conditions for a more complete employment of the work force. At the same time, the per capita GDP in the rural areas is much lower than in the urban areas. GDP is 34% percent lower than the average for Bulgaria and more than twice lower than in the urban areas. The reason is the lower income from agricultural activity.

It can be concluded that the development of agriculture in the rural areas will not contribute significantly towards the decrease of unemployment there. It is necessary to seek opportunities for diversification of the economic activities in the rural areas, as well as for the enhancement of the educational level of the work force.

1.5.3.2. Technical infrastructure in the rural areas

The good-quality rural infrastructure may improve the quality of life, to create conditions for the revitalization of the village regions and is a premise for attraction and preservation of investor/entrepreneur interest. In its large part, the infrastructure is a property of the local administrative authorities and, overall, has good coverage but is considerably outdated. The limited financial resources of a large part of the municipalities does not allow for its renewal and maintenance.

The infrastructural needs vary greatly depending on the type and size of the settlements, whereas the differences between the municipal centers and the surrounding villages are conspicuous, although some regional differences are also observed. In the municipal centers the road network, street lighting, water supply, sewage, solid household waste collection systems, occasionally even central heating are relatively well developed, whereas access to such infrastructure in the villages is either missing or restricted.

The main problems are related to the sewages systems and the waste collection, which are absent in 70% of the villages. Although electricity- and water supply are decent, the cut of power and water supply is common, which leads to serious drawbacks for the business and cause significant discomfort to the population.

A survey of the World Bank on the needs in the rural areas (2004) revealed that the **road infrastructure** is not maintained well and the persons from the polled households are primarily dissatisfied with the inter-settlement roads (61%), with the streets in the very settlements (65.2%) and with the roads leading to the agricultural plots (50%). The situation in the individual settlement varies significantly, whereas some have a more developed infrastructure network, while others, which are less developed and are usually depopulated, have an extremely unsatisfactory infrastructure.

The overall business environment is considerably influenced by the state of the infrastructure (reliable water supply, sewage, electricity supply, roads, waste collection and transportation). This is why it is necessary to secure funds for both the construction of the necessary technical infrastructure in the village and its maintenance.

Despite the availability of a well setup social infrastructure in the rural areas – reading rooms, libraries, and clubs – there is a problem with their maintenance.

1.6. Basic infrastructure

1.6.1. Transport

The national transport system is clearly unbalanced, with the automobile transportation taking up a major part of the passenger and cargo traffic. A substantial part of the highway roads and the rail lines are relatively obsolete, of poor quality, low technical parameters, and low admission capacity. Considerable investments are necessary to complete the construction of the national (motorways and 1st class roads) and the local road network (2nd and 3rd class roads), in order to improve and augment the multimode and cross-border transport connections, and to revitalize the depreciated and technologically outdated sections.

1.6.1.1.Road infrastructure

On the overall, the road network in Bulgaria belongs to the "closed" type, and is characterized by a low quality of the road covering and infrastructure. The few border checkpoints cause an uneven stress on the road network by the transit flows and impede the process of cross-border communication with the neighboring countries.

The generally poor condition of the national road network is due mainly to the shortage of funds, the decrease in the number of planned reconstructions on the roads, consequently, the deterioration of the condition of the road covering. In terms of density of the national road network (0.171 km./sq. km.), Bulgaria is ahead of both the average value for EU-15 – 0.09 km./sq. km., as well as all new member counties, with the exception of Hungary and the Czech Republic. At the same time, the country is lagging considerably behind with regard to the density of motorway network. A large part of the roads have not been repaired for more than 15-20 years, the adopted statutory period being 5-7 years for periodic repairs and 12 for an overall repair. The length of roads in good condition is diminishing rapidly, whereas during the past 2002 and 2003 the length of such roads has diminished by 1 444,6 km and 700 km respectively.

Териториалното разпределение на пътищата от висок ранг е от решаващо значение за мобилността на населението и транспортната достъпност до услуги от високо качество. Преобладаващата част от тези пътища в страната са изградени на територията на Юго-западен, Южен централен и Североизточен райони за планиране (съответно 22.0%; 21.7% и 20.0% от общата им дължина). Това се обяснява с местоположението на особено важните центрове на селищната мрежа - София в Югозападен, Пловдив - в Южен централен и Варна – в Североизточен райони за планиране, предизвикали изпреварващото изграждане на АМ и I клас именно в тези райони. Най-малка част от първокласните пътища на страната са изградени на територията на Северозападен район (5.3%). Покритието на националната територия с пътища от висок клас е неравномерно – направленията изток-запад са по-силно развити, отколкото направленията север-юг, като е влошено обслужването на периферните територии.

Това териториално развитие на пътната мрежа определя и възможностите за транспортен достъп на населението до центровете, предлагащи определен тип услуги (здравни, образователни, културни и др.). В Южна България над 80% от населението има достъп да тези услуги в рамките на 90 минути, като за Югозападния район стойностите са над 90%, докато в Северна България достъпът е по-затруднен, като само 60% от населението на Северозападния район за планиране има този достъп в рамките на 90 минути.

An overall fault of the road network is the insufficient construction of detour roads due to which the vehicle traffic is transiting through a large number of settlements. Another problem is the necessity, pursuant to international commitments undertaken by the state, to upgrade the bearing capacity of the road covering on the main directions of international transport to 11.5 t/ax.

1.6.1.2.Railroad infrastructure

Bulgaria has a relatively high density of the constructed railroad lines compared to Eastern European countries, with electrified railway lines constituting 67% of the total length of the railroad network.

The distribution of the railroad lines is very uneven, whereas in this regard the most underdeveloped parts are the Rila-Rhodopi region and Southeastern Bulgaria The railroad network in the country can be considered as being of the closed type because of the low number (just 8) of connections with the neighboring countries.

In comparison with a large number of the European countries, the condition of the railroad infrastructure is much worse as far as operational characteristics are concerned.

The permanent shortage of funds for repairs of railroads and facilities over the course of the last ten years leads to delays of the inter-repair terms, thence to lowering the maximum permissible speeds, a precarious state of operation and restrictions on the capacity of the railroad network. This is also conditioned by the fact that 80% of the locomotives and 70% of the passenger cars have been in operation for more than 20 years. Overdue is the term for replacing over 50% of the rails of the railroad network.

1.6.1.3.Port infrastructure

Most Bulgarian ports have been constructed as multi-function ports; thus, presently they all possess sufficient available capacity. The larger part of the port facilities in Bulgaria have been constructed in the beginning of the past century, which is reflected in their technical condition and their technological capacity.

During the past several years, **the seaports** of the Republic of Bulgaria have been operating below their maximum capacity. The main ports for carrying out sea transport in Bulgaria are Varna Port EAD and Bourgas Port EAD**,** which process some 60% of the national foreign trade exchange.

The share of loose cargos is diminishing at the expense of container freights, which is a worldwide tendency. On the other hand, the focus of our external economic ties to the EU countries, leads to the natural readjustment of import and export from sea to land transportation.

The main problem for Bulgarian sea ports (particularly the Varna port) relates to the limited load-unload capacity of the processed ships, which directly depends on the depth of the ports, dust removal upon the processing of bulky cargos, the lack of specialized loading equipment for a part of the ship spaces, limitations in the capacity of container terminals, etc.

The main problems in the development of Bulgaria **river ports** (Rousse, Lom, and Vidin) are related to: lack of sizeable investment for maintenance and development throughout the last several years, obsolete and worn out front and rear reload mechanization, absence of suitable modern facilities for the processing and storage of cereals; unsatisfactory conditions of the quay walls; the development of the road and railroad infrastructure for access to Bulgarian ports; particularly significant for the development of transit freights is the improvement of the Rousse-Varna road and railroad connection; the modernization of the port infrastructure and reload equipment; the restructuring of the port capacities for rendering port services for loading and unloading, ensuring the multimode freights on the European transport corridors and in the direction of the Black Sea region and Middle Asia.

1.6.1.4.Airport infrastructure

Bulgaria has a relatively well-developed airport system. Currently 5 civil flight ports are operating in the country. Sofia Airport is the largest and best equipped; Varna Airport is crucial to the development of the country’s tourist industry; Bourgas Airport has the longest take-off and landing runway in the country; Plovdiv Airport and Gorna Oryahovitsa Airport are 2nd class airports.

On the overall, the condition of the port infrastructure is not satisfactory and does not meet the requirements to contemporary European airports. The capacity of the passenger and cargo terminals is not sufficient at all airports currently in operation. The abruptly rising traffic at the Varna and Bourgas airports, especially during the past 2 years, categorically dictates the expansion and modernization of these airports.

The airport development perspective is the increase of capital investment through the construction of new terminals, the expansion of the technological areas, and the permission of more ground service operators on the market.

1.6.1.5.Combined transportation

On the overall, the state of the infrastructure for carrying out internal and international container freights does not satisfy the requirements for executing contemporary loading-unloading services, but at a part of the terminals, the equipment is in good shape and needs just minor investment to launch the mechanized equipment into operation. The main freight facilities were constructed in the 1970's and 1980's. There is not direct link between railway and ships. Despite the obsolescence of the both mechanization and equipment, the Bulgarian railway has the capacity to carry out container freights. It is necessary to provide the terminals with the necessary facilities pursuant to the requirement for carrying out combined transportation (cranes, warehouse space, loading platforms for trucks and caterpillars). The infrastructure modernization on the main routes involves: improving the technical state of the railway and the facilities as a part of the Pan-European transport network; ensuring the required clearance for carrying out the combined freights in the reviewed routes.

1.6.2. Information and telecommunications infrastructure

Bulgaria is significantly lagging behind the EU with regard to some main indicators such as digitalization of the fixed networks and providing broadband Internet access, as well as number of computers per 100 citizens.

The country is slightly above the average level, compared to Eastern European countries, with regard to density of the fixed telephone lines - 36,5[15] units per hundred citizens current to 2003 but is still severely lagging behind as regards the level of digitalisation of the telephone network (35.2% for Bulgaria and an average of approximately 80% for Eastern Europe), which determines the quality and variety of the supplied telephone services.

In the Europe 2005 Action plan, wherethrough the European policy for establishing an information society, the wide-spread broadband access, provided at competitive prices, is considered the first of the two main factors for developing the applications and services of the information society, and, respectively, of the e-government, e-health care, e-education, e-business, etc. According to data from Bulgaria Online, approximately 70% of Bulgarian households have access to broadband Internet, whereas 10% actually use the service.

The density of broadband access coverage on the basis of optic or digital radio-relay lines (RRL) by municipal centers (261 settlements) is around or slightly more than 50%. The number of settlement with such excess, outside the municipal center, is insignificant and these settlements are main resort centers. In this regard, the rendering of telecommunications services and broadband access in economically underdeveloped regions is a premise for business development and the opening of jobs to be assisted through specific projects.

The share of enterprises with broadband Internet connection is 28% (registered enterprises with more than 10 employees), which is significantly lower than the EU25 countries where the share of enterprises with such connection is 52%[16]. The following table specifies the differences between Bulgaria, Romania and the EU:

Table 21: Enterprises with broadband access to Internet

	EU (25 countries)	Romania	Bulgaria
Small enterprises, 10 to 49 employees	48 %	5 %	27 %
Medium enterprises, 50 to 249 employees	70 %	9 %	33 %
Large enterprises, over 250 employees	87 %	21 %	45 %

Source: EUROSTAT

[15] 4th Report on monitoring EU Candidate Countries (Telecommunication Services Sector)

[16] According to EUROSTAT data for 2004

Bulgaria is still significantly lagging below the average level for Eastern Europe as regards the indicator number of computers per 100 citizens – 5.19 for 2003[17] (given an average level of 19 pieces per 100 citizens of the newly accepted EU countries).

1.6.3. Environment and environmental infrastructure

1.6.3.1. Introduction

Environment is one of Bulgaria's most valuable assets to be protected and preserved, with regard to future benefits from it. At the same time, our country is going through a period of significant changes, many of which exposes this asset to potential risks. To protect and preserve natural resources and improve the environmental condition of the country, we must secure a sustainable development in the future – not just from a socio-economic, but also from an environmental point of view.

The past decade is characterized by changes favorable to the environment in Bulgaria. Nevertheless, more effort is needed with regard to achieving progress on a number of unsolved problems representing a potential health hazard for people's health, the major ones being:

- A significant part of the river valleys are polluted as a result of the absence of constructed waste water treatment stations;
- A large part of village and some towns have no organized household waste collecting system, and many of the existing facilities for waste treatment do no meet European norms and standards;
- No infrastructure for rendering hazardous waste harmless is set up on a national level;
- No systems for separate waste collection and ensuing reuse and recycling of household waste have been implemented
- In a significant number of settlements the quality of atmosphere air still fails to meet the standards;
- As a result of the accelerated development of polluting industries in the past, ignoring environment protection measures, pollutions have accumulated as a result

[17] International Telecommunication union statistical database

of the industrial enterprises activity, thereby creating risks to the environment and people's health.

Despite significant improvements in the country with regard to environment during the last decade, its condition and the level of its preservation are not comparable, in many indicators, to the average level for the EU. The gradual decrease of differences requires on one hand the harmonization of environmental legislation, and considerable investment for the preservation of environment on the other.

Table 22: Main differences between Bulgaria and EU with regard to the environment

Indicator	Indicator definition	Bulgaria	EU – 25 (average)
Total emissions of hothouse gases	The aggregate emission of the 6 main gases (CO_2, CH_4, N_2O, HFC, PFC и SF_6) causing hothouse effect, in CO_2 equivalent (1999 = 100)	44.0 (2002)	91.0 (2002)
Energy consumption of the economy	Total gross consumption of the economy, compared to GDP (kgoe/1000 €)	1902.67 (2002)	209.86 (2002)
CO_2 emissions	Per capita Carbon dioxide emissions in tons	5.9 (2002)	8.8 (2002)
SO_2 emissions	Per capita sulfur dioxide emissions in kilograms	123.6 (2002)	Austria – 4.4 (2002) Portugal – 19.8 (2003) Hungary – 35.3 (2003) Czech Rep. – 23.3 (2003)
Collected household waste	Household waste collected from the population (kg/person/year)	500 (2002)	531 (2002)
LanFDIlled household waste	Collected household wastes treated through deposition (kg/person/year)	404 (2002)	267 (2002)
Incinerated household waste	Collected household wastes treated through incineration (kg/person/year)	0 (2002)	91 (2002)
Population connected to the sewage network	Percent of the population connected to the sewage network, towards the total number of the country's population	69.2 (2003)	Austria - 87.2 (2002) Portugal – 71.1 (2003) Hungary – 56.1 (2003) Czech Rep – 77.7 (2003)
Population connected to WWTS	Percent of the population connected to a settlement WWTS, towards the total number of the country's population	39.9 (2003)	Austria – 86.0 (2002) Portugal – 54.9 (2003) Hungary – 32.2 (2003) Czech Rep. – 67.5 (2003)
Share of electricity produced from RES	Quotient between electricity produced from recoverable energy sources and the gross national energy consumption for 1 year	6.0 (2002)	12.7 (2002)

1.6.3.2. Water resources and quality of waters

Water resources are the usable part of natural waters (surface and underground) and are formed mainly by precipitation. Current to 2000 a nearly 5-year tendency was preserved for a gradual decreases of the annual amount precipitation to 419 l/m2/y (65,4% of the annual norm), which turned around in 2001, and in 2002 an average of 574 l/m2/y (120% of the annual norm). Throughout the entire reviewed period (1999-2003) an extremely uneven distribution is characteristic of the precipitation on the country's territory.

The following results are obtained on the natural potential resources of surface waters:

- Water resources from natural river outflow – 8 889.98 mil. m^3
- Water resources from territories with no river flows formed or with river flows with intermittent outflow - 502.1 mil. m^3
- Total natural resource of surface waters – 9 392.08 mil. m^3
- Natural resource formed from foreign territories (Turkey, Yugoslavia, Macedonia) - 346,4 mil. m^3

The quality of the surface and underground water is monitored by the relevant networks of the National System for Water Monitoring with regard to percentage points, frequency and indicators.

During the last three years, a relatively sustained level of water quality is maintained, both by individual indicators (BNO5, CNO, nitrates, etc.), and on the individual river flows.

1.6.3.3. Water supply networks and sewage systems

The restructuring of economic sectors (incl. shutting down water-consuming and non-profitable production), and the gradual rise of water prices, combined with the drought processes, maintain a tendency towards a general decrease of water consumption.

Current to 2003 almost 98,8% of the country's population is connected to the public system for centralized water supply. The average daily consumption of water by the population varies within 90 – 99 l/c/day during the 1999 – 2003 period and reaches the minimum of 89 l/c/day (1997). The losses of water to the final consumers are not reduced significantly either. As at 2003, the internal losses on the distribution networks of WS&S (Water Supply and Sewage) are 61% of incoming waters, and in land-reclamation systems – 62%.

The average annual consumption of water in the country amounts to some 10-12 bill. m^3/year. It is distributed to the individual branches of the economy, as follows: drinking water supply - 8-10%, irrigation - 5-35%, industrial water supply - 20-26%, hydro energy system- 15-35%. Given the tendency for increase of water consumption, the water deficit will grow and will evolve into a grave social, economic, and environmental problem for the country.

While the water supply infrastructure envelops over 98% of the population, the extent of completion of the sewage networks and of the settlement purification stations is considerably lower and may be evaluated as unsatisfactory. The share of the population connected to the sewage system stands at 69.2%. The share of the population connected to waste water treatment stations stands at 39.9%. More than 20% of the present sewage networks are physically depreciated and obsolete, and in grave need for reconstruction, and in some cases, for total replacement because of the inability to conduct the wastewaters of the consumers.

The number of operational SWWTS (Sofia Waste Water Treatment Stations) is on the rise. As at 2003 they are 64, whereas just 11 use mechanical treatment only, 52 units have a biological stage for water treatment. They serve 64 agglomerations, incl. 49 settlement, where 3,101,995 real citizens reside, whereas the total number of equivalent citizens being serviced is by these treatment stations is 5,234,147.

The share of waste waters treated through CWWTS increased from 74% (1999) to 79.5% (2003). The low efficiency of the CWWTS is maintained, whereas current to 2003 they work on 56% of their design capacity. The main reasons behind this are incomplete/not constructed sewage systems in the settlements.

Thirteen 100% state-owned "Water Supply and Sewage Systems" SPLLC (sole proprietorship, limited liability company) exist, 16 joint venture "Water Supply and Sewage Systems" JSC – 51% state-owned and 49% municipal, as well as 20 Municipal ones – 100% Municipal property. The absence of criteria and principle positions for determining the proprietorship over the water supply and sewage systems infrastructure create exceptionally complicated maintenance and management problems, as well as an impossibility to properly charge depreciation expenses for its maintenance and renovation.

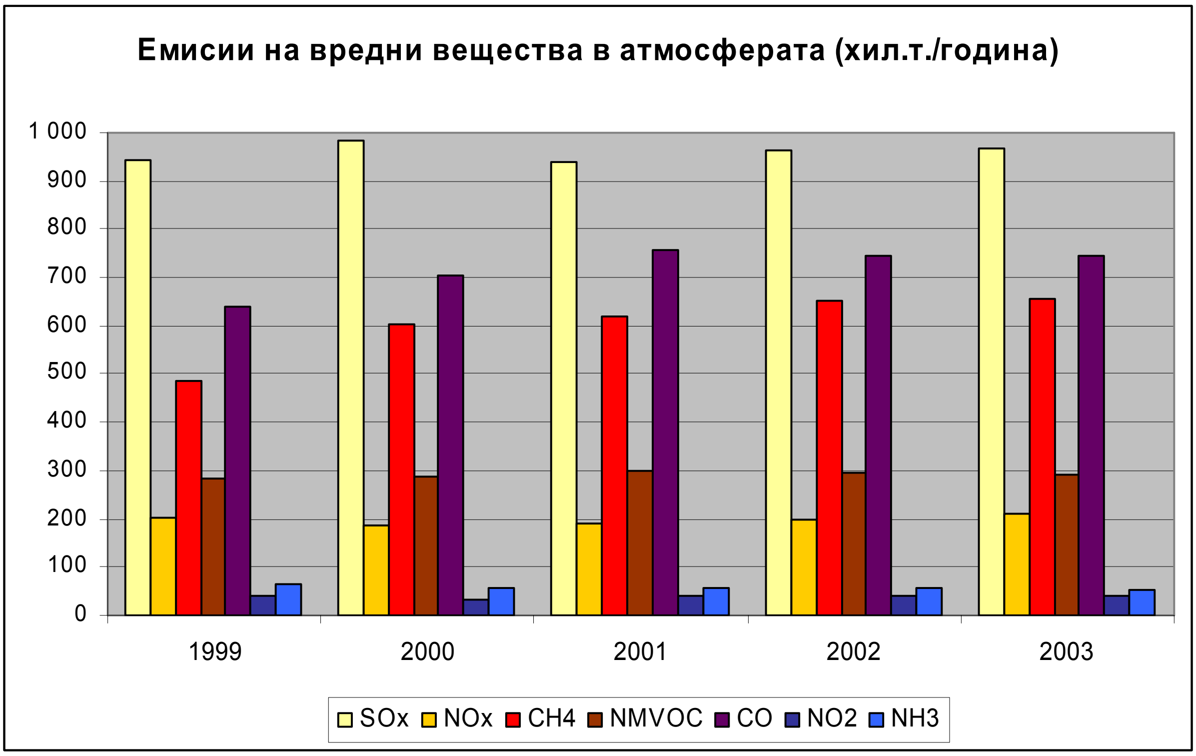
1.6.3.4.Air

Pollution of atmosphere air from stationary and mobile source has a direct impact on people's health, on plants, soil, and water.

During the 1999-2003 period, the evaluation of atmosphere air quality involves the following main parameters: sulfur dioxide, nitrogen dioxide, dust, fine dust particles (FDP10), lead, ozone, carbon dioxide and cadmium[18]. In addition, evaluation is carried out of the levels of some specific (local) parameters.

With regard to the emissions of harmful substances, during the 1999-2003 period, a general tendency is observed for maintaining the levels of the four major pollutants fitting with the scope of Directive 2001/81/EU for national limits of the emission of certain harmful substances and the Gothenburg protocol to the CCBLDAP (SO_2, NO_2, NH_3 и NMVOC).

Graph 11: Emission of harmful substances into the atmosphere (tons'000 per year)



In 2003, a reduction of the ammoniac emissions is observed due to a reduction of the emissions from incombustible production processes and from agriculture. Also on the decline are the NMVOC emission due to a reduction of emissions from road transport and from extraction and processing of fossil fuels because of the increased quantity of solid fuels.

In 2003, there was an increase of the emissions of sulfur dioxide, nitrogen oxides, methane, and carbon monoxide in comparison with 2002. The increase of the sulfur dioxide emission is due to the increase of the emissions from incombustible production process and from thermal

[18] Pursuant to the Framework Directive 96/62/EU for management and evaluation of the atmosphere air quality and the Purity of Atmosphere Air Act

power plants (TPP). The increase of the nitrogen oxide emissions is mainly due to an increase of emissions from TPP's.

At the current development rates, provided that no new large productions-pollution sources are launched into use, and no purification technologies are implemented, by 2010 Bulgaria will have managed to meet its commitments under the Gothenburg Protocol for the Limitation of Annual National Emissions to the Convention for Cross-Border Long-Distance Air Pollution.

The energy sector remains the largest source of **sulfur dioxide** with 86% of the total quantity emitted, whereas the share of the emissions from combustible processes remains consistent – around 5%. Road transport and TPP's are still the major sources of **nitrogen oxides, whereas** in 2003 the emit respectively36% and 31% from the overall quantity. The share of natural sources as a main source of **NMVOC** stays at 60% during the past three years. In 2003, road transport has emitted 12% of the total quantity of NMVOC. The largest source of **methane** is still the activities related to extraction and processing of fossil fuels, whereas in 2003 their share in the overall emissions reached 75% of the total quantity. Throughout the entire period, agricultural activities remain the major source of **ammoniac** with some 69% of the total emission. The other major source is the treatment and *lanFDIll* of waste (with some 19% of the overall emissions) and industry (with some 12%). Residential burning and road transport are the major source of **carbon monoxide** emitting respectively 51% and 26% in 2003.

With regard to the emissions of heavy metals and specific organic pollutants, the input by categories of sources in the annual national emissions is assessed as follows:

- In 2003, an increase of lead emissions from the industry is observed /group 3 and group 4 from the table / with a total of 50.4 tons, whereas the emissions of from combustible processes in the industry have increased by 47.3 tons compared to 2002. The overall share of lead emissions from the industry reached 90% of the total quantity emitted in the country in 2003.
- The residential burning processes are the major source of PAH, with some 45% of the total quantity emitted.
- The industrial combustion processes and TPP's are the major source of mercury, emitting respectively 50% and 34% of the overall quantity for 2003.
- Industrial combustion processes emit 91% of the overall quantity of cadmium.

– TPP's and fuel burning in the residential sector are the major sources of dioxins and furans, emitting respectively 48% and 27.8% of the overall quantity emitted from anthropogenic activity in the country.

1.6.3.5.Waste

During the 1999-2003 period, the generated quantities of waste remain relatively stable - some – around 13,000 thousand tons/year, whereas a tendency of mild decrease is observed until 2002 and an increase in 2003, mainly due to the production waste. During the same period, the quantities of household waste through collected the organized collection and transportation system remain relatively stable – around 3,230 thousand tons/year. Around 70% of these are deposited in depots of waste servicing a population of over 20,000 residents. The quantity of household waste, referred to the serviced population, also remains relatively stable – around 500 kg/resident annually.

In the end of 2002, the organized household waste collection envelops 80% of the country's population. The household waste collection is organized in 1377 settlement, which represents 24,2% of the overall number of settlements in the country. Although over 99% of the city population in the country is enveloped by the collection services, the village population serviced is slightly more than 33%. Collection of hazardous waste with the purpose of recycling is limited to the buyout of lead-zinc accumulators, used oils and waste petroleum products

During the 1999–2003 period, a tendency is observed for a continuous increase of the quantities of recycled and utilized production and hazardous waste. According to 2003 data from the NSI, enterprises report 686 thousand tons of production non-hazardous waste submitted for recycling[19], which amounts to some 7,5 % of the overall generated quantity (in comparison, in 2000 this quantity is 349 thousand tons). In 2003, the quantity of hazardous waste submitted for recycling amounts to 200 thousand tons (36 thousand tons more than in 2002).

Waste composting and incineration with utilization of the generated energy are still a rarely utilized practice in the country.

[19] Because of the lack of autonomous accounting of the qualities of recycled household waste, the waste bought out from the population and the commercial sites are accounted as production waste.

The existing infrastructure for waste recycling is relatively well developed on the basis of recycling capacities introduced mainly in the 1970's and 1980's. The total capacity for utilization of paper and carton wastes is estimated at around 200 thousand tons. The processing of plastic waste is concentrated in three major enterprises in the country with an annual capacity of 12,000 tons. The processing of waste glass is carried out in 6 enterprises. The annual quantity of recycled glass waste does not exceed 15,000 tons.

The waste depotting remains the main method for rendering waste harmless in the country. Current to 31.12.2002, according to NSI data, the number of settlement-servicing depots with organized waste collection is 663 with 3,199 thousand tons of waste being depots there. Presently, 84 depots for production non-hazardous waste are identified in the country, incl. 74 operational and 10 shut down, whereas 15 of the operational depots are designated for inert waste. Presently, 18 depots for depositing hazardous waste are operational in the country, with none of them meeting the effective statutory requirements on environment preservation. Waste incineration is not a common practice in the country. Presently, there is no household waste incineration installation set up in the country.

There are a large number of illegal dumps and previous pollutions from waste in the country. This dictates the immediate undertaking of action with regard to their gradual cleansing, recovery and re-cultivation. With regard to preventing re-pollution, the closing of the illegal dumps has to be coordinated with the measures for expansion of the systems for organized collection and transportation of waste and the construction and launch into operation of the new regional facilities for rendering household waste harmless

According to data from the RIEW and municipal administrations, 5,135 illegal dumps and areas polluted with household waste have been identified in the country. Until the end of 2003, a total of 2,228 of these have been closed down (in 2002 – 551 and in 2003 – 1,677).

1.6.3.6.Previous soil pollutions

The problem with previous pollutions is one of the worst environmental problems pending solution, because of the variety of pollutions by origin and type, and because of their wide spreading throughout the country.

The problem with accumulated waste, hazardous substances and other potential pollutions from enterprises from all industrial branches (with the exception of mining), which have been either wound-up or declared insolvent, has not yet been resolved on a national level.

Current to 31.10.2003, SEEC at the MEW has approved a total of 17 programs, their total budget amounting to BGN 280 million, for privatized enterprises. 4 of these have been carried out (for MDK AD – Pirdop, Osogovo AD – Kyustendil, KCM AD – Plovdiv, and Biovet AD – Peshtera). With regard to the remaining 13 enterprises, the implementation of programs for the remedy of the environmental damage is ongoing. The program for remedy of past environmental damage from the site "Old Soda Plant – town of Devnya" has been approved.

A total of 315.38 hectares have been damaged in 2003 and 150.2 re-cultivated following the extraction of coal, ore, extraction and primary processing of non-metal mineral resources, extraction of construction materials. The total quantity of damaged terrain in 2003 amounts to 25,203,1 hectares, and of the re-cultivated and reclaimed terrains – 8 641,9 hectares.

Annually, observations are carried out and preventive supervision is realized on the damaged and re-cultivated terrains, the activities on the technical liquidations, technical and biological re-cultivation, treatment of contaminated waters, re-cultivation and environmental monitoring on the terrains affected by the mining and ore-processing industries.

1.6.3.7.Biological diversity

Bulgaria has unique vegetation and animal life, including some 3600 species of superior plants, over 3660 lower plants, mushrooms – 3500, lichen – 709, 700 species of vertebrates, birds over 400 species, 94 mammals, some 27000 species of invertebrates. The endemic plant species in Bulgaria constitute some 5% of the overall vegetation, a relatively high percentage for Europe. The information available on the invertebrate shows, that 8.8% of all non-insect species and 4.3% of the insect species are endemic. The known endemic vertebrates include 12 species of freshwater fish, 1 amphibian sub-specie, 4 reptile sub-species, and at least 4 mammal sub-species. According to the Red Book of Bulgaria (1984), 158 species of superior plants are endangered, whereas 574 are rare. 90 animal species (no birds), 331 bird species, and 594 plant species are included in Annex №3 of the Biological Variety Act as protected species.

Consistent with the natural-historic and socio-economic conditions in the country, by 2010 the area of protected territories and zones within the National Environmental Network must constitute at least 15% of the country's territory. The rate of reaching this goal will be most rapid following 2007, when, after the anticipated accession of our country into the EU, identified and typified species characteristic for Bulgaria, will be declared units of the Pan-European Environmental Network Natura 2000.

10 “Ramsari places” have been declared in Bulgaria (5 until 2002) and 2 sites of the World Natural Heritage of UNESCO. Our country participates with 17 biosphere reservations in UNESCO’s “man and Biosphere” Program, but they do not comply with the contemporary concept on biosphere reservations.

1.7. Social development and quality of human resources

1.7.1. Quality of human resources, labor market

1.7.1.1. Demographic structure of the population

During the last 30 years the demographic structure of Bulgarian population is persistently deteriorating. Four major tendencies, noted by all researchers of demographic processes in Bulgaria, are noted: decrease of the population, ageing, accelerated emigration and restructuring of the ethnic composition. Bulgaria’s population has decreased by 11.7% (from 8.6 to 7.7 million) from 1990 to 2004. This is due both to the lowering of the birth rate as well as to the increase of overall mortality. Since 1993, the quotient of population growth has negative values in all planning regions.

Migration[20]**.** At the start of the 21st century, Bulgarian population continues to decrease and as at 31.12.2004[21] permanently residing in Bulgaria are 7,761,049 persons. Emigration of Bulgaria’s population in the years between the last two censuses (1992-2001) is approximately 196 thousand persons. At the same time, just 19 thousand persons have either returned or settled in the country. When juxtaposing these two migration flows, the balance of outbound migration of the population is calculated at 177 thousand persons, which accounts for some 35% of the population change.

During the 4.12.1992 - 1.03.2001 period some 418 thousand persons have changed their usual residence, with the *intensity of internal migration* being 4.8%.

The tendency towards the increase of the city population migration continues. More than 74% of all migrants come from towns, whereas the larger part (46%) have re-settled in other towns. 28 % of all migrants have settled in the rural areas. The larger scope of migration among the

[20] The analyses of the External and internal migration is according to data from the processing of a 2.5 per cent sample from the population polled by 01.03.2001. The conducted calculations are accompanied by stochastic errors and are subject to change following a final processing of the census data.

[21] According to the last official census carried out by NSI, current to 31.12.2001 the population is 7 973 671 persons

city population is due to the larger number of people residing in towns (69% of the country's population, current to March 2001). The migration flow from towns to rural areas during 1993-2001 almost doubles in scope the opposite flow from rural areas to towns. As a result of the internal migration, the village population has increased by almost 49 thousand persons during 1993-2000.

Age structure. Bulgaria's population continues to age as a result of the unfavorable tendencies in the development of the demographic processes over the last three decades. As at 31.12.2004, the share of the population aged below 15 has dropped to 15.5% of the entire population. It has to be noted that during the last few years the pension reform in the country (the increase of the retirement age) has resulted in the decrease of the relative share of population aged over the active age. Current to the end of 2004, the active population was almost 4 747 thousand persons (60.8% of the population).

Ethnic structure. A major problem with regard to the ethnic composition of the population is the sharp increase of the share of the Roma population, which is characterized by considerably higher levels of unemployment, poverty and low educational level compared to the average for the country[22]. These factors are a reason for the impulsive segregation of the Roma ethnic group from the remaining population. Within the population structure as regard ethnicity, the Bulgarian ethnos forms 83.9% (whereas for the years between the last two census it registers a decrease of 8.4% - 616 thousand persons), the share of the Turkish ethnic group is 9.4% (registering, in absolute terms, a decrease of 53 thousand persons), whereas the share of the Roma population and the share of other ethnic groups amounts to 4.7% (increase of 18.4% compared to 1992) и 1.2% respectively.

1.7.1.2. Educational profile of the population

The educational level of the population is one of the major indicators for the quality of human resources. During the 1998-2003 period the educational structure of the population aged up to 64 continues its improvement, whereas it follows the articulate tendency for increase in the number and share of the university and secondary school graduates.

[22] See Section 2.7. "Quality of human resources, labor market"

Table 23: Structure of the population aged up to 64 by educational degree (in%)

Educational degree	**1998**	**2003**
Total, including		
Higher education (college and university)	18.1	21.6
Secondary school	47.8	49.8
Elementary school or lower	34.1	28.6

Source: NSI.

A comparison between the 2002 educational structures of the population in EU's 15 countries and of Bulgaria indicates that the level of "human capital" in our country on the overall is slightly above the average for these countries. Among the population aged 25-64 in the country, the relative share of the persons with higher education is 21%, as it is the case in EU's 15 countries. Given a 38% share of the population with primary education or lower in EU's 15 countries, this share in Bulgaria is 29%. In EU's 15 countries the share of persons with secondary education is 41%, whereas this share for our country is higher – 50%.

Table 24: Structure of the population aged 25 – 64 by completed education and ethnicity

Completed education	Total for the country	Ethnicity		
		Bulgarians	Turks	Roma
Total	100.0	100.0	100.0	100.0
Higher	20.7	23.5	2.7	0.3
Secondary school	48.4	53.0	23.7	6.9
Elementary school	24.7	20.7	53.0	44.9
Primary school	4.3	2.1	15.0	27.4
Incomplete primary school	0.7	0.3	2.1	7.8
Illiterate	1.2	0.4	3.5	12.7

Source: NSI, Census 2001

Despite the overall satisfactory state of the educational structure of the population, it is necessary to note that the people from the Roma minority still have a very low educational level. The number of illiterate Roma people has increased by 60.6% in the period between the two censuses (1992-2001).

1.7.1.3. Income and Standard of Living

As a result of the economic growth achieved and the financial stabilization following 1997, the level of real income of the population registers a visible tendency of increase.

Table 25: Dynamics of real income of the households (%)

	1998	1999	2000	2001	2002	2003
Индекс 1995=100	80.3	82.1	78	73.3	86.6	90.7
Темп	34.1	2.2	-5	-6	18.7	4.8

Index1995=100

Rate

Source: NSI

During the 1996-2003 period, the real income has increased by 31.6%. For the past 2 years only, their growth rate is 27.3%. This increase has a differing extent of impact on the main elements of income. During the same period, the average working salary increase by 16.6%. In 2003 the average monthly gross salary reached a level of BGN 284 (approximately EUR 146).

Nevertheless, Bulgaria is considerably lagging behind with regard to income level in comparison with the EU countries. The average total gross income per household person in 2003 is BGN 177 (around EUR 91), whereas it is about ten times larger in EU-15. Among the Central and Eastern European countries, Bulgaria has the lowest income per household person.

Changes in the income structure of the households are formed under the impact of production, ownership and employment structure. There are three main sources forming the income of a Bulgarian household during the period – working salary, social transfers, and home farms. This structure has no big potential for fast and considerable increase of income. The working salary is the main source of income and with largest growth capacity but its share in the total income is relatively low.

Income from social transfers and home farms constitute some 41% of the total gross household income. In essence, these sources have no significant opportunities for growth. A relatively large part of the households receive income from social transfers. Among these, pensions occupy a leading position. Income from home farms (in money and in kind) constitutes a relatively high share despite the tendency for decrease following 1997. Incomes from additional jobs and entrepreneurial activity, which have a potential for rapid growth, have a relatively low share.

The difference in the dynamics of different income sources sped up the process of income stratification of the public. Polarizing tendencies[23] are observed therein, which are not a result from increasing income through improving the efficiency and increasing production.

The inequality in the income of the population, measured through the Genie quotient[24], displays two opposing tendencies. Up to 1995, inequality is growing rapidly (from 0.23 to 0.38), and then drops to 0.31 in 2000. During the last three years a repeated growth of the income differentiation is observed, reaching a level of 0.33.

Table 26: Household differentiation according to amount of income

Indicators	1998	1999	2000	2001	2002	2003
Genie quotient	0.32	0.31	0.31	0.32	0.34	0.33
Ratio of income between the 10% richest and poorest	9.3	8.9	9.2	9.3	10.5	9.6
Relative share of income of groups of person in the total income						
- Poorest 20%	7.5	7.6	7.4	7.4	7.0	7.3
- Richest 20%	40.9	39.8	39.8	40.0	42.5	40.9

Source: NSI

The population polarization by income, measured through the income ratio of the poor and the rich social layers illustrates the same tendencies as the income differentiation. In 1995 the ratio of the 10 per cent richest to 10 per cent poorest households is 11.9 fold, whereas in 2000 it drops to 9 times. In 2000 the ratio is 9.6 times.

Compared to the EU countries, the inequality of the population with regard to income is not sizeable. Bulgaria is among the countries with low differentiation of income.

1.7.1.4. Health status of the human resources

Our country is considerably lagging behind the advanced countries, the EU member countries included, in terms of life expectancy. E.g., the average life expectancy in Bulgaria is 72,07 years (68,7 for men and 75,6 for women) and, in comparison with the EU countries, it is

[23] Mainly between incomes from working salary and pensions, between working salaries in individual sectors and branches of the economy; between the working salary and the social welfare payments.

[24] Calculated on the basis of a dectile grouping of the households.

lower by 6,0 years for men and 7,3 years for women. The situation with the comparison of the mortality indicators is not much better either. Infant and maternal mortality, although registering a tendency for decline during the past 15 years, do not alter our unenviable position toward the Central European countries. The 12.3% infant mortality rate, achieved in 2003, is considerably higher than that in the EU countries, Poland and Hungary included.

Another important set of indicators, characterizing the health status of the population, is related to the frequency and structure of the registered maladies. Statistics show that 72–75% of all registered cases of maladies in the country in the past few years are due to illnesses of the respiratory system, followed by diseases of the nervous system and the sense organs, diseases of blood circulation, traumas and poisoning, and diseases of the skin and the hypodermic tissue. Tendency for contracting malignant formations in Bulgaria is similar to the observations in the other European countries.

The epidemic situation with some characteristic diseases is also a measure of the health status of the population. Indicative in this regard is the growth of the persons suffering from tuberculosis, which is considerable during the years of transition.

It has to be noted that some indicator characterizing the dissemination of significant diseases place our country into a more favorable situation. An example of this is the dissemination of HIV/AIDS, which of some Eastern European and Central Asian countries is considerable, whereas up to now, this dissemination is relatively low in Bulgaria.

The number of persons acknowledged as handicapped persons is also indicative of the health status of the nation. Statistics shows that in 2002 they were 101,353, which is almost 3 times higher in comparison with 1994 and represents a share of 15.3 ‰ of the population aged over 16. The most common cause of disability in 2002 is diseases of the blood circulation organs, which include 36.8% of the total number of cases of newly disabled persons.

The overall deterioration of the populations' health status is accompanied by some peculiarities, placing groups of it in a more inauspicious situation. Such groups are the people residing in rural areas, in some distant regions of the country, and mostly of the people from the Roma minority community. From a survey under a project of the PHARE program BG0006.08 – „Ensuring access to health care for the minorities", targeted towards measuring the real health status of the Roma, it is obvious that there is an ill person in nearly 80% of the Roma households visited in 10 towns with sizeable Roma population. One fourth of the visited Roma households have a person registered for high degree of handicap (disability of

50% or more). The survey specifies that the Roma women and children are a special risk group with regard to health status.

1.8. Social Development and Problems of Social Inclusion

1.8.1. Poverty

Bulgaria is the country with the highest rate of poverty among the EU Member States. As a result of the analysis of the multi-targeted monitoring of households carried out by NSI in 2003, the amount of BGN 102 per equivalent person per month (60% of the total monthly consumer expenditure of an equivalent person in the household) has been taken as a poverty threshold in Bulgaria. Based on such poverty line, the relative share of poor population in the country accounts for 14%, i.e. about 1 114 thousand people in Bulgaria are poor. The depth of poverty[25] is 2,9%, while the acuteness of poverty [26] is 1,1%.

NSI assessments of poverty [27] in Bulgaria give grounds for the following conclusions:

- *Poverty is reducing over the last years*. The relative share of poor households has been reduced from 15,6% in 1998 to 14.1% in 2003.

Table 27: Poverty threshold and relative share of poor households

	1998	1999	2000	2001	2002	2003	2001 EU15	2001 EU25
Poverty threshold (ECU/EUR)	568	608	628	639	762	843	8319	7243
Relative share of poor households (%)	15.6	15.3	14.3	15.5	13.4	14.1	15	15.0
Level of poverty among men (%)	13	13	13	14	12	-	14	14
Level of poverty among women (%)	18	17	15	17	15	-	17	17

Source: NSI, EUROSTAT

- *The level of relative poverty does not differ significantly from the level in the EU Member States*. The available data allowing a comparison to be made indicate that the share of poor people in EU was 15% in 2001, while in Bulgaria it was 15,5% in the same year. As

[25] Factor, which measures the relative difference in the level of consumption of poor people from the poverty line.

[26] Factor, which measures the disparity in the level of consumption among poor people.

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

far as the new EU Member States are concerned, the share of poor households is, as follows: Latvia – 17%, Lithuania – 16%, Estonia – 18%, Hungary – 10% and Czech Republic – 8%.

- *Low level of poverty line as compared to the average level for the EU.* The difference in the absolute poverty lines is quite significant for the country. The annual poverty threshold for the EU Member States in 2001 was Euro 8 319, while for Bulgaria it was Euro 639, i.e. 13 times lower. This means that almost the entire population in the country lives in poverty as compared to the average European level.

- *The role of social transfers (including pensions) for reducing poverty may be defined as significant.* The relative share of poor people would be by 12,6 percentage points higher (36,7% of population) prior all social transfers as compared to the situation after such transfers. Excluding pensions from social transfers, the remaining part of such transfers does not play a very strong role for reducing poverty. As a result of the social transfers (except for pensions), the share of poor households in 2003 was reduced from 16% to 14,1%. The difference between both levels is 1,9 percentage points, while for the EU Member States it is 9 percentage points. This comes to show that the state should intensify its role in the implementation of its social functions to provide protection for the poorest part of the society and to reduce the risk of poverty.

The analysis of the accessible statistical information allows the identification of the following relevant groups of poor people or people threatened with poverty:

1. *Unemployed persons and households with unemployed members.* According to data reported by NSI, 30,9% (32,5% men and 29,4% women) of unemployed persons were below the poverty line in 2002, while their share was only 5,9% among employed persons. Each employed person reduces by 1/3 the risk of poverty of the household of which he/she is a member. Each unemployed person increases by 50% the risk of poverty of the household of which he/she is a member. Poverty is widely spread among long-term unemployed persons.

2. *Economically inactive persons with low income.* These are mostly retired persons with low pensions, disabled persons and housewives. Their share among people between 15 and 65 years of age was 39,1% in 2003. 12,4% of retired persons and 15,9% of the other economically inactive persons were below the poverty threshold in 2002. The number of women over 65 years of age living below the poverty threshold in the country in 2002 was three times higher than the number of men at the same age.

3. *Lonely parents.* Families with one parent constitute a specific group at risk, as the average level of income in the country does not allow for one person to maintain autonomously a dependant family member. Poor households with one parent were 41,2% in 2002. The level of poverty in households with lonely parents is 3 times higher than that of households without children or with 1 or 2 children. The poverty of lonely mothers is a typical case insofar studies confirm that women hold lower positions in professional and position hierarchy and accordingly in the income categories.

4. *Large households.* In most cases these are households of Roma and Turkish people who in principle have broad reproduction behaviour. The share of households with three or more children living below the poverty threshold was 37,2% in 2002.

5. *Disadvantaged children.* This group includes orphans and abandoned children, as well as those who leave school early. Together with the multiple psychological problems caused by their social isolation, these children are among the groups at the highest risk. Great part of them live in specialised institutions offering poor living conditions, while their education as a basis for social inclusion and social adaptation in a family or quasi-family environment is a serious problem.

6. *Disabled persons.* This group includes people suffering from chronic diseases and those with permanent health disorders. People suffering from mental disorders are in particularly difficult situation. Essential problems in their case are their unregulated equal rights, equal access to information and civil services. According to different data and criteria of specialised organisations, the number of disabled persons in Bulgaria varies between 265 and 700 thousand people.

7. *Illiterate and low-educated people.* These people fall most frequently in the category of poor people. The completion of primary education reduces 2 times the risk of poverty, the completion of general secondary education reduces 2,3 times that risk and the completion of special secondary and higher education reduces about 3 times the risk of poverty. The level of poverty among people having higher education is below 2%.

8. *Ethnic appurtenance (Roma and Turkish people).* The majority of Roma population is characterised by high level of poverty and social isolation. It features a stable sub-culture of poverty and combines most of the typical features of the other groups at risk: low and insecure income, poor living conditions, low level of education, poor health status, large families and long-tern unemployment. In 2003, the share of poor people was 64,3% within the Roma ethnic group, 23,4% within the Turkish ethnic group and 9,4% within the Bulgarian

ethnic group. For reference, according to a study of the World Bank[28] carried out in 2001, 5,6% of Bulgarians, 20,9% of Turkish and 61,8% of Roma people have been assessed as poor.

9. *Employed poor people.* Most frequently these are people engaged in low-paid or unqualified manual work in agricultural and forestry sectors, as well as in the sartorial industry. Many of the people falling within this category are aged persons around the retirement age, which increases the risk of poverty.

1.8.2. Health Care Services

Among the four pillars of the health care system, i.e. promotion, prevention, treatment and rehabilitation, mainly the treatment activities are covered in Bulgaria. One of the major problems faced by the health care system is its obsolete and exhausted technical facilities and infrastructure. The slow implementation of the health reform leads to deterioration of the quality of health services offered and hampers the equal access of population to the services provided by the health care system. Another major problem for the development of the health care system and the quality of health services are the under exploited possibilities for funding beyond the amount of the state subsidy.

Health reform

The reform of the health care system in the country started in 1999. A fast process of decentralisation of the health care system has been launched afterwards. The National Health Insurance Fund has been established and the rights of the Bulgarian Medical Association have been reinstated and extended. Out-patient and in-patient health care centres have been transformed from state or municipal owned public health care establishments to limited liability or joint stock companies.

As stated in the analysis entitled “The new challenges to the reform of the health care system in the Republic of Bulgaria” made by Petko Salchev, Deputy Minister of Health during the legislature of the 39th National Assembly[29], several main objectives and achievements may be summarised, as well as the following difficulties and future tasks may be identified. The

[28] See Bulgaria: Assessment of poverty, World Bank, 2002. The World Bank carried out 3 studies on poverty in 1995, 1997 and 2001 using the method of integrated study of households. These studies provide information on poverty by ethnic appurtenance.

[29] “The new challenges to the reform of the health care system in the Republic of Bulgaria”, Petko Salchev, Deputy Minister of Health

following objectives have been fulfilled as at the end of 2004: introduction of the health insurance system and "market mechanisms in the field of ambulatory medical care" (payment for services provided); stabilisation of funding in the field of ambulatory medical care; planned progressive increase of funds allocated for health care. The achievement of the objectives set has been impeded by the following obstacles: the reform in funding has stopped at the stage of ambulatory medical care; no mechanisms for development of payment in the field of in-patient medical care have been established; a payment model based on "clinical paths" in hospitals has been chosen, which still needs to be improved; no clear mechanism for defining the "basic package" of services to be paid from public funds has been established; the mechanism of payment to hospitals based on subsidised budget has been maintained; voluntary health insurance funds are yet at the stage of study and structuring. Tasks to be performed include the introduction of payment for in-patient care based on services provided (money follow the patient principle); follow-up of the activities covered by the signed "road map" for the introduction of diagnostically associated groups (DAG); introduction of a single information system; introduction of a system of "National health accounts"; elaboration of appropriate investment policy and offering opportunities for external investment.

Health care system

Total public expenditure on health care have been increasing recently (3,3% of GDP in 2000, 4,0% of GDP in 2001, 4,4% of GDP in 2002, 4,9% of GDP in 2003, 4.7% of GDP in 2004).

A gradual process of development of health care services in conformity with the adopted strategy for development of health care system has been observed over the last years:

- the number of general practitioners increased from 5 146 in 2000 to 5 350 in 2003;
- the total number of medical establishments providing in-patient care in Bulgaria in 2004 was 301 with a total bed space of 45 070 beds, i.e. 57,8 beds per every 10 000 people;
- 28 128 physicians, 6475 dentists, 381 pharmacists and 45 731 professionals with secondary or higher education were engaged in the in-patient care sector as of 12/31/2003;
- the average duration of hospital take in was 8.8 days per treated patient in 2003.

The health care system is well provided with bed space as compared to the indicators of provision of bed space and medical professionals in the EU Member States.

The major problem faced by the Bulgarian health care system is the obsolete and exhausted technical facilities, including the hygienic and infrastructure conditions in hospitals, the available technical equipment in hospitals, as well as the existing differences in this respect both between EU and Bulgaria and urban and rural areas in the country. The poor condition of the physical and technical infrastructure affects also the quality of some sections of the in-patient care. The available ambulances and their equipment are insufficient to cover the needs of population, which on its turn results in considerable deterioration of the quality and speed of the health care provided.

Health prevention in accordance with the EU strategy for development of health care in the Union is a priority. As far as Bulgaria is concerned, the level of tobacco smoking prevention is lower than that in the EU, while at the same time there is need of enhanced prevention because of the existence of higher risk factors: Bulgaria ranks before half of the EU Member States in terms of levels of tobacco smoking and pulmonary cancer diseases. Furthermore, the favourable opportunities for the development of the prevention and rehabilitation aspects of the national health care system are not exploited effectively, i.e. the numerous mineral springs and favourable geographic characteristics in certain regions of the country. Prevention of other leading threats such as AIDS and drug use is also relatively poor and in terms of prevention at national level the initiative of the international organisations plays the leading role. The corporate social responsibility in the field of medical services for the whole population and groups at risk is also at a very initial stage of development. This is also one of the fields where inconformity between Bulgaria and the EU exists.

Privatisation within the health care system remains an open issue. There is a lack of law defining the precise privatisation rules that are to bring about an improved quality of services provided and to maintain the quantity of services offered at reasonable price that are adequate to the needs of population. A legal framework intended to guarantee the rights of and the quality of services provided to citizens is in process of elaboration.

The administrative capacity necessary for the organisation and quality control of the decentralised health care system is extremely poor and in practice there is no unit responsible for monitoring the quality of the health care provided. Exception is made in the filed of hygienic control administered by the Hygiene and Epidemiological Inspectorate, which enjoys an international recognition of its traditionally high quality of performance of its tasks. This comes to show that the lack of administrative capacity for the health care system is not due to the lack of prepared staff but rather to incorrect organisation and use of the available human resources for the purposes of administration of the health care system.

Due to the low income of population the level of health self-insurance and life insurance is several times lower, both in terms of realisation and opportunities, than the European standards. With respect to self-insurance, the life insurance in Germany for example covers 80% of the population, while the level in Bulgaria is about 10%. This reflects the low health insurance culture of Bulgarians and the lack of financial capacities of the population to adequately participate in a health care system based on the principle of self-insurance.

International commitments undertaken in the field of health care

The high infant and maternal mortality rate often is due to the restricted access to quality health services for pregnant women and children in rural areas and settlements featuring high concentration of Roma population. Infant mortality rate in Bulgaria is alarmingly high over the last years – 13 per 1 000 infants born alive at the age of up to 1 year (while in Western Europe this figure varies between 3,5 to 9). Infant mortality rate for the group of 0 to 5 years of age (17,1 per 1 000) also is higher than the average rate in Central Europe (10,7). These are also criteria with respect to which Bulgaria has undertaken commitments to the international community in regard with the Millennium Development Goals until 2015. Maternal mortality rate needs to be reduced from 19,1 to 12 (deceased pregnant women, women in child-birth and young mothers per 100 000 infants born alive), health care for pregnant women should be improved reducing the number of abortions from 750 to 550 (per 1 000 infants born alive) and the levels of 90% monitored pregnant women (covered up to 3 months of pregnancy) and 99,8% of births assisted by qualified professionals should be achieved. With respect to infants, the commitments undertaken by Bulgaria are reduction of infant mortality rate from 17 to 9,5 per 1 000 infants born alive for children of up to 5 years of age; reduction of infant mortality rate (deceased infants of up to 1 year of age) per 1 000 infants born alive from 14,4 to 7,0; reduction of perinatal mortality rate per 1 000 infants born from 12,3 to 8,0; reduction of the share of low weight infants born alive (below 2 500 g) per 1 000 infants born alive from 9,1% to 6%. Furthermore, 100% (as compared to the current 93%) of infants of up to 1 year of age should be covered by the health care immunisation system, while the BCG, DPT, poliomyelitis, OPV and hepatitis B immunisation level should rise from 93,6% to 99%. This means that the international commitments undertaken by Bulgaria are focused on the provision of equal access to health care services based on the assumption that high quality of such services will be sought.

The health care system in Bulgaria needs renewed technical and infrastructure facilities. Three out of the four basic aspects of health care need to be further developed, and namely promotion, prevention and rehabilitation.

1.8.3. Education and Science

Education

Access to education

As evidenced by the analysis of the quality of human capital, the current overall situation of the educational structure of population is satisfactory, except for the Roma minority, which remains with extremely low level of education. The number of illiterate Roma people has increased by 60,6% over the period between the last two national censuses (1992-2001). In general, the comparison made between the educational structures of the population of the 15 EU Member States in 2002 and Bulgaria shows that the level of the "human capital" of our country as a whole, excluding the illiteracy among Roma people, is slightly above the average level in these countries.

However, serious problems in the long-term are shaping out in regard with the maintenance and development of the quality of human resources in Bulgaria. The low factor of enrolment in all educational levels and the high percentage of drop-outs in the secondary level of education are among the current reasons for the reduced share of persons having a secondary education. The level of enrolment in the elementary stage of the primary level of education (1 to 4 grade) exceeded 95% in 2001. About 7% of students did not complete that stage. This means that the problem of drop-outs exists yet at the first level of inclusion in the educational system. The rate of enrolment and the share of students completing the junior high school level have maintained relatively stable levels over the years with 16% of those enrolled having been dropped out of the educational system without having completed that level of education. The lowest rates of enrolment have been reported in the field of secondary education. The rate of enrolment for the secondary level of education restored its level as of the beginning of the transition and reached 68,3% in 2001. This positive trend, however, has been accompanied by reduction of the share of students completing their secondary education (85,1% in 2001 as compared to 87,6% in 2000).

In general, the so-called “drop-outs” are an extremely complex problem. The table below shows the dimensions of this phenomenon:

	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Students	1 119 436	1 095 747	1 074 946	1 046 477	1 043 432
Drop-outs	34 963	28 337	30 690	28 000	31 006

Source: Education in the Republic of Bulgaria, 2004

The above data indicate that by various reasons an increasing number of children remain without access to education, and are therefore threatened of ever large-scaled social exclusion in the long-term.

Serious disparities in the access to education exist also between urban and rural areas. Out of the total number of students enrolled in the academic year 1996/1997, children in rural areas who have completed their elementary education were 17% less than children in urban areas. Particularly symptomatic is the index of completion of the junior high school level of education, which grew by 1,9% in towns, but fell down by 6,7% in villages over the period 1996-2001. In support of what stated in regard with this trend, the human development index (monitored by UNDP) for 2002 reported that remote municipalities and municipalities featuring high concentration of ethnic minorities were characterised by low level of literacy and low rate of school enrolment. According to data reported by UNDP for 2003, Bulgarian Roma people are among the most vulnerable groups in terms of education preceded only by Roma people in Romania. As quoted above, the official data for the country indicate that 7% of children do not complete elementary education, while as far as Roma people are concerned, in 42% of households there are children who have not completed elementary education. This index is 11,8% for Slovakia and 22,0% for the Czech Republic, which illustrates the serious divergence from the standard of equal access to education in Europe. Another trend that should be noted, although it is not so strongly expressed in the short-term, is that more boys than girls have tended to enroll in the junior high school stage of the primary level of education over the last few years. Experts estimate that this fact outlines the possibility of a future difference in the level of education between men and women resulting from the different access to education of the two genders.

With respect to the access to education, not only children from minority groups but also children having specific education needs fall within the groups at risk. Reference is made to about 10 300 children studying in specialised classes and schools. Another 5 700 children attending specialised educational institutions need to be added to this group. The number of children having specific needs is high. In most cases they are institutionalised and remain isolated from the natural family environment. The administrative obstacles to the integration of children having specific needs in ordinary schools have been already eliminated, however, mostly due to financial reasons, such integration is not a real fact yet.

Quality of the Bulgarian education

As clearly demonstrated by the findings of the international study in the field of secondary education (TIMSS)[30] used as criteria basis also by UNESCO and underlying the European indices of quality of education, the quality of the primary and secondary education in Bulgaria has been seriously reduced. The information on the achievements in mathematics and natural sciences of students in the elementary and junior high school level of education evidences a collapse of the traditionally high level in Bulgaria. In 1995, when TIMSS was launched, Bulgaria ranked ninth in mathematics and fifth in natural sciences, which were definitely leading positions among the total of 50 countries covered by the study. A serious fall was observed in 1999 when Bulgaria ranked 17th in mathematics and 16th in natural sciences. A further fall in the quality of education in 2003 placed Bulgaria at 25th and 24th position, respectively for both branches. The findings of the studies of literacy, entrepreneurial skills and civic knowledge acquired in the framework of the educational system carried out by

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[30] TIMSS 2003 International Mathematics Report *Findings From IEA's Trends in International Mathematics and Science Study at the Fourth and Eighth Grades*Mullis, I.V.S., Martin, M.O., Gonzalez, E.J., & Chrostowski, S.J. (2004), Chestnut Hill, MA: TIMSS & PIRLS International Study Center, Boston College И TIMSS 2003 International Science Report *Findings From IEA's Trends in International Mathematics and Science Study at the Fourth and Eighth Grades*Martin, M.O., Mullis, I.V.S., Gonzalez, E.J., & Chrostowski, S.J. (2004), Chestnut Hill, MA: TIMSS & PIRLS International Study Center, Boston College.

PIRLS[31], PISA[32] (carried out specifically by OECD) and CIVIC [33] also indicate a downward trend even though the fall registered was not so drastic.

On the other hand, it is important to note that the data reported by PIRLS (which according to the expert estimates are expected to be included in the other parallel study of teacher training (TEDS) carried out by the International Association for Assessment of Quality of Education) and CED[34] illustrate that just about 10% of Bulgarian teachers have acquired computer literacy, which forms part of the general problem of the slow process of modernisation of training process and approach in the country. The reason for Bulgarian teachers to lag behind in terms of computer literacy is the lack of accessible life long learning system. On the other hand, teachers in Bulgaria are among the people with the lowest income in the country (average monthly salary for 2004 according NSI is 366 BGN and average monthly income in sphere of education is 320 BGN) and as a rule dispose of very limited resources for self-investment in the development of their professional competences.

Higher education in the country is lagging behind as far as modernisation of curricula[35] is concerned. The curriculum is not adequate to requirements of labour market and economic development of the country. The described problem is an obstacle to students' mobility.

The introduction of a single credit system is very recently introduced with the law of high education (State Gazet No.48 from 04.06.2004 г.) and Regulation № 21 from 30.09.2004 г. considering credit accumulation and transfer. Curriculums for first and second year students' are .taken into consideration by all universities.

The problem with quality of curriculum still remains and impede the mobility of Bulgarian students and their easy convertibility on the single EU labour market[36].

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[31] PIRLS 2001 International Report: IEA's Study of Reading Literacy Achievement in Primary Schools, Mullis, I.V.S., Martin, M.O., Gonzalez, E.J., & Kennedy, A.M. (2003), Chestnut Hill, MA: Boston College.

[32] PISA 2003 Assessment Framework: Mathematics, Reading, Science and Problem Solving Knowledge and Skills - Publications 2003

[33] CIVIC 2001 - Torney-Purta, J., Lehmann, R., Oswald, H., and Schulz, W. (2001). *Citizenship and education in twenty-eight countries: civic knowledge and engagement at age fourteen.* Amsterdam: IEA.

[34] "Forecasts and perspectives for the Bulgarian education", CED, Sofia, 2005.

[35] European network for quality assurance in higher education – ENQA – European Higher Education Area – page 5 – Bulgaria is not an ENQA member.

Life long learning is a marginal practice in higher education institutions. The trend goes deeper with employers – Life long learning is hardly addressed by employers[37]. I*t is obvious that Bulgaria* is lagging behind in this sphere although the country participates in Bologna process from its very beginning in 1999.

A shortcoming of the overall concept of Bulgarian education is the lack of differentiation of classes in certain mandatory quotas for academic and practical training. Such successful practice is observed in the English educational system featuring traditionally high quality of education, as well as in other systems of Anglo-Saxon type. The lack of such balance in the educational programme reduces the ability of Bulgarian education institution graduates to compete with practically better prepared EU professionals.

Poor applied orientation is another shortcoming of Bulgarian education. A quantity indicator of such shortcoming is the fact that the number of unemployed specially qualified labour force in the country is 80 106, while there are 17 487[38] free work places for specially qualified workers that remain free. This situation indicates that the education acquired does not correspond to the demand on the labour market and makes it inadequate to the needs of the labour market.

Link between education and business

The link between education and business is poorly developed in the country. The only real practical manifestation in this regard is the organisation of annual Career Days in the form of information exchange fora. The link between education and business includes also other aspects such as the provision, on behalf of business, of funds for education facilities, investment in R&D activities, achievement of maximum balance between the needs of business and the quality of labour force output generated by the educational system.

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[36] Bologna Declaration – 1999 – Action Programme – Specific Objectives

[37] Prague Communiqué – November 2001 – Objectives for Lifelong Learning

[38] Institute on Employment, 2004

The funds provided for education account for 3% of GDP in Bulgaria. On the other hand, material and technical facilities in schools are ill-kept, obsolete and not conforming to the European standards. A large share of the 2696 schools need to be repaired. The availability of training aids, equipment, computers and visual aids is inadequate. This situation results both from the inadequate state funding and the poor development of corporate social responsibility in the country with respect to the building up and maintenance of education.

Higher education institutions enjoy economic and administrative autonomy. The allocation of less than 0,05% of GDP for the development of R&D activities (AEAF, Eurostat, 2003) is a specific shortcoming in their administration. Another shortcoming is the extremely low percentage of business integration in the education process through the provision of a system of traineeships, development of R&D projects and establishment of business incubators in training environment, all these being good practices in the European educational systems constituting traditional tools for practical orientation.

The criteria for modern European education have been closely related over the last years with the so-called "Bologna process". Essentially, it is a process of alignment of quality of education and mobility of students in the EU. In this context, the immediate objective set of creating an European Higher Education Area is ever more closely perceived not only as a strategic goal for the education institutions, but also for their partners, the employers. One of the major national challenges is to outline the appropriate steps for a dialogue between the education institutions and labour market. The required link at various levels does not exist in the country:

- Elaboration of an acceptable list of competences covering the variety of the European educational systems with the active involvement of representatives of the academic circles, university graduates and employers.
- Systematic consultations with employers in regard with the steps of the education reform
- Involvement of employers in the elaboration, assessment and maintenance of the quality of specific curricula.

All these steps miss as individual elements in the Bulgarian educational system, which is a serious obstacle for its alignment to the European standards.

On the other hand, business organisations express their lack of satisfaction of the quality of personnel. The findings of a study carried out in April 2004 by the Bulgarian Chamber of Commerce and Industry among 3 000 respondent companies are indicative in this respect[39]. As far as higher education is concerned, 57% of respondent companies see necessity of additional training, while 14% of them are definitely unsatisfied of the quality. With respect to the profiled secondary education, both answers cover total 53% of the opinions expressed, while in the case of the general secondary education this figure is 48,16%. The major source of these problems is the poor practical training offered within the educational system. 48% of respondent companies are unsatisfied of that training. Their lack of satisfaction rises to the record breaking 80% in the case of higher education. As far as the theoretical training is concerned, the lack of satisfaction reported is weaker: 36% in the case of higher education institutions and 29% in the case of secondary schools. Notwithstanding these serious problems, universities and the state seem to be slightly interested in the opinion of employers. This proves both the poor practical orientation and the poor practical applicability of the training offered within the Bulgarian educational system.

Convertibility of education and free movement of persons

Free movement of Bulgarians abroad is impeded by the lack of recognition of Bulgarian diplomas of higher education[40], which restricts the opportunities of Bulgarian professionals to have an equal access to the single labour market of EU professionals with equal level of qualification[41]. One of the reasons for this situation is that currently Bulgaria does not participate in the Bologna process. On its turn, the non-participation of Bulgaria in the Bologna process is an obstacle for the involvement of skilled Bulgarian professionals who have obtained their qualification in foreign universities in the Bulgarian administration, as the relevant procedure is rendered quite burdensome both in terms of its procedural and financial aspects. This combination of lack of moral and financial recognition of that group of practically trained Bulgarian professionals is the reason for the outflow of social capital from the country.

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[39] BCCI, April 2004.

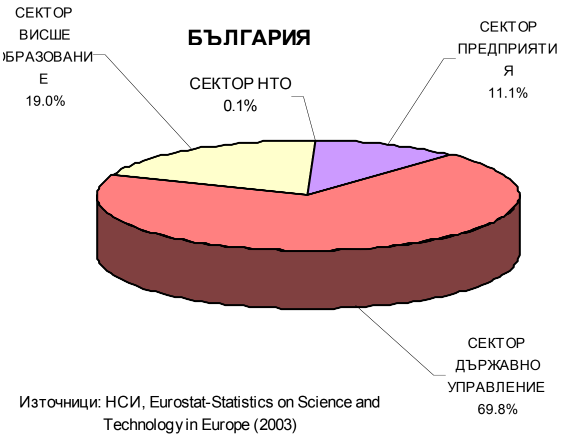
[40] According to Bologna Declaration – Priority 3 – an academic certificate must be based on the ECTS credit system and to be accompanied by a Diploma Supplement to ensure the EHEA recognition

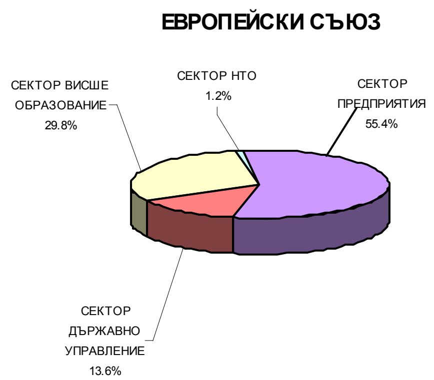
[41] According to Bologna Declaration – 1999 – Action Programme – Specific Objectives – EU scope of the term convertibility of education includes academic and professional recognition.

Science

System for development of science in the country

The structure of BAS and its satellite scientific institutes represents the system for development of science in the country. Their material facilities and equipment are obsolete and exhausted. Another shortcoming of the system is the inadequate model of criteria and procedures for the acquisition of scientific title as compared to the models applied in the EU. This results in unequal treatment of Bulgarian scientists and their counter parties from the EU. Another shortcoming of the system of scientific activities in the country is its poor involvement in the investment made in R&D. 29,8% of the expenditure on R&D are made by higher education institutions in the case of the old 15 EU Member States, while in Bulgaria 19,0% of the total expenditure are provided by the higher education institutions.





<u>Key:</u>

Bulgaria

- Higher education sector, 19,0%
- R&D organisations, 0,1%
- Business sector, 11,1%
- Government sector, 69,8%

European Union

- Higher education sector, 29,8%
- R&D organisations, 1,2%
- Business sector, 55,4%
- Government sector, 13,6%

Sources: NSI, Eurostat Statistics on Science and Technology in Europe (2003)

Outsourcing of human capital (skilled professionals)

The personnel engaged in R&D activities per 1 000 people of the labour force is a standard indicator of the actual engagement of human capital in the formation of scientific knowledge and its use for new practical applications. The level of this indicator in Bulgaria has been low over the period 1995-2002 with a downward trend being evidenced since 1996. The labour force employment in the R&D sector in Bulgaria in 2001 (5,1) was twice lower than the average level for the 15 EU Member States (13,9) and was below the level for the 10 new EU Member States (8,4). In terms of this indicator, our country is lagging behind all European countries, except for Lithuania (3,7) and Romania (3,9). On one hand, this demonstrates the inadequacy of the standards of human capital employment in the R&D sector in Bulgaria as compared to the EU. On the other hand, the total number of scientific personnel, expressed in full time employment equivalent (after recalculation of the part time employed in the R&D sector), was 15 029 persons in 2002. The reduction in terms of this indicator has been relatively slighter (40%) as compared to the fall reported for the absolute number over the period 1995-2002. At the same time, the available human capital for R&D accounted for 16 847 persons in 2002. This shows that 10,8% of the available human capital for R&D remains excluded from the employment in the R&D sector. The quality of that human capital, however, is at and above the world level. The university graduates in scientific and technological branches are the main source for the provision of such personnel. Their relative share of the total university graduates was 20,2% in 2003 as compared to 19,2% in 2001, the average level for the 15 EU Member States being 25,7% and 13,0% for the 10 new EU Member States. This is one of the reasons for the intensified “academic” emigration of skilled professionals, which undermines the long-term competitiveness of the Bulgarian economy and education as it means poor R&D activities in Bulgaria and deterioration of the quality of the available experts and lecturers in the country.

The national educational system faces several major problems: the reduced quality of the traditionally strong Bulgarian education, lack of equal access to education by reason of poverty and marginalisation, lack of opportunities for professional realisation through established bridges between education and business, and poor convertibility in terms of law of the Bulgarian education abroad in accordance with the initiative of the Bologna process.

On the other hand, R&D, the function of the highest national educational capacity that is most important for the economy, is poorly developed in Bulgaria based on the four criteria laid down by the World Bank: no favourable economic and institutional environment and governance supporting entrepreneurship is place in the country. One of the most important sectors of the national innovation system, the education, has a reduced capacity for the realisation of products featuring high level of knowledge and innovation. The legal framework supporting R&D is poorly developed. The well-trained human capital flows out of the country emigrating in countries featuring developed information and communication infrastructure for R&D activities.

Thus, the development of human capital and economic competitiveness in the country is seriously jeopardised because of the lack of an overall concept for the development of the national educational system.

1.8.4. Culture

Cultural development consists of the development of living culture (visual and stage arts, book publishing, cultural clubs (specific national phenomenon)) and cultural heritage (archaeological finds, cultural sites, museums, libraries). In this context, as well as in regard with the impossibility for total self-funding of culture[42], the main obstacle for the development of culture in Bulgaria is the lack of integrated strategy at government level for its sustainable development and for the development of transborder cultural cooperation. The resources of cultural heritage to assist the economic development of the country are not efficiently developed and kept. On its turn, living culture generates diminishing product because of its poor funding and management, which is also an indicator of the downward trend observed in social activity and social inclusion through cultural activities.

Cultural heritage

The known unexplored archaeological fields in the country are 2 000 Thracian tumuli plus rock towns and other archaeological fields. The number of museums in decline is growing, the number of persons engaged in museum activities has reduced by 314 over the period

[42] The Balmer and Bowen effect characterises living culture as a specific type of economic activity, where the high productivity rate does not offer opportunities for increased capacities of reinvestment and refunding, but rather requires increased investment in order to be maintained the development trend.

1997-2003, there are 7 completely closed museums, and the number of cultural sites requiring restoration increases. The number of libraries also has been reduced from 7 944 (1996) to 6 942 (2000), while the available library fund has been reduced by 4 392 thousand instead of following its normal upward trend; no automated catalogue system exists in the Bulgarian libraries, which also results in reduced quality of the service provided and constitutes a significant deviation from the European standards.

The development of cultural heritage is hampered by the lack of targeted management providing adequate and differentiated funding. No clear scheme for the development of corporate social responsibility exists in the country, which is intended to involve businesses as investors in the exploitation of the cultural heritage potential of development in the form of alternative tourism that has the potential to generate economic return.

Another problem in the context of the efficient economic exploitation of significant cultural heritage sites is the poor availability of adequate transport and other material infrastructure adjacent to the cultural corridors within the national territory.

Having regard the above outlined situation, the possibility of job creation in regard with the preservation, management and promotion of cultural heritage in the country as a tool for active involvement of that social group of skilled professionals in the field of culture who currently either emigrate or do not use their skills as a social capital because they are engaged in low qualified labour remains unused. The number of graduate experts in the field of culture is maintained relatively constant, while the employment in the cultural sector is gradually dropping. According to data reported by NSI, the number of employed in the field of culture as a whole has dropped from 41 286 to 28 980 over the period 1998-2003. At the same time, the most recent data reported by the Ministry of Culture and Tourism indicate that the intensity of “production” of professionals in the country is maintained at the same levels. The annual number of persons graduating from schools of arts and culture varies between 800 and 1 000, while the number of graduates from higher schools of arts is about 750.

Living culture

Among visual arts, statistical data are collected only for the national movie production. The annual movie production has increased from 44 to 86 movies over the period 1997-2003, however the Bulgarian production is ten times lower than the average volume for the EU Member States. At the same time, the rate of liquidation of cinemas in the country has been at the same proportion, however following a downward trend: the number of cinemas throughout the country has been reduced from 216 in 1997 to 149 in 2003, the reduction being most pronounced in small settlements, which indicates that less areas have access to social life and active involvement in the cultural life in the country. National statistics does not monitor the development of applied arts, however according to expert assessments, they are poorly funded from government and non-government sources. Due to the already mentioned Balmer and Bowen effect, this guarantees their low competitiveness on the arts market, regardless of their high potential.

The liquidation of 11,76% of theatres in the country over the period 1996-2000 is indicative of the situation of stage arts, this percentage being much higher in smaller settlements, which demonstrates that the socio-cultural integration of the population in smaller settlements is more difficult. The scale of current international cultural initiatives at national level is not sufficient, which is also one the unexploited possibilities for development of live culture.

One of the reasons for the above outlined situation of live culture is the stable trend of reduction of the funds allocated from the government budget – 8% in 1999, and about 6% from GDP in 2004. At the same time, subsidies originating from the non-government sector are 2,4% (according to data published in the Council of Europe Compendium for 2003), which is within the EU standards (1% - 6%). However, culture needs additional funding, and therefore cultural management aimed at attracting alternative sources of funding and strategic development of various aspects of live culture (theatres, cinema, opera, ballet, book publishing, etc.) should be developed in the country.

Good practices of cultural development

The available information clearly illustrates the necessity of developing corporate social responsibility in the field of live culture. There are national examples of corporate social responsibility in the field of culture: the programmes of Biochim Bank and Post Bank[43] are

[43] The Post Bank implements its corporate social responsibility project ARTCONTACT. It includes funding of concerts, drama performances, exhibitions and sports events. The project has its own information portal and is implemented in cooperation with two printed media, Capital and Dnevnik newspapers, as well as with two artistic companies, SFUMATO Drama Studio and Interspace Media Art Centre. The Biochim Bank also has its own policy of corporate social responsibility in the field of culture, which is differentiated in three branches: Biochim Classic Jam (following the enormous success of the concert cycle during the 2003-2004 season, the bank is now co-organiser jointly with Classic FM Radio the new Biochim Classic Jam 2004-2005 season); European Music Festival 2004 in partnership with Classic FM Radio and Jazz FM Radio; International music forum for young talents in Trenta (Slovenia) in cooperation with BA-CA;

examples of good practices of supporting live culture in Bulgaria. The existing practices of social responsibility through the development of culture in Bulgaria are successful, however inadequate in terms of size and volume for the purposes of social inclusion.

The social inclusion through cultural activities has its potential mainly in the field of live culture in the form of social and educational integration of the vulnerable social groups in the country, provision of opportunities for cultural cohesion and integration through the manifestation of the cultural identity of various ethnic groups and religions, development of dialogue between various ethnic groups, life long learning, equal treatment of disabled persons in the field of arts.

The situation of cultural clubs in the country is of key importance for the above outlined social activities and opportunities for social inclusion. Bulgarian cultural clubs are the traditional environment for the development of social activity in the form of cultural activities. Cultural clubs represent culturally oriented social centres (drama performances at own stage, art and language schools, libraries), which are focal points for active civic position (venue places for social debates and discussions).

Cultural clubs represent a traditional network of cultural centres spread all over the country. The number of cultural clubs has been reduced dramatically with 1 196 being liquidated over the period 1997-2003. Cultural clubs dispose of extensive, however obsolete, material facilities requiring renewal.

Furthermore, in terms of modern perspectives, the activities of cultural clubs offer great opportunities for sustainable development of systems and programmes for social inclusion as they constitute an established channel for cultural dialogue and social activity, which is to be oriented and open to vulnerable groups. Social activity and social inclusion through cultural activities are functionally dependent on and may be strongly supported by the activities of the cultural clubs provided that they are modernised in accordance with a clear development strategy.

Cultural heritage and the development of its economic potential is impeded by the low efficiency and unsustained use of available cultural resources and by the lack of national concept for their development and use. The development of live culture suffers primarily from the lack of skilled cultural management and entrepreneurship, poor maintenance of cultural clubs and failure to use their capacity for social inclusion, a role that they have traditionally played in the Bulgarian society, moreover that they dispose of an extensive although obsolete facilities needed for such activities.

1.8.5. Social Protection

Social protection provided by the Bulgarian state is divided in social insurance (pension insurance and unemployment benefits) and social assistance (monthly social allowances for groups at risk, social services for vulnerable groups) branches. In addition to the these main social protection activities, a network of non-government organisations operating in the field of social protection is shaping out in Bulgaria, however the coordination between them is poor. The fundamental reform of the pension systems launched in 1999 is now almost completed, however the capital accumulated by the pension insurance funds is low, which is the reason for the restricted amount of the minimum pension. At the same time, self-insurance is impeded due to the low average income of population. The above conditions hamper the operation of the reformed pension system. By reason of the economic and legal parameters defined for the receipt of unemployment benefits, social insurance of unemployed in Bulgaria creates the risk of social inclusion of part of the Bulgarian society members by reason of poverty. As far as social care is concerned, although being in process of development in both the government and non-government sectors, it is considerably lagging behind the European standards.

Social insurance

The level of social insurance funding is relatively low due to the deepening demographic crisis, unemployment, grey economy and low labour income.

Low pensions and high self-insurance contributions, as compared to the average income, are a major problem. As a result, the minimum pension laid down by law for 2004 is BGN 53 (Euro 27), while the average pension for the same period is BGN 60,95. This indicates that a large percentage of the total of 2 344 195 retired persons in Bulgaria live with a minimum income at the poverty threshold.

The restrictions and failed encouragement of pension insurance funds to make investment restrict the opportunities for development and strengthening of the established national pension systems consisting of three funds.

In the long-term, there is a threat of increased number of persons in receipt of unemployment benefits when the policy of subsidised employment will be discontinued.

Social assistance

Social assistance in Bulgaria covers 136 342 families (or 327 220 persons). It assumes various forms depending on the target group for which it is intended: monthly social allowances, special purpose allowances, lump-sum settlements, household allowances, and children allowances. The main problem in this field of social protection is the disguised double threshold, which constitutes an obstacle for part of groups at risk and restricts the access to social assistance.

The main criterion for the receipt of social assistance is the proportion between the actual income and the guaranteed minimum income. Another criterion is related to the ownership of own lodging, which is viewed as a potential source of income. 3 697 000 people in Bulgaria have their own lodging. That's why many households that have inherited their family lodging but are socially weak in terms of income remain excluded from the opportunity to receive social assistance. The idea of considering the own lodging as a source of income may be opposed to in view of the limited demand existing on the real estate market, such demand being focused mainly in the ten largest towns in the country.

Social services in Bulgaria are poorly developed with reference to modern international requirements. Initiatives for social inclusion of vulnerable groups are undertaken primarily by international organisations. These initiatives are implemented jointly with the government and are in conformity with the international standards. At the same time, approaches in the field of social services applied on local initiative some times do not comply with the international government practices. The reason underlying such situation is the poor coordination between the organisations providing social services in the country and the poor availability of information.

The distribution of expenditure on daily social care in 2002, based on the number of people benefiting care, was 86% for children, 11% for persons at mature age and 3% for old persons. The distribution of funds for specialised institutions, based on the contingent served by the relevant institution, indicates that 22% of funds are allocated for children institutions, 48% for institutions providing services for persons at mature age and 30% for institutions for old persons.

Although 22% of government subsidies are allocated for children institutions, the deinstitutionalisation of children and their bringing up in natural environment (in accordance with the approach of the international organisations protecting children rights) faces difficulties due to the poor development of mediator NGOs that are to ensure the implementation and partially the monitoring of such a decentralised practice.

Non-government organisations operating in the field of social protection and social inclusion

371 NGOs providing social protection have been established in the country, which are registered in accordance with the requirements of the Social Assistance Act. Non-government organisations operating in the field of social protection cooperate more intensely with the relevant international organisations rather than with the government institutions. Following the country's EU accession, the envisaged discontinuance of the activities of the international organisations in the sector is a pre-requisite for a dramatic reduction of the initiatives for the provision of social services conforming to the international standards.

On the other hand, the problem of the development of the network of NGOs operating in the social sector consists in the fact that it is maintained disproportionally broad, and therefore inefficient. It does not provide the basic mechanism of social inclusion, i.e. mechanism for fast return on the labour market of unemployed capable of work. Another major demerit of the NGO network is the lack of integrated system of coordination of care provided to persons in receipt of social assistance.

Another major problem is the lack of law encouraging corporate social responsibility in the country with respect to social protection. Corporate social responsibility is developing at growing rate in the EU Member States, while in Bulgaria the development of this process is impeded by the lack of favourable legislation and tax preferences.

The lack of good education and the required qualification level of a great part of those seeking employment is an obstacle for the creation of sustainable and not only artificial temporary employment. The government provides inadequate incentives for companies creating permanent new jobs and engaged in assisting various forms of social protection. No purposeful tax and social policy is in place in order to provide incentives for the development of small and medium sized enterprises, which impedes job creation. This is one of the reasons for social exclusion by reason of poverty. The government and social society are poorly committed to the job creation for people from vulnerable and groups at risk on the labour market, which impedes their social re-integration. Corporate social responsibility is almost totally unknown practice in the country.

1.8.6. Vulnerable Groups

Vulnerable groups in Bulgaria that are most threatened by social exclusion are persons with physical disabilities, homeless persons, victims of trafficking in human beings (in particular, women and children), drug addicts and diseased of HIV/AIDS. A common problem for all these groups exists and it is the lack of coordinated support on behalf of the government and NGOs for their social inclusion, which reduces the efficiency of the current efforts. In addition, each of the groups listed faces a specific key problem, as outlined below.

Persons with physical disabilities

Persons with physical disabilities form the most numerous group, which is estimated to cover ¼ of active population. Their access to the labour market is strongly impeded. The government statistics does not measure the number of disabled persons in the country, however according to the data reported in various expert assessments it varies between 400 000 and 700 000 people (according to the most recent data of 2001). There are 100 state subsidised enterprises in the country where persons with physical disabilities may work. Organisations and companies from the private sector are very slightly engaged with the provision of equal access to employment for persons with physical disabilities. For these reasons the level of unemployment among persons with physical disabilities exceeds the average unemployment level for the country.

Another problem faced by persons with physical disabilities is the extremely unfit infrastructure that is to facilitate their physical access to public transport (for example, metro stations, poor construction of curbs and streets, traffic lights, lack of specialised buses). For instance, there is one single subway in the country with a lift designed for disabled persons and mothers with infants, which was constructed in 2004 at Orlov Most in Sofia.

Homeless people

Homeless persons were between 850 and 900 people as of January 2004 (NSI). 515 persons were accommodated in temporary accommodation centres in 2003. The actual number of people needing accommodation is much higher although it is not captured by the official statistics. The lack of data is due to the fact that a large part of people falling within this group has not been taken in consideration during the official national census. The appearance of unidentified groups of homeless persons may result in the creation of marginalised groups of people deprived of access to social services and thus increasing the risk of criminalisation of the group.

Victims of trafficking in human beings

Victims of trafficking in human beings (in particular, women and children) are the second largest vulnerable group threatened of social exclusion. According to data reported in 2000, 10 000 women have been victims of trafficking in human beings. Due to the different level of social and economic development, availability of information and prevention in various regions in Bulgaria, the vulnerable groups of women and children at greatest risk are those living in border regions, mainly in the northeast and southeast regions, which are situated along the route of one of the international corridors for trafficking in human beings.

Drug addicts

The number of drug addicts in the country is a serious problem. According to data reported by UN, their number increased by 8% in 2004. A black market for drugs exists in the country, which raises two related problems.

The first problem is the trend of expansion of the vulnerable group. The use of marihuana is the most largely spread – 26,1% of students at high school age have tasted cannabis. The most serious health damages within this vulnerable group are observed among those using heroin. The age limit of children who have first tasted drugs has fallen from 21,4 to 18,8 years over the last 7 years[44].

The second social problem, which derives from the first one, is the difficult social re-integration of people who have undergone drug addiction treatment. About 1/3 of those treated from heroin addiction have not completed secondary education and about 90% of them are or have been unemployed over the last year[45]. The low age limit of starting the use of drugs reduces the chances of development of the human capital of the country and of later social inclusion of those who manage to overcome their addiction. The probability of

[44] Data are based on the Millennium Development Goals 2003, UNDP, Sofia, 2003, ISBN 954-9724-56-5.

[45] Joint Memorandum on Social Inclusion of Bulgaria, 3 February 2005 – Social Situation, Vulnerable Groups – pp. 20

manifestations of risky behaviour of this vulnerable group increases, which has an additional negative impact on the demographic picture in the country. Drug prevention through the involvement of young people in cultural and sports initiatives is poorly developed in the country.

Another problem is the discrepancy between the treatment approaches of the state and international organisations, on one hand, and the local NGOs, on the other hand, which largely reduces the efficiency of measures undertaken by both parties. The main reason for such situation is the lack of coordination of action concepts of government and non-government institutions and the low availability of information in the country after 1990.

Diseased of HIV/AIDS

According to the official statistics, the percentage of diseased of HIV/AIDS is low as compared to the EU Member States and the observed international trends. Four cases of HIV/AIDS were registered in 1990, while their number was already 34 in 1996. A twelve-fold increase in the number of infected persons was reported in 2000 as compared to 1990. In 1996, 35% of the newly identified infected persons were in the age group between 14 and 25 years. 403 HIV seropositive persons have been officially registered by the end of 2002, while their number in 2004 already exceeded 500. Again as of 2002, 91% of diseased have been infected through sexual intercourse, 8% have contracted the disease by blood transfusion and 1% has been infected vertically (mother-child). One of the major problems of this vulnerable group is the lack of clear statistical data as great part of the people falling within the group prefer to remain excluded from all types of social services provided in order to keep their anonymity. Another major problem is the lack of actual intensification of prevention measures and improvement of the efficiency thereof. At the same time, it should be taken into consideration that the incidence of syphilis has increased almost eight times for nine years (from 4,4 per 100 000 persons in 1990 to 19,4 per 100 000 persons in 2000) and thereafter maintained at the level of about 20 cases per 100 000 persons. These levels of morbidity are about 12 times higher than in the EU Member States (1,6 per 100 000 persons). On its turn, syphilis morbidity may be a sign of future increase of HIV/AIDS incidence. Therefore, it may be presumed that the number of HIV/AIDS infections is potentially high in the country, while the lack of enhanced prevention measures intensifies the threat of increased number of persons falling within that vulnerable group.

Specific problems faced by the vulnerable groups

The specific problems of each main vulnerable group are, as follows:

- For disabled persons, the problem that has gathered head is the need of increased equal access to employment and the lack of technical infrastructure in populated areas that is to facilitate their movement and physically equal access to the social life in the country;
- The problem faced by the group of homeless persons transforms in a problem of the whole society not only because of the need of fulfilment of the moral engagement for ensuring equal access, but also because of the existing trend of marginalisation and criminalisation of the group;
- Trafficking in human beings is among the most dangerous phenomena in the country, which is a transit zone on the Balkans; on the other hand, less developed regions feature accordingly less coverage of prevention and integration measures after the victims' repatriation;
- The problem of drug addiction is significant both with respect to the use of drugs and the destruction of the social capacity due to the low age limit of persons using drugs. As a result of the poor coordination between institutions and organisations from the government and non-government sectors with respect to drug addicts in the country, a trend of conceptually contradictory practices of addict treatment has shaped out;
- The HIV/AIDS vulnerable group faces basically two problems: the need of establishing the actual morbidity rate in the country and the need of enhanced prevention in view of the high level of persons infected with syphilis (12 times higher than the EU standards).

In general, the reason for the acute problems faced by the vulnerable groups are the unfit infrastructure, poor coordination of the social assistance provided to vulnerable groups and the low efficiency of the measures undertaken by government and non-government institutions and organisations.

1.8.7. Gender Equality

In accordance with the internationally recognised indicators of equal treatment of men and women, two problems of social and economic inequality of women are observed in Bulgaria, and namely the lack of equal participation in governance and employment and income inequality. The problem of age labour discrimination of women between 30 and 50 years of age and increased discrimination of women over the age of 50 is the most conspicuous problem at local level. Women are also the prevailing victims of domestic violence in the country.

Participation in governance

According to data reported by NSI, the share of women in the 39th National Assembly was 26%, which is the highest percentage rate over the last 50 years. Although this fact places Bulgaria, in terms of numbers, ahead of the South Eastern countries as a whole, it should be taken into account that this situation is due to the enhanced representation of women (38%) in a single broadly represented parliamentary party rather than to some uniform and overall increase of the women's participation in governance. At the same time, 40% of the members of Parliament in 2001 in Sweden were women, which is the level that Bulgaria has to reach by 2015 in accordance with the undertaken international commitments[46].

Women's participation in governance at municipal level is slightly lower than that in the National Assembly (24% versus 26%). However, this percentage should be compared to the percentage of women members of Parliament two years ago, when municipal counsellors were elected, i.e. the proportion at that time was 25% versus 10,4%. Women hold good positions at the second line as deputies of chairmen and mayors. Data show that women hold lower, however important posts in governance, i.e. they have the required qualification and expert skills but are excluded from the highest professional level.

Income inequality

The employment rate in 2004 was 48,4% for men and 39,5% for women. Women in Bulgaria as a whole are engaged in lower paid activities as compared to men. For example, 79% women versus 21% men are engaged in the field of education and 78% women versus 22% men are engaged in the social sector. On the contrary, 26% women versus 74% men are employed in the energy sector, 13% women versus 87% men are employed in the construction sector, and the proportion in the sector of transport and communications is 28% women versus 72% men. Women in Bulgaria receive average 72% of the remuneration paid to men. Most families with a single parent have a woman as the head of family, which reflects on the poverty of the whole family. Low income of women determines the accordingly low level of pensions, and due to the longer duration of life of women the percentage of lonely old women

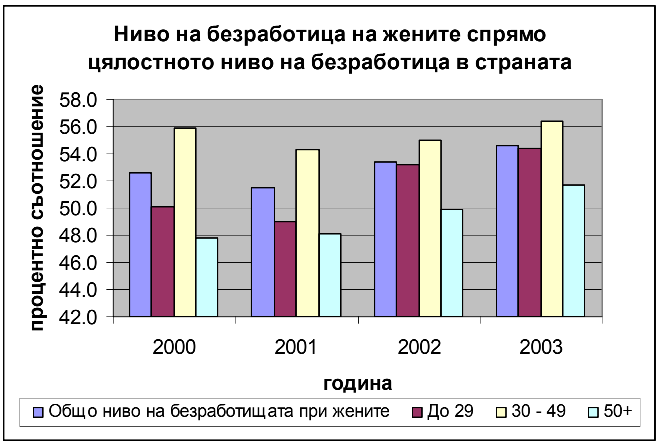
[46] Millennium Development Goals 2003, UNDP, Sofia, 2003, ISBN 954-9724-56-5.

with low income is considerably higher. This group of women are strongly threatened of social exclusion by reason of poverty.

The share of inclusion of women in entrepreneurship is also considerably lower than that of men. According to data reported by the International Association of Business Ladies in Bulgaria, women having their own small and medium sized businesses were 26% in 2000. The share of women employers having small and medium sized businesses was 25% in 2002. At the same time, according to data reported in 2002, higher business management positions as a whole were held by 48 856 men and 31 591 women, i.e. only 39% of such positions were held by women. All this indicates that women have business managerial and employer's skills however are included in these activities on a small scale.

Sexual discrimination of women

As shown in the table below, the level of unemployment of women is 50% higher than the level of unemployment of men. Data indicate that the number of unemployed women as compared to the number of unemployed men has been increasing as a whole over the years. Women at the age between 30 and 49 years are the most threatened of unemployment as compared to men within the same age range. Their percentage has been kept steadily over 54% of total unemployment over the years (reaching 56,8% in 2004) and is the highest percentage rate as compared to unemployed men. These data outline a trend of sexual discrimination of women within the age range between 30 and 49 years as compared to men falling within the same age range.



Based on data reported by NSI, Statistical annual for 2004, page 97, Table 7

Key:

- Level of unemployment of women as compared to the overall level of unemployment in the country
- Percentage proportion
- Year
- Total level of unemployment of women: up to 29 years; 30-49 years; 50+ years

According to an expert assessment, a trend of age discrimination of women on the labour market is also in place. Such trend is on a relatively small scale, however it raises concerns taking into account the ageing of the nation.

Victims of domestic violence

According to the methods applied at international level, violence against women is classified in four basic forms: trafficking in women, domestic violence, sexual violence and sexual harassment. Bulgarian women are threatened to become victims of all four forms of violence. Domestic violence is one the most conspicuous problems because of its large scale of incidence in Bulgaria. According to the police statistics of officially registered cases of domestic violence in 2001, 80% of the victims of this form of violence in Bulgaria were women. 42% of the cases of domestic violence in Bulgarian families involved mental violence on behalf of men against women, which threatens women of social exclusion. According to the findings of a study carried out by the National Centre for Public Opinion Surveys, 86% of the full age population supports the idea of the adoption of a special law on the protection of victims of domestic violence, while 77% would approve a law criminalising domestic violence. The economic activity of women in the country is considerably lower than that of men by reason of the existing unequal treatment of men and women. Women receive lower average remuneration; they are employed in lower paid sectors and have less access to entrepreneurship. Women are considerably more threatened of sexual and age discrimination on the labour market, poverty and domestic violence, and hence of social exclusion. Although the scale of the problem of gender mainstreaming is comparable to the dimensions of the same problem in the EU Member States, problems of sexual discrimination should be overcome, as it is also a problem for the development of human capital in Bulgaria.

1.8.8. Ethnic Minorities

The major groups of ethnic minorities in Bulgaria are the Turkish, Roma, Jewish, Armenian and other minorities representing less than 2% of population. Bulgaria features a unique model of ethnic tolerance and cooperation between various ethnic groups. The Jewish and Armenian ethnic groups are traditionally among the economically and socially most developed part of the population in the country. Problems exist within the Turkish and Roma ethnic groups. Turks and Bulgarian Mohammedans in the tobacco growing regions face problems related to their economic adaptation. The problem consists in the lack of economic alternatives of tobacco manufacture and lack of qualification of the population allowing their inclusion in another type of employment. Roma people have the biggest problem of social inclusion. The major problem in the short-term is the housing of Roma people, while their low level of education, employment and health care are the major problems in the long-term.

Turks and Bulgarian Mohammedans

Turks and Bulgarian Mohammedans are the second large ethnic group in Bulgaria after the ethnic Bulgarians. They are largely included and officially represented in the governance of the country through the Movement for Rights and Freedoms, a party of clearly pronounced Turkish ethnic nature.

Turks and Bulgarian Mohammedans live in compact groups mainly in rural and border areas in Haskovo, Rousse, Varna and Bourgas regions and in the Rhodope Mountains. Tobacco growing is the traditional occupation of the population of Turkish origin in the relevant geographic tobacco growing regions; according to the most recent data reported, they account for 250 000 households that earn their living by tobacco growing. Kardzali, Blagoevgrad and Haskovo regions have the largest share of employed in tobacco growing. The relative share of tobacco growers in the country was 33% for Kardzali region, 25% for Blagoevgrad region and 12% for Haskovo region of the total number of tobacco growers in 2004.

The part of the Turkish ethnic group, which is threatened in terms of social inclusion, is the compact population of Turks and Bulgarian Mohammedans engaged in tobacco growing. A timely re-qualification training of this part of the ethnic group, which will remain out of the sector of tobacco growing, needs to be carried out in the EU pre-accession period in order to allow the successful adaptation of all those people to the new economic conditions. In practice, the problem of the Turkish ethnic minority living and employed in the tobacco growing regions consists in the lack of education allowing alternative employment and the low mobility of that population for the same reason. These problems concern also the Bulgarian population living in these regions. Although less numerous, it also needs the same re-qualification training as the Turkish ethnic group. Because of the traditional spirit of ethnic tolerance favourable conditions exist for the organisation of joint re-qualification training for the representatives of both ethnic groups.

Roma people

Based on the data collected during the census taken in 2001, Roma people in the country are about 370 000; another 350 000 people exhibit social and cultural features close to these of the Roma community, but identify themselves as Turks, Bulgarians or Romans. According to the findings of a special study undertaken by UNDP, 87% of Roma households in Bulgaria live at or below the poverty threshold of BGN 102 per month.

The general illiteracy has not been reduced, however the percentage of secondary and higher education graduates has been increased. This positive trend gives good perspectives for potential work aimed at raising the level of education of Roma population[47].

The problem affecting the development of the Roma community that should be solved on a priority basis in the short-term is the housing for Roma people. Roma people in Bulgaria have a settled style of living, but most of them do not possess real estate property. The settlement areas inhabited by Roma people are characterised by poor hygienic and social environment. Two types of buildings, from hygienic point of view, are typical for Roma quarters: buildings with electric supply only and buildings with electric and water supply, but without sewerage system. 92% of all urban dwelling places in the country enjoy the full package of utilities, however if only Roma dwelling places are considered, this percentage is barely 46%. With respect to the social environment, Roma people have been increasingly marginalised also in terms of social behaviour over the period of transition after 1990, while developing a trend to rally and withdraw from the remaining part of the society. Poverty and poor mental and physical health undermine the structure of the Roma community. These two factors determine the threat of formation of a marginalised social stratum, which would result in dramatic social isolation and at the same time would become a problem of the society as a whole because of the existence of marginalised areas posing high criminogenic risk for settlements.

The long-term problems of social inclusion of Roma people are their low level of education, employment and health insurance. The percentage of illiterate persons among Roma adults has increased twice, while 60% to 80% of them are long-term unemployed. The low level of education is the reason for the low rate of employment and low income of Roma population. The problems related to the level of health insurance and employment of Roma people depend

[47] Data are based on "Support for the development of National programme for improving the housing situation in urban environment of disadvantaged ethnic minorities", UNDP, Sofia, 2002, ISBN 954-9724-99-9.

on their involvement in the educational process in the country, the social factors for such involvement being both external and internal for the ethnic group. According to the most recent analysis of UNDP on Roma population in Bulgaria, there is a trend of increasing the number of Roma children attending school. This promises improvement of the employment situation, and hence the percentage of health insured persons from this ethnic group. The effect of this positive trend depends on the temporal stability of educational measures.

Enhanced activities on behalf of the non-government sector are carried out in the country with respect to the social inclusion of Roma people. Partner programmes intended to resolve the problems of social inclusion of Roma people with a particular focus on housing are implemented at public administration and international organisations level. The trend observed in the national statistics of increasing the number of persons identifying themselves as Roma people (increase of about 11%) due to the free acceptance of their ethnic appurtenance is a positive indicator showing the absence of discrimination problems in the country. These positive trends result from the open debate on the social inclusion of Roma people in the country. There is a proposal made by UNDP experts for the implementation of a National programme for improving the housing situation in urban environment of disadvantaged ethnic minorities. This proposal for a national programme is supported by a precise financial framework.

No problems of distinct ethnic nature are observed in the country as a whole. The problems faced by ethnic minorities in Bulgaria have mainly economic and educational nature. The compact population of Bulgarian Mohammedans and Turks in the mountain tobacco growing regions needs re-qualification in alternative economic activities that are favourable for the development of the same inhabited region in order to avoid the outlining threat of economic collapse of the population engaged in tobacco processing. The housing problem, as far as Roma people are concerned, threatens to marginalise Roma communities within the settlements and impedes their social inclusion in the other sectors of social life such as education, employment and health care.

1.8.9. Housing

The provision of accessible housing for the majority of vulnerable groups remains a significant challenge for Bulgaria. Households with low income are not offered facilitated access to dwelling places, as well as no subsidy system and specialised system for housing saving and crediting are in place in accordance with the practice in the EU Member States.

Part of the population is constrained to live in poor housing conditions. Homeless people exist and this fact results in the marginalisation of certain settlements. The quality of dwelling places is poor, no adequate housing and infrastructure for other vulnerable groups such as Roma people and disabled persons have been provided, as well as no measures aimed at integrating Roma settlements have been undertaken and no adequate social services in support of persons threatened to remain homeless (housing in urgent cases) have been developed.

Actual provision of housing

A large number of unoccupied lodgings exists in Bulgaria and for this reason the actual provision of housing in certain urbanised areas (mainly large towns) is much lower than the average indicators for the EU[48].

Lodgings: Number of lodgings and rate of occupation of standard lodgings in Bulgaria in 2001

	Total number of lodgings per 1 000 occupants		
	Total	**In towns**	**In villages**
Total number of lodgings per 1 000 occupants	467	421	568
Occupied standard lodgings per 1 000 occupants	360	352	376

Source: National Statistical Institute, Census, 2001

The number and relative share of unoccupied lodgings have been increased in certain regions; the share of lodging owners who are unable to cover the increasing expenses related to their lodgings by reason of their low income has been increased; the relative share of existing and newly constructed public buildings intended for letting to young families and other vulnerable groups of population is extremely low; no system of housing subsidies exists; no specialised housing saving and crediting system is in place. All these circumstances illustrate the low level of provision of housing in the country, which is a major inconformity with the EU standards.

Quality of housing fund

[48] Joint Memorandum on Social Inclusion of the Republic of Bulgaria - Housing

According to the findings of studies carried out, 30% of households live in buildings requiring urgent repair of their sewerage systems, roofs and electric installation. Less than two thirds of all occupied lodgings in the country have the three main characteristics of urban public utilities: electricity, water supply system and central sewerage system. The share of occupied lodgings where none of the public utilities listed exists is negligible. The proportion between the average price of lodgings and the average annual income increased from 2,8 in 1989 to 7,0 in 2002, which evidences the considerably decreased possibilities of Bulgarian citizens to buy lodgings over the last years. Such situation is a pre-requisite for low mobility of people and their "anchorage" to their properties and as a consequence reduces their capacities to meet the mobility requirements on the labour market[49].

Owners of lodgings of precast slabs

The situation of the lodgings of precast slabs is deteriorating. The 50-year term of practical usability of such lodgings is to expire. Mainly such types of lodgings have been constructed before the 90'. The attempts to sanitate blocks of flats constructed using precast slabs are currently localised practices. This brings about the main problem in this field, and namely the poor quality and maintenance of the housing fund determines the potential possibility for large groups of the society with currently guaranteed average standard of housing, that is the owners of lodgings of precast slabs, to fall within the group of people needing urgent housing in the next 5-7 years. A government programme for sanitation of lodgings by 2020, which was launched in June 2004, estimates that BGN 4, 150 billion will be required for the sanitation of 650 981 flats of precast slabs in the country. The state will pay 20% of the amount required for the sanitation or total BGN 830 million. The remaining part of the funds required need to be provided by the owners of lodgings through loans or savings. Commercial banks will soon start to open energy efficiency credit lines for sanitation loans.

Housing for marginalised ethnic groups

As stated in a Memorandum on social inclusion in Bulgaria, housing conditions of Roma people as a whole are significantly poorer than those of the remaining part of the population. There are unsatisfactory dwelling places without bathrooms, electricity, water supply and sewerage systems. The unregulated or missing infrastructure in Roma neighbourhoods is a major problem. The share of illegitimate buildings is high and in many cases the illegitimate

[49] Source: National strategy for reducing poverty and social exclusion, 2003.

buildings involve illegitimate connection to sewerage, electric and water supply systems, which on its turn poses risks for the life and health of people. A pre-project study carried out under the project BG 0204.01 “Urbanisation and housing of Roma people in Bulgaria” has identified the syndrome of “illegitimate existence” in Roma neighbourhoods as becoming deeper. The study of housing conditions of Roma people carried out in 88 towns and the field study carried out in selected Roma areas in 14 towns have shown the existence of serious problems with respect to urban planning. Urbanisation plans are inapplicable in over 70% of the Roma neighbourhoods. The existing buildings do not meet the construction, sanitary and hygienic standards. This indicates the threat of marginalisation of the places inhabited by Roma people due to the poor availability of housing. On the other hand, the attempts of providing houses for Roma people throughout the country show that lodgings provided are ill kept and destroyed by beneficiaries. This comes to show that for the purposes of social re-integration of Roma people it is necessary to follow the international practice of personal contribution to the funding or construction of houses in order to make the recipient to assume social responsibility with respect to his home.

Considerable part of the housing fund in the country is of poor quality. The problem of the shortage of residence buildings raises more concerns as it threatens to increase dramatically due to the expiring term of usability of lodgings of precast slabs in the country where the prevailing part of the urban population is accommodated. At the same time, the problem of marginalisation of the quarters inhabited by Roma people is also tending to increase.

1.8.10. Comparative Analysis of Social Development

The table below represents some main indicators for social development, whereas, for purposes of comparison, the respective trends of development in Bulgaria and the EU are shown.

Table 28: Social Development – Comparative Analysis

Indicator	Bulgaria	European Union
Poverty	Comparatively low average income	About 10 times higher income and twice higher income in newly accessed countries
	Decreasing, but still high level of unemployment (11,8% - in 2004)	About 2 times lower level of unemployment
Health	Prevailing Treatment practices	Prioritization of Prevention practices
	High levels of child mortality (11,6‰ overall for the country; 10,2‰ in	About 2 times lower level of child mortality

	urban and 15,3‰ in rural areas – in 2004)	
	Compulsory immunization of children up to the age of 1 year (93,6% - in 2001)	Similar levels of development
	Maternal mortality (19,1‰ – in 2001)	About four times lower levels of maternal mortality
	Healthcare services for pregnant women	Similar levels of development
Education	71.4% of people in labour-intensive (25 – 64 years of age) are graduates or postgraduates (in 2003)	Similar levels of development
	Average net ratio of enrollment in the country 14.5% in 2001 and 15.4% in 2003	Net ratio of enrollment about 23.3% (in 2001)
	Insufficient practical component in the educational system	Well-balanced practical and academic components of educational system
	Low convertibility of education at the labour market	Participation in the Bologna Process and Lisbon strategy that enhance the convertibility of education
	10% implementation of high technology in education (TIMSS)	About 60% implementation of high technology in education
Culture	High quality of living culture product	Similar levels of development
	Poor management of living culture	Innovative approaches to management of living culture
	Poor exploitation of cultural heritage resources	About 10 times more intensive exploitation of economic potential of cultural heritage resources
Social Protection	Poor coordination of the of social protection NGO network	Well-developed and economically stable social protection NGO network
Vulnerable groups	Poor infrastructure for ensuring equal accessibility for vulnerable groups	About 8 times better development of infrastructure ensuring accessibility for vulnerable groups
	Geographical factors for higher vulnerability to trafficking of people	Better development of prevention and reintegration of the victims of trafficking
	Geographically closer to high HIV/AIDS infection area	Better prevention and reintegration practices
	Low levels of HIV/AIDS infection according to official statistics	About 12 times lower syphilis incidence
Gender equality	Ensuring of women participation in governance	Similar levels of development
	Elimination of the disproportion between the incomes of men and women	Similar levels of development

Ethnic minorities	Lag of economic and social development of ethnic minorities	Efficient programmes ensuring gender equality
Housing	High percentage of ownership (98%)	About 50% lower share of ownership
	Low quality of mass construction	Better housing policies

Source: AEAF, NDP and UNDP, MDG'03, using data from NSI

The above data indicates that, following the anticipated accession of Bulgaria into the EU in 2007, the country will be at a lower stage of social development because of the poor financing and management approaches to social care provision. This is the reason why despite the macroeconomic stabilization achieved, the rates of bringing Bulgaria closer to the Community remain low as far as social development is concerned. Significant factors for the relatively slow convergence of Bulgaria's economy are on one hand the low incomes, low accessibility to professional development and artistic expression and on the other hand insufficient private and state investments in human capital and all country specific cultural and social resources for development.

1.9. Conclusion

Following Bulgaria's accession into the EU, the country will be the poorest member of the community. Despite the attained macroeconomic stability and registered growth rates from 1998 onwards, the gross domestic product is three times lower than the average values for the EU.

The main socio-economic problems are concentrated in the following areas: quality of the human capital, basic infrastructure, low competitiveness on the international goods and services markets, low utilization of the economic potential of cultural heritage, unbalanced regional development, and low pace of social development.

A considerable part of the country's GDP is generated at the large industrial enterprises. The backbone of the developed market economies – the small and medium enterprises sector – is underdeveloped. There are numerous reasons behind this: lack of financial instruments for start-up, lack of development incentives, administrative impediments, and deficiency of entrepreneurial skills.

The use of exhausted technologies in the production is at the fundament of the low productivity and high-energy intensity of the economy. Altogether, this hurts the competitiveness of Bulgarian entrepreneurs and places them in an unfavorable position on the international markets. At the same time, the instrument for overcoming this gap – investment in new equipment, technologies and know-how – is not intensively utilized. Both the state and the private sector allocate an insignificant financial resource for scientific-research and development activity, which bring about the exacerbation of the problem with technological backwardness.

The regional dimension of the country's development reveals a misbalance with considerable intra-regional differences among the districts and the municipalities in the planning regions. In almost all regions and districts in the country the typical "center-periphery" contrasts are observed. Especially affected in this regard are the border territories, many of the rural areas, as well as places with high minority concentration. These are specific national disparities, which require special focus since they place many territories in a critical position and lead to a number of negative economic and social-demographic processes, which long-term impact is still not clear.

About a fourth of the employed persons in the country are in the agricultural sectors, whereas the value added by them amount to some 10% of the GDP. The low productivity of the sector is an ever more significant problem against the prospect of the country's membership in the EU. The high level of expenditures of the European Community for assisting the sector (over half of the expenditures of EU's budget) largely means subsidized prices of the agricultural produce on the European market. The staged elimination of barriers before trading with agricultural products will bring about deterioration in the local producers situation. It has to be noted also that the alternative sources of income are limited in the rural areas – the services and the industry sectors are poorly developed.

A large part of the transport infrastructure is on an unsatisfactory level, especially as regards the road infrastructure. On one hand, this raises the costs for businesses, and on the other is an obstacle in front of investor penetration in otherwise attractive regions (because of the availability of cheap labour force). Another problem related to the transport network is its relatively week binding to the transport systems of the neighbouring countries.

With regard to the infrastructure for water supply and sewage, the analysis indicates its low quality and insufficient capacity. Also necessary is significant investment in the area of infrastructure for environment protection, specifically in projects for treatment of wastewater and gas emissions, as well as in the infrastructure for waste processing and for re-cultivation of regions with soil pollution.

A major problem of the economy is the quality of the human resources. Traditionally, it is believed that the quality of education in the country is high. However, the high unemployment rates, as well as the unsatisfactory demand for qualified work force in some areas and spheres are arguments refuting the above notion. What the educational system in the country still fails to develop sufficiently are the entrepreneurial skills and the skills for seeking and finding job. The educational system does not possess sufficient/satisfactory flexibility with regard to meet the needs of a restructuring economy. Another considerable fault in this respect is the absence of a suitable system for re-qualification of the unemployed, their adjustment to the changing environment and the absence of incentives for employers to upgrade the qualification and the attainment of new knowledge and skills on the part of their employees. These problems are especially acute among ethnic minorities and disadvantaged groups.

Social development in the country is hindered by the low level of investments in the social sphere. Moreover, the depreciated and not well maintained infrastructure in the educational, health and other social establishments is another leading problem, which leads to low quality of the supplied social services. In addition, the economic potential of cultural heritage is unexploited resource which is the reason for the low amount of generated incomes for social development through culture – which was a traditionally highly developed form of social development in the past.

The problems of vulnerable groups are poorly addressed by the social protection policy in the country. Minorities are not subject to ethnic discrimination in the country – they suffer from social and economic lag of development because of low level of education as well as poor opportunities for life long learning and obtaining of new qualification for alternative economic activity. Gender equality is an issue on which Bulgaria is at a similar level of development as the EU countries, yet further work in certain subtopics of this thematic field is required.

2. SWOT ANALYSIS

Strengths	Weaknesses
Economic • Stable macroeconomic environment • Reliable banking system with rapid credit expansion • Low labour unit cost • Stable growth in investments • Growing contribution of SME's sector to GDP growth • Well established regulatory framework on the deregulation of the natural monopolies, monopoly liberalization tendency • Increasing share of the private sector in economy;	**Economic** • Low GDP per capita • Non-favorable enough structure of FDI (low share of investments in industry) • Underdeveloped non-banking financial system (capital markets, insurance, investment and pension funds) • Restrictions for SME's for starting business (lack of financing, existence of administrative barriers, underdeveloped system for support) • Lack of entrepreneurial skills • Outdated technologies and production techniques • Low energy efficiency in the economy • High resource dependency and low value added of final output • Low level of expenditure oriented to R&D which does not respond to the needs of business • Low labour productivity;
Regions • Preserved natural environment with rich cultural and historical heritage • Relatively balanced network of urban and rural areas • Insignificant regional disparities between the six planning regions	**Regions** • Significant intra-regional disparities, existence of underdeveloped areas • Underdeveloped regional and local infrastructural networks in terms of territorial coverage and quality • Low quality of working, living environment, physical infrastructure and public services in cities and urban areas • Obsolete educational, healthcare, social and cultural facilities

Strengths	**Weaknesses**
Agriculture and Rural Areas • Favorable soil and climate for varied agricultural production • Traditions in the production of certain agricultural products with good image in foreign markets • Rich, diversified and preserved environment in agricultural regions • Relatively developed network of rural districts, roads, communication, and housing infrastructure	**Agriculture and Rural Areas** • Unfavorable demographic tendencies in large part of rural areas • Higher level of unemployment in comparison to the average of the country • Underdeveloped and depreciated basic infrastructure including sewage and waste treatment • Low level of specialization and productivity of agricultural farms • High dependency of agriculture in rural areas and lack of alternative (non-agricultural) sources of income • Unstable and ineffective usage of natural resources leading to erosion, pollution, and abandoned areas
Transport • High density of transport network	**Transport** • Outdated and low qualitative transport infrastructure • Unbalanced and non-integrated development of different modes of transport • Insufficient transport links with neighboring countries
Environment • Low level of water pollution and high level of development of national water distribution network in the country • High biodiversity • Emissions of air pollution are lower than the allowance of the Kyoto Protocol	**Environment** • Poor quality of the water supply network infrastructure, insufficient and depreciated infrastructure for collection and treatment of waste water • Insufficiently developed systems for waste management and inadequate measures for waste minimization, recycling and utilization • Significant number of existing polluted terrains • Lack of adequate information system and insufficiently developed monitoring system
Human Resources and Social Issues • High rate of participation in secondary education	**Human Resources and Social Issues** • Discrepancy between labour force qualifications and labour market needs

• Good territorial coverage of the social infrastructure • Good tradition of living culture development	• High unemployment rate; low economic activity ratio • Depopulation and increased average age of the population • Outdated and obsolete technical equipment of schools, hospitals and other social infrastructure • Underdeveloped structures for preventive treatments and rehabilitation in the health sector • Poor cultural management (both living culture and cultural heritage) • Infrastructure not adequate for the needs of disabled people • Low social status of teachers

Opportunities	**Threats**
Economics • Increase of trade with the EU • Improvement of production technologies based on steady growth of investments • Attraction of investments in high-productivity sectors; • Increase in the entrepreneurship and SME share in GDP; • Support for the development of innovations and technologies; • Increasing product diversity of tourism sector	**Economics** • External competition on main exporting sectors • Inability of large number of enterprises to meet the EU standards • Insufficient capacity for absorption of EU Funds;
Regions • European cross-border, trans-national, and trans-regional cooperation • Development of the ICT in transition to information society • Utilization of natural, historical, and cultural heritage for stable growth and development of the regions	**Regions** • Delay in the process of decentralization and development of the municipalities due to its large dependency of central budget financing • Weak capacity (institutional, financial and technical) of municipalities and local actors to undertake joint development projects • Unfavorable demographic tendencies, aging population, emigration and risk of depopulation of certain areas
Agriculture and Rural Areas • Improved access of Bulgarian producers to the EU markets • Creation of employment outside the agricultural sector	**Agriculture and Rural Areas** • Increase competitive pressure of the internal market • Increase of disparities in the development between urban and rural districts

Transport • Renovation and development of transport network • Increase in transport flows through the country	**Transport** • Delay in implementation of priority infrastructural projects • Detouring of the country of transit flows
Environment • Increase in protection of environment due to application of the EU legislation • Decline in energy intensity of the economy and improvement of energy efficiency	**Environment** • Expected increase in expenditure for business and public sector in order to apply new legislation in environment • Negative public opinion for building of equipment for waste treatment
Human Recourses and Social Issues • Development of lifelong learning • Improvement of human capital mobility through integration in Bologna process-type initiatives • Valorization of the cultural heritage	**Human Recourses and Social Issues** • Potential further decrease in the quality of education • Risk of social exclusion of vulnerable groups • Risk of further marginalization of compact Roma communities • Increase in the number of homeless people due to amortization of panel mass construction buildings

3. DEVELOPMENT DISPARITIES

The main development disparities between Bulgaria and the EU average, which the Bulgarian development strategy tackles are summarized as follow:

- Low GDP per capita.
- High unemployment of women, adults over 50, low-educated and qualified people, long-term unemployed people, and low economic activity.
- Low labour productivity.
- Non-correspondence of the structure of labour force' education and skills to the requirements of labour market' demand.
- Amortized production technologies.
- Low energy efficiency.
- Poor quality of the transport infrastructure – road and rail infrastructure.
- Underdeveloped transport infrastructure in the border, mountainous and semi-mountainous areas
- Significant intra-regional disparities at municipal level.
- Low productivity in the agricultural economic activities.

- Limited non-agricultural activities in rural areas (lack of alternative income sources).
- Underdeveloped SME sector.
- Underdeveloped networks for wastes collection and treatment.
- Poor quality of the infrastructure for water supply, sewage and waste water treatment.
- Amortized facilities and equipment of the education, health and social institutions.
- Low social inclusion of marginalised groups.
- Poor practical reliability of education.
- Insufficient interrelation business-education.
- Low level of health promotion, prevention and rehabilitation activities.
- Amortized housing fund.

4. Vision, goals, and priorities of the National Development Plan for the period 2007-2013

The National Development Plan sets the major development policy objectives and priorities to be supported under the Structural Funds in Bulgaria for the period of 2007-2013. This document is based on an extensive analysis of the country's development, emphasizing on the areas with the most significant bottlenecks. The main purpose of the NDP is to present the government's strategy to counter the existing development gaps or disparities between Bulgaria and the countries of EU, to foster the development of the sectors in which Bulgaria has or can potentially have a comparative advantage, to present the role of the Structural Funds (SF) and describe the administrative mechanisms and necessary improvements for implementation of the development strategy.

The strategy has been developed in line with the Community Strategic Guidelines (CSG)[50] and is build upon two fundamental principles: economic and environmental sustainability and equal treatment. Its main goal is to narrow the income and living standard gaps with the EU average as well as to increase the attractiveness of the country's regions and cities. Being a small and open economy Bulgaria depends very much on the foreign demand. Economic analysis clearly indicates the domestic demand was a main factor for growth since 1998. Improving competitive position on the foreign good, service, and capital market and reducing current account deficit is the very challenge Bulgaria will face in the period 2007-2013. NDP

[50] COM(2005) 299, published on 15 July 2005

for the period 2007-2013 should form the basis for improving competitive position of Bulgarian economy and establishing long-term sustainable growth.

In 2005, Bulgaria's position to attain the EU member states' standards in the area of macroeconomic stability is good. The indicators for inflation, budget deficit, government debt/GDP ratio have already met the Maastricht Criteria, while the interest rate levels are approaching the required target. Low incomes and living standards, high unemployment, poor infrastructure and a highly negative trade deficit represent the main points of concern.

Considering the above circumstances of the current situation, the Bulgarian authorities and social stakeholders in partnership have agreed on a strategic vision and objectives for the country:

By 2013 Bulgaria should become a country with a high standard of living, based on a sustainable socioeconomic growth in the process of full integration in the European Union.

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

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

The first goal aims at reducing the gap between EU and Bulgaria level of GDP per capita. Investments in knowledge-based economy would increase capacity both to invent and use new technology. Modern theories emphasized the role of R&D activities as a key factor for long-term real growth. The strategy focuses on investments in education, training, R&D, economy-wide use of information and communication technologies and building a link between the scientific, educational and productive sectors. We look at the innovation activity as an important factor to improve Bulgaria competitiveness on the foreign good, service, and capital markets.

In addition, this goal envisages tendency towards environmental policies that ensure long term development stability and create better conditions for social and economic development of the country. Achievement of the sustainable and balanced growth is basic precondition for decline in the difference in income and standard of living in Bulgaria and the countries in the EU.

The **second goal** is motivated by the long-term high unemployment rate, decreasing standards of education and social exclusion of disadvantaged groups and the Roma. Improving professional qualification is rather underdeveloped in the better part of Bulgarian companies. Participation rate is low compared to the EU average. Investment in human capital will encourage more people to look for jobs and to cope with challenges associated with the technological changes. Low flexibility and insufficient capacity of the educational system and the system for re-qualification do not meet the requirements of the labour market, which, together with the improvement of the services for finding new jobs for the unemployed people will be tackled by the second strategic goal of the NDP.

The main interventions till 2003 for the achievement of the above vision and the strategic goals will be directed in the following areas:

- Increase in the productivity of the productive sector;
- Decline in unemployment and increase of the quality of the labour force;
- Development of agriculture and rural areas;
- Improvement of the quality of the transport infrastructure;
- Overcoming the existing environmental problems and creation of the base for sustainable development;
- Decrease in the intra-regional disparities and stimulation of the balance and sustainable regional development;
- Support of social development.

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

- Improvement of the competitiveness of the Bulgarian economy;
- Development of human resources and improvement of the social infrastructure;
- Improvement and development of the basic infrastructure;
- Development of agriculture and rural areas;
- Sustainable and balanced regional development.

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

- Productive sector;
- Transport;
- Environment;
- Human capital;
- Agriculture and rural areas;
- Regional development.

5. STRATEGIC INTERVENTIONS ENVISAGED BY THEMATIC AREA

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

5.1. Productive sector

The overall goal for the development of the productive sector is increasing labour and capital productivity and competitiveness of the economic sectors of Bulgaria which is at the core of reaching long-term sustainable growth. The Bulgarian economy is still facing severe problems at macroeconomic level with regard to its international competitive position: the low labour productivity, the use of outdated technologies in production, leading also to higher energy intensity of the produced output. All this is closely linked to the prevailing share in the export of low value added production and the failure of the Bulgarian enterprises to meet the domestic demand requirements resulting in a steady increase of the trade deficit.

The steady increase of the current account deficit since the year 1998 directly indicates the worsening of the Bulgarian competitive position in international markets for tradable goods. In 1998 it amounted to EUR 381 mln, whereas in 2004 it rose over 8 times to reach EUR 2718 mln.

Bulgaria aims at concentration of investments on sectors with high growth potential and especially towards knowledge-based activities simultaneously increasing the competitiveness of the small and medium sized enterprises. In parallel, support for the existing traditional producers to improve their efficiency and assistance to restructure and regain competitiveness is foreseen.

During the last few years the small and medium enterprises are increasingly establishing themselves as an important factor for growth and employment in the country. The latest data indicates that this group of economic entities has the largest development potential, although the value added indicators of this group[51] is lagging behind the group of large enterprises (53.1%). A major problem hampering the sustainable growth of the economy is connected to the low investments of companies in research and development activities[52]. Another crucial factor in this regard is the low level of business-science-education cooperation. In addition, a low propensity for introduction of new technologies in the SME sector is observed.

Although the research and innovation activities in the country are still limited, there is a potential for their development. The country could benefit from its preserved and internationally acknowledged institutes in many branches of natural science[53]. The steady increase of investments in information and communication infrastructures[54] as well as the growing number of university graduates with scientific degrees, is positive signal for Bulgaria's potential for laying down the foundations of a knowledge based economy.

5.1.1. Increasing the efficiency and productivity of the SME sector

The largest area of activity concerning the competitiveness of the SME's will be targeted on increasing their productivity and effectiveness[55] . This priority will tackle two problems with highest importance for boosting the competitiveness of the SMEs: increasing the quality of production and thus also on the domestic and external markets share of these products and improving the energy efficiency of the SMEs.

The actions falling under the increasing the quality of production will be targeted at meeting of the EU regulations requirements, introduction of internationally recognised quality standards, management systems, providing consultancy on industrial property rights. These interventions address the low SMEs export activity as the lack of certification of production to meet EU quality requirements is the major obstacle for them.

The low energy efficiency is especially pronounced in the SMEs sector, where the lack of financing form the banking sector for energy efficiency measures is a major barrier for the

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[51] SMEs produced 46.9% of the value added in the non-financial sectors in 2002

[52] with the share of 35% of business in total R&D expenses for the year 2002

[53] biology, energy, agriculture ect

[54] although considerably lagging behind the European average

[55] currently 2 to 7 times lower than in the new EU-10 Member States and some 15-30 times lower than the old EU-15 countries

introduction of new technologies of this type. Therefore the strategy envisages a grant scheme directed to the energy efficiency in the sector.

The use of renewable energy sources as an environment friendly technology will also be promoted in regard to increasing the security of energy supply for the SMEs sector.

Another essential part of the actions envisaged for boosting the SME's competitiveness and efficiency is the support foreseen to link the enterprises in different kind of networks and clusters.

5.1.2. Innovations

The Bulgarian strategy is placing development of SMEs innovation potential at the core of efforts for increasing competitiveness of the country. The actions envisaged to stimulate the innovation activities of SMEs will encompass a set of interventions aiming at building a stable basis for an integral innovation system in Bulgaria and will be targeted to both enterprises and research entities. An essential part of the foreseen activities includes the building of a pro-innovative infrastructure which will enforce the link between the enterprises with innovation potential and research institutes and will stimulate the exchange of experience between the innovative enterprises. Another significant area of interventions will be targeted to technology start-ups. Actions will be directed on the one hand towards improving the overall strategic planning and management in high innovative start ups. On the other hand, a support for innovative projects in SMEs which still have established market positions at all three stages of their development will be in place, directly stimulating the innovation propensity in this sector. In addition, some actions focus at the improving of the quality of human resources through adapting the education programs to the needs of the labour market.

5.1.3. Access to Financing

A number of surveys identify access to financing for start-ups and innovation activities among the major problems of the SMEs sector. The alternative sources of financing are at a primary stage of development in Bulgaria. The opportunities for state assistance for the sector are still underused as well. In this regard the national strategy envisages the facilitation of access to finance for the SMEs through creation of various funds for alternative financing.

5.1.4. Providing support for Business

The provision of business support services is an important component helping to foster efficient economic performance. These services are at the initial stage of their development in Bulgaria and still insufficient to improve the economic growth opportunities of the enterprises. The activities proposed from the national strategy consist of actions for increasing the capacity of private sector and government administration to provide services for the support of business entities.

5.1.5. Promotion of Bulgarian Products

Although the FDI flow in Bulgaria is steady increasing their level still remains relatively low compared to the new EU member states. The efforts in this field will aim at promoting Bulgaria as an attractive place for foreign direct investments[56] and building an image of the Bulgarian products and services (i.e. tourist services) on the international markets, encouragement of the export activities of the enterprises and creating an image of a Bulgaria as an attractive place for tourism.

5.2. Transport

The main strategic goals of the transport policy are directed towards development of sustainable transport, integration of the national and urban transport network into the EU transport network, improvement of the transport services, better balance between transport modes. Achievements of these goals are precondition for sustainable and balanced long-term economic growth. Enhanced mobility will also lead to more and better employment opportunities and to improved living standards. Efficient and safe transport infrastructure will increase the volume of the traded goods between the different regions of the country. Furthermore, the development of the Trans-European transport corridors will also contribute to achieve integration of the national markets into the EU markets.

The geo-strategic location of Bulgaria offers the opportunity for the country to become the EU gateway to the states of the Black Sea region. Furthermore, the existing transport systems in the neighbouring countries provide many possibilities for complementing and interchanging the routes so that transport traffic could be optimised. In order to exploit these additional opportunities Bulgaria will have to improve and develop the existing transport

[56] with 308USD per capita attracted in 2004 Bulgaria is still lagging far behind the Central and Eastern European countries

infrastructure, to ensure further development of the connections with the neighbouring countries, to successfully adapt the sector to the current market conditions by shifting the balance between the different modes of transport, to achieve better conditions for the maritime and inland-waterway navigation and safety, to promote the development of multi-modal and to develop sustainable urban transport.

Although certain efforts were undertaken to provide better transport services, further improvements in order to achieve the EU standards in this field are needed[57]. To fulfil this aim and to maintain the high standard in the transport sector, its sustainable development is a vital necessity. Although the density of the national transport network – 0.171km/sq.km – is higher than these in the EU25 average (0.09km/sq.km), it is significantly lagging behind in terms of development of the motorway network[58]. Lack of balance between modes of transport is also one of the most obvious problems of the existing transport network. The main share of the traffic falls on the road transport system.

5.2.1. National transport networks

The achievement of the stated goals requires modernisation of the transport infrastructure. At present, large parts of the existing roads and railways have not been maintained and modernised for a long period of time[59]. The solution of these problems requires building of motorways, first class roads, second class roads along the Trans-European transport corridors, railway lines and sections along the Trans-European transport corridors and the related infrastructure. This will increase the overall quality of the national transport infrastructure and thus result in significant increase in the transport flows through the country.

Improvement of the cross-border links will increase the traffic, trade and cross-border cooperation in the region. Currently, the connections with the neighbouring countries are insufficient[60]. The quality and traffic capacity of the cross-border checkpoints will be

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[57] In 2003 some 6 211.5 km of the Bulgarian roads are in good condition, 5 725.8 km are in satisfactory condition, and 7 016.2 km are in poor condition (according to the national transport authorities).

[58] The length of Bulgarian motorways in 2003 is only 328.2 km, as the length of the national road network is 19 264.8 km.

[59] 63% of the national road network and more than 50% of the national railroad network has not been renovated in the last 15-20 years. In addition, 80% of the railroad locomotives and 70% of the passenger carriages are older than 20 years.

[60] The number of road cross-border check-points is 23, and the railway cross-border passages are only 8.

considerably increased in order to meet the forecasted traffic volume in the next years. In order to achieve this aim, construction of new and modernization of the existing roads and railways that connect the territory of the Republic of Bulgaria with the neighbouring countries is to be undertaken during the 2007-2013 programming period. This will also result in better links between the domestic and foreign companies, fostering private investments and facilitating the establishment of multinational companies in the Bulgaria (increasing FDI, growth and employment).

The strategy envisages improvement of the maritime and inland-waterway navigation and safety. The main national inland-waterway - the Danube River, part of the Trans-European transport corridor VII, is an important trade route between Bulgaria and Central Europe. Considerable part of the inland-waterway and seaports has insufficient technical equipment and their overall state does not correspond to the safety and traffic requirements. Improvement of navigation conditions through inland-waterways and maritime routes is very important condition for more effective usage of this mode of transport.

Development of effective combined and multimodal transport will also be further improved in the next programming period. Currently, Bulgaria has unbalanced development of different types of transport for transportation through the country. Furthermore the multi-modal transport will also contribute to the prevention of the environment in the country. Some of the most important activities in this field to be taken include the improvement of the technical, technological and operational parameters in the terminals and the access infrastructure and development of the infrastructure for combined transport and establishment of freight villages.

5.2.2. Urban transport

The aim in the development of the urban transport is to increase the living and the environmental conditions in the main urban areas of the country. A number of actions to improve the transport networks within the cities of the country will take place during the next programming period. The main target will be to make the urban transport more efficient and less time consuming, to build secondary infrastructure for the public transport networks, and to introduce more environment-friendly types of urban transport. In particular, the strategy of the country in this field includes further development of the Sofia metropolitan and construction of bypasses in the cities, which will add to the improvement of the environmental conditions as well as to the decline in the traffic congestions in the capital. In addition, modernisation of urban transport systems and modalities and wider introduction of environmental friendly public transportation vehicles will bring significant and sustainable benefits for the urban areas.

5.3. Environment

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

5.3.1. Water supply and wastewater collection and treatment

A significant share of the environmental problems in the country is caused by a lack of efficient water supply and sewage[61] systems as well as wastewater treatment infrastructure. The solution of these problems will improve the quality of water distribution and treatment infrastructure. At present, there are significant water losses due to inefficiency of the existing water supply system[62]. Construction of an adequate water supply, as well as construction and

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

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

modernization of waste water collection networks and waste water treatment plants is a precondition for sustainable development of Bulgarian municipalities and their further growth.

5.3.2. Waste management system

One of the main challenges for the environmental policy is also related to the waste management system. The insufficient quality of the existing waste management systems is a considerable risk factor for both the human health and the environment. Therefore, the envisaged future steps include measures for construction and modernisation of facilities for waste treatment, reclamation of existing waste landfills, elimination of uncontrolled illegal waste dumpsites; as well as extensive introduction of sorting, recycling and composting with the aim of minimising the waste disposed in landfills. Moreover, the government will put efforts to modernize the current waste treatment methods in order to reach environmental regulations of the EU.

5.3.3. Air and noise pollution

Currently, the air pollution in Bulgaria is well below the Kyoto Protocol level. Nevertheless, the government aims at improvement of ambient air quality through reducing the emissions of the basic air pollutants and attaining better air quality in the cities and near-by industrial areas. The implementation of Directive EC/94/63, concerning the control of VOC emissions resulting from the storage of petrol and its distribution from terminals to service stations represents a major priority in the environment sector as well. The reduction of the noise pollution is also a priority.

The outdated industrial technologies are one of the main factors causing the air pollution. In order to solve these problems the Bulgarian industries will have to ensure full compliance with the EU environmental standards. Additional efforts will be made to improve and renovate the municipal utility heating systems. Another parallel set of ongoing activities are targeted at establishing sustainable urban and inter-urban transport systems. In addition, general initiatives for public and industrial energy efficiency will be supported. The complex impact of interventions described will contribute to country's sustainable development and will ensure suitable conditions for increasing the overall quality of life. The last but not the least it will assist to indirectly improve the competitiveness of Bulgarian industries and regions.

4.3.4. Treatment of non-regulated dung-hills and old polluted terrains

The existing number of non-regulated dung-hills and industrial polluted terrains[63] in Bulgaria represents a significant environmental problem to be tackled in the period 2007-2013. Currently a number of national implementing programs deals with activities for the closure, recultivation, and overall sanation of such terrains. As an extension of the current activities in 2007-2013 period continuos significant efforts will be put down for further decrease of the number of existing polluted terrains and their negative environnemental impacts.

4.3.5. Biodiversity protection

The protection of biodiversity is also an area that will be promoted using the support of EU Structural funds. This is highly important in the case of Bulgaria with its high number of endemic species and various habitats[64]. A set of activities will take place covering a number of protected areas (i.e. the "Nature 2000" areas) supporting their management, investments for improvement of the existing habitats, research and monitoring of the species development. In addition the biodiversity protection will be a prioritised horizontal issue, tackled by all relevant structural interventions in 2007-2013 such as rural development measures, support for tourism initiatives, etc.

4.3.6. Monitoring of and information on environnemental dynamiques

The implementation and evaluation of a reliable and consistent national environmental policy incorporating all abovementioned sets of activities needs additional developments of the existing non entirely completed environment information systems with non-satisfactory scope. Additional efforts will be laid down for further completion of the information systems in the areas of air emmissions, quality of waters, radiation monitoring, as well as for environmental monitoring of SME in some selected economic sub-sectors.

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[63] About 5100 polluted terrains and dung-hills are currently identified and classified as environmentally problematic areas, significant number of such terrains still remains non-explored.

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

5.4. Regional development

The regional dimension of the national strategy aims at removing the structural barriers to development and mobilising endogenous growth potential of the NUTS2 regions across the country territory as well as at decreasing of the regional differences in relation to income, unemployment and the quality of local infrastructure. Though the socio-economic analysis revealed that the inter-regional disparities in Bulgaria are not that significant, it clearly shows that considerable intra-regional differences among the districts and the municipalities exist. In almost all regions and districts in the country the typical "centre-periphery" contrasts are observed. Especially affected in this regard are the border territories, many of the rural areas, as well as places with high minority concentration.

Investment in the major cities will advance their capacity to foster development across the regions integrating the surrounding territories and less urbanised areas and accelerating their economic potential. Regional development in itself will only deepen the differences in the economic development of the regions, which is the main reason to invest heavily in small municipalities with poor infrastructure and much lower potential for development. Overall, the strategy in the area of regional development balance between reaching high regional economic growth and the decline in difference between the regions.

5.4.1. Urban development

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

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

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

Manufacturing zones in the cities occupy huge areas, however they often lack sufficient public works and could not be used efficiently. Most probably, the potential localization of future production facilities with improved technologies will be sought somewhere beyond the boundaries of these areas, on a "green field". This, however, does not resolve the problem of restructuring and renewal of the manufacturing areas in the cities, including maximization of the use of the production facilities in order to provide resources for neglected urban needs, such as green areas and public utilities, on which the policy of urban development should focus.

The state of repair of the public buildings for culture, education, health care is lamentable. Unfinished construction of cultural facilities in the cities is a serious problem for municipalities. Possibilities should be sought for completion of unfinished municipal sites in line with the current needs of the municipalities.

5.4.2. Regional connectivity

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

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

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

5.4.3. Tourism Development

With nine sites of World Heritage importance – seven cultural (included in the UNESCO world culture heritage list) and two natural; thousands of local cultural and traditional attractions, and more than 5% of the national territory in protected area status, Bulgaria has an attractive network of natural and cultural resources. Moreover this resources diversity is concentrated making many areas accessible in short periods of time. There are over 30 000 historic monuments in Bulgaria, 36 culture reserves, 160 monasteries, 330 museums and galleries.

An essential need acknowledged is to concentrate the scope of tourism development activities so as to maximize value for money and impact. The policy in these areas will seek to provide investment solutions that promote tourism and business development in selected areas with tourism potential by means of fostering the development of tourist attractions and related infrastructure, improving tourist accommodation and services, promotion and marketing of destinations. This will support the prospecting level of tourism and business development in a comprehensive and complementary way.

The area of key importance to tourism development in the country is cultural tourism. The country will support the cultural tourism and leisure activity development in the regions with rich cultural heritage resources – namely in the identified cultural corridors areas. This is how the country will achieve maximized economic utilization of its cultural heritage potentials. Moreover, cultural tourism will create sustainable workplaces in the areas it is develop, creating more and better jobs in line with the Lisbon Strategy and in line with the Governmental Programme of the Republic of Bulgaria. It will also provide alternative sources of income for the population of the rural areas. On the other hand, cultural tourism will ensure the preservation of cultural heritage and its socialization through building of sustainable tourism infrastructure. Training and consultation for the human resources involved in the cultural tourism activities will be provided to ensure efficiency and coherence of this pattern of development.

Cultural tourism activities will also support the development of local community initiatives, via promotion of modern cultural management and entrepreneurship, better maintenance of "chitalishta" (traditional cultural clubs) and increase the use of their capacity for social inclusion (a role that they have traditionally played in the Bulgarian society).

The next areas of importance to tourism development are ecotourism and spa tourism which line next by territorial spread of unexploited resources for their development throughout the country. The economic impact of these two areas will be in line with the described impact of cultural tourism and will add further value to the overall sustainable development of tourism in the country.

5.4.4. Interregional cooperation

The interregional cooperation aims at promoting Europe-wide co-operation among regions and municipalities with an aim to transfer and exchange information, knowledge and good practice. Regional and sub-regional actors can substantially benefit from the acquisition of knowledge and skills relevant especially to identifying and defining development solutions.

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

5.5. Human Resources Development

The improvement of human capital is a basic foundation for sustainable growth and higher competitiveness of the economy. The main goals and priorities of the national strategy for human resources development as a key national development priority have been identified on the basis of the analysis of the labour market and social issues. The overall goal of human resources development is to increase the quality of life through increasing employment, access to education, life-long learning and social inclusion of vulnerable groups.

5.5.1. Human Resources

A major part of human resource problems concerns the labour market. The level of employment for the persons aged 15-64 stands at 52.5 % in 2003. This is some 10-percentage points lower than the average values for the European Union (62.9 %) for the same year. After 2001 the number of unemployed is on the decline, whereas in the end of 2004 (fourth quarter) the unemployed are 391 thousand, and the unemployment rate is – 11,8%. Despite the considerable reduction, the unemployment rate is still higher than the average for the EU member countries, which stands at 9.1% in 2003. Solution of these problems will address activities such as creating more and better jobs, increasing the adaptability, mobility and competitiveness of labour force. The national strategy aims to improve the qualitative characteristics of the labour force. It will further strenghten the relationship between education, science, and business in order to ensure higher standards of qualification and an increased adaptation capacity of the working–age population to the changes in labour market demand. This adaptation will be further improved by the provision for more efficient labour offices and securing smooth transition from school to employment. Moreover, the introduction of the concepts of life-long learning and vocational training will ensure an efficient labour force development and increase the ability to find better jobs. Special attention is placed on young people, ethnic minorities, disadvantaged and risk groups on the labour market and their socio-economic integration.

The national educational system faces several major problems including the reduced quality of education, lack of equal access to education, lack of modernization as far as meeting of market economy requirements. Facilities at all educational levels are insufficient and in some cases underdeveloped. That is why improving access to education and increasing the quality and openness of education to the needs of community will be another area of interventions. In order to address this objectives, the efforts will be targeted at the achievement of quality in the education system, adapting education to market requirements, maintain premises and sport facilities, improve accessibility to education of vulnerable and minority groups (the role of school is seen not only to educate but also to be community centre which provide other services like leisure time activities or after school child minding for working parents). Another set of efforts are dedicated to university education, postgraduate and doctoral programs. In parallel, special attention is placed to the development of innovation and R&D potential. Namely, the country will take measures for innovation of the outdated infrastructure and equipment in schools which are currently in their majority in a derelict condition. Incentives to improve the quality of education will also be increased through the introduction of a quality monitoring system. In parallel, the country will develop the dialogue between businesses and education institutions to ensure the overall harmonization of the needs and expectations of both sides thus finally improve the efficiency and adequacy of the educational system to the needs of the labour market. The country will also improve its accessibility to education by developing special opportunities for people with disabilities for qualification and labour market participation.

Interventions to be launched in this area will be complementary to these undertaken to support innovations and technology transfers.

Bulgaria also faces a number of serious social problems like: poverty, health issues, social exclusion and marginalization (disadvantaged children, disabled people, and vulnerable groups). Encouragement of social integration end equal opportunities is also area that will be promoted through improved access to social and health services.

5.5.2. Health

In order to address the existing national health problems a number of initiatives will be supported. The country will improve the access to social and health services by renovating and modernising the health services premises and equipment which are below the standards of the EU. In addition the difference in quality of medical provision and infrastructures in the urban and rural areas is large. Planned investments in equipment include the increase of available ambulances and their equipment which are currently insufficient to cover the needs of population. This in turn will result in certain improvement of the quality and speed of the health care provided.

The country will also enlarge the scope of provided health services. It will now develop more intensively not only treatments, but also preventive treatments, rehabilitation and also health information campaigns.

Health measures also aim to broaden diversity of social services especially for vulnerable groups. Significant efforts will be placed to create adequate living conditions to special groups (children at risk, marginal groups, and people at specialized institutions) through social services and health care. A parallel set of activities aim to improve health awareness of the whole population and quality of public health care institutions. The optimisation of healthcare and social infrastructure will result in a higher quality of life, and assist the improvement of the human capital in the country.

5.6. Sustainable Social Development

Bulgaria will base its sustainable social development on improving the educational system and its link to the labour market, ensuring accessible to all health services and working for social integration and optimization of social capital.

The educational system will be improved by reconstruction and modernization of the educational infrastructure, modernization of the appliances and technologies used in secondary and higher education and promotion of R&D in the academic institutions, also as a link between academic research and business needs. Innovation of the curriculum and educational approaches will be done to help further narrowing the gap between academic education and the real needs of the businesses. Creation of career centers administrating the link between academic graduates and the labour market will also be created to support the business-education collaboration. Moreover, as far as higher education is concerned, the country will be working in the direction of active participation in the Bologna Process, ensuring mobility of students, and participation in the European Higher Education Area, guaranteeing academic and professional convertibility of the acquired education. Life long learning will add further value to the prequalification and training with priority for the unemployed on one hand and on the other especially targeted at teachers and academic people to help the enhancement of the status of the Bulgarian teacher which will have double impact on the quality of educational system and the status of the very people involved in it.

The health system will also invest in improving its infrastructure and technology and will put efforts in finalizing the health services reform and improving its reformed system. This will include stimulating the voluntary health insurance and better medicament management policy. Special health services packages for the active working force will be created.

In compliance with the Joint Memorandum on Social Inclusion of the Republic of Bulgaria from 3 Feb 2005, the country will target at improving social inclusion by focusing on ensuring integration on the labour market. This will lead to reduction of the overall poverty rate, better inclusion in health services by the special packages for working people, better opportunities for prequalification and finding new sources of income by improving ones' productivity and efficiency through participation in the life long learning opportunities. This approach is inspired and in line with the basis of the Lisbon Strategy knowledge based economy target.

5.6.1. Roma Issues

There is a unique ethic model of tolerance and respect in the country. Ethnic minorities are equal Bulgarian citizens and in some cases certain ethnic groups, such as the Armenian and Hebrew, are economically better off than the average Bulgarian. However, the Turkish and Roma minorities face difficulties with economic integration, and because of the largest share of Rome living in extreme poverty, this minority faces difficulties with social inclusion too. The country will tackle with the economic inclusion and social integration problems of its minorities in three directions – in short, medium and long term perspective. The short term perspective regards housing for the Roma living in extreme poverty. There is a special programme tailored in compliance with world wide best practices. This is the National Programme for Improving the Living Conditions of Disadvantaged Ethnic Minorities in Urban Areas, prepared by the Ministry of Labour and Social Policy and the UNDP, Bulgaria. The mid-term measures regard economic inclusion at the labour market which is part of the structural funds programming of the country. The impact of these interventions will be with longer term impact as well. In the long term, the targeted measure that is part of the country's care for minorities social and economic inclusion is expressed in the official programme of the Bulgarian Government and regards preparation of education programmes. Better education will guarantee better labour market integration, better access to health services and overall social inclusion of the Roma ethnic group.

5.6.2. Gender Equality

Gender equality is horizontal issue on which Bulgaria is on track with the EU current status. Bulgaria face the same level of problems with gender equality as the average member state. That is why the country will undertake the common for the member states' measures concerning gender equality alertness in all programming and planning levels, policies and alike measures.

5.7. Agriculture and Rural Development

Agriculture and rural development are key priorities within the Bulgarian development strategy. Nevertheless, according to the new EU Regulations those priorities are subject to another strategic document, namely - National Strategic Plan for Rural Development. It is necessary to ensure both complementary to and consistency with NSRF and NDP for 2007-2013 programming perod.

The strategic goals of the National Strategic Plan for Rural Development Plan over the 2007 – 2013 period have been defined as follows:

1. Development of a competitive agriculture and forestry sector and based on innovation food-processing sector.

2. Preservation of the natural resources and protection of the environment in the rural areas.

3. Creation of employment opportunities and improvement of quality of life in rural areas.

Third goals of The National Strategic Plan for Rural Development aim at improving economic, social and environment conditions in rural areas. They are both complementary to and consistent with the strategic goals of the National Development Plan for 2007-2013 programming period. The implementation of the strategy of The National Strategic Plan for Rural Development will contribute the achievements of the NDP strategic goals.

The first goal of the National Strategic Plan for Rural development will be achieved through supporting productions that add value to the agricultural products and promoting transfer of innovation to SMEs, improving of the quality and development of human potential.

Bulgaria has favourable climate and good tradition in agricultural production. At present, the low efficiency stands out as the main problem for the agricultural sector - about a quarter of the employed persons are employed in the sector. At the same time its weight in GDP has been decreasing and currently stands at 10 %. Significant structural problems of the Bulgarian agriculture are: the fragmentation of the agricultural property, the existence of the large number semi-subsistence farms and outdated technical - technological conditions of production. Bulgarian agriculture and food-processing industry should operate in rising/increasing competitive conditions within internal market. Significant efforts should be placed to support farms to meet high EU standards in the areas of food safety, product quality, and environmental protection and to develop productions adding value to the agricultural products.

The low market orientation in most of the existing agricultural farms is a serious point of concern. Two types of farms stand out: professional farms, producing exclusively for the market, and semi-subsistence farms (they produce mainly for own consumption, and sell just a small part on the market). The farms of the first type strive to increase their competitiveness aiming to enter EU markets. They seek opportunities for investment needed to meet standards based on Community legislation. The second group, the so-called semi-subsistence agricultural holdings, rarely make investments because they lack the financial resource and confidence of the banks.

The main accent of the strategy will be put on the improvement of the competitiveness of medium-sized farms which produce exclusively for the market. Assistance for semi-subsistence farms will mainly be provided to those which could increase their competitiveness as a result. At the same time the support for semi-subsistence farms will be combined with investment support for collective actions between actors in agriculture.

Significant efforts also will be placed to develop an integrated structure of the processing of agricultural products, thus increasing the quality and value added of primary agricultural production. Bulgaria has good tradition in food-processing industry. Significant efforts will be placed to set up innovative SMEs, to renovate the exciting technical–technological conditions in food-processing industry. Major priority area will be the support for collective actions between actors in agriculture, food-processing industry and research agricultural institutes. As a result new products will be developed and modern technologies will be introduced in agriculture and food-processing industry.

The second goal is related to development of agricultural methods and approaches aim at preservation of the natural resources and protection of the environment.

The preservation of the natural resources and protection of the environment will be achieved through sustainable land and forest management. The interventions will be in line with the overall national approach for preservation of natural resources and in accordance with international commitments, environmental strategies and European legislation for environment protection.

A major problem in Bulgarian agriculture is the inefficient and unsustainable use of the natural resources. Soil erosion is one of the main irreversible degradation processes, which is manifested through the decrease of the soil potential, loss of fertility and water pollution. Some 80% of the cultivated lands and 15% of the forest ones are subject to water erosion, and 37% to wind erosion. Moreover, in Bulgaria there is a large area of abandoned agricultural land, while in EU countries such phenomenon is not observed.

In order to address these problems the strategy will provide a set of activities covering re-cultivation and irrigation of agricultural lands and forests, development of sustainable and environmental-friendly land management. The impacts ensured by this component of the strategy will also contribute to the national efforts for preservation of environment and sustainable utilization of natural resources.

The integrated agri-environment activities and biological agriculture could provide stabilization of ecosystems, preservation and restoration of the natural resources, sustainable rural development and prevention of abandoning process of agricultural land. In biological agriculture is method using some approaches of production aimed at preservation of natural resources.

The third goal focuses on rural development. It aims at the improving the overall quality of life in the rural regions. This will be achieved through the creation of alternative employment opportunities and the diversification of the economic activities, the development of services and building of the necessary infrastructure.

Currently, agriculture is the main source of income in rural areas. Approximately 78 % of the employed persons in agricultural sector are in rural areas. At the same time the areas where employment in agriculture is high, are also characterized by high unemployment. That is why diversification of economic activities is perceived as an opportunity to increase incomes and to improve the overall quality of life in rural areas.

The planned investments in good-quality rural infrastructure will improve the quality of life, creating the conditions for revitalization of the rural regions and ensuring a friendly business environment. The technical infrastructure in rural areas has wide coverage but is considerably outdated. Other problematic issues are related to the sewages systems and the waste collection, which are absent in 70% of the rural regions. In addition, the limited financial resources of a large part of the municipalities does not allow for its renewal and maintenance. In order to address these problems the strategy will concentrate on improvement of the quality of road network in rural regions as well as construction of sewage and irrigation systems and waste collection infrastructure.

6. OPERATIONAL PROGRAMMES IMPLEMENTING NDP 2007-2013

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

Development of the Competitiveness of the Bulgarian Economy

Environment

Regional Development

Transport

Human Resources Development

Administrative capacity

National Strategic Plan for Rural Development and Rural Development Programme

National Strategic Plan for Fisheries and OP Fishery

OPs have been elaborated following the partnership principle, providing conditions for an efficient implementation of the NSRF by ensuring on one hand public awareness, and on the other – consideration of all stakeholders' interests. Furthermore, by building all necessary structures and proper institutional arrangements, Bulgarian government has been trying to increase the effectiveness of the strategy, thus ensuring its high value added.

7. IMPLEMENTATION ARRANGEMENTS

7.1. Administrative capacity and provisions for effective implementation[65]

7.2. Indicators of the implementation

The following set of indicators will be used for the assessment of NDP strategic goals and priorities' implementation:

1) GDP per capita as a portion of EU average;
2) Real GDP growth;
3) Commodities and services export growth;
4) Labour productivity;
5) Energy intensity of GDP;

[65] To be drafted by MEUF Directorate, MF

6) Value added in transport sector;
7) Waste waters subject of treatment;
8) Supply water system losses;
9) Decrease of unemployment rate;
10) Number of new established working places;
11) Economic activity coefficient;
12) Decrease of inter-regional disparities in terms of GDP;
13) Effectiveness of forestry and agriculture sector;
14) Value added in forestry and agriculture sector.

8. Macroeconomic impact assessment[66]

9. Horizontal issues

There are certain policies in the EU, which implementation is required in integrated manner, encompassing all areas of the socio-economic life of the Union. The compliance with this EU policies has to be ensured at all stages of EU structural funds programming – planning, implementation, financing, monitoring and evaluation of the financial aid.

The Central Coordination Unit for the management of the EU Structural funds is responsible for the issuing of manuals and implementing rules for all participants in the tenders and tendering procedures and will submit a manual for the effective rules of the Community concerning the horizontal issues, as well as the national rules in order to ensure the proper management. The manual will be issued until the 30th June, 2006 and has to ensure that all requirements of the EU concerning the horizontal priorities are followed before the projects are approved for supporting from the EU.

[66] To be drafted by AEAF.

9.1. Award of Public Contracts

According to the Bulgarian legislation the award of public contracts is regulated in the Law on Public Procurement in force since 1st October 2004. Additional secondary legislation of high importance is the Rules for the implementation of the Public Procurement Law[67], the Ordinance for the award of small Public Procurement contracts and the Ordinance for the terms and conditions for the award of special Public Procurement contracts.

The state policy in the field of public implemented is carried out by the Minister of Economy and Energy. In addition an independent administrative structure is established with the Minister of Economy and Energy – the Public Procurements Agency[68], the responsibility of which is to ensure efficiency of the public procurements system in Bulgaria, taking into account the principles of publicity and transparency; free and loyal competition; equality of all applicants. Court of Arbitration is established with the Agency, which is an out-of-court institution for review and resolution of public procurement-related disputes. Public register of public procurements has been established, which includes the decisions for the opening of procedures for the assignment of public procurements, the announcements, intended for entry in the register, the information as to assigned public procurements and other information set out in the Rules for the implementation of the Act.

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

In November 2005 the Council of Ministers approved a National Strategy for Development of Public Procurement and Concessions Sector for 2005-2007. The recommendations of the European Commission, reflected in its regular reports for the institutional development of the Public Procurement Agency (PPA) and the public procurement system in the country, were taken into account in the preparation of the strategy. The main strategic objective is to ensure conditions for observing the principles of publicity, transparency, free and fair competition,

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[67] In effect as of 1.10.2004

[68] The Public Procurement Agency is established with a Council of Ministers Ordinance# 56 of 13.03.2004

equal treatment of all participants and non-discrimination in the process of the public contract award and granting of concessions.

The strategy envisages improvement of the legal framework and bringing it in line with the Acquis Communataire in the field of public procurement and concessions and ensuring conditions for the application of the legislation. A main goal is also ensuring publicity, transparency and equal treatment of all participants in the process of public contracts award.
The Public Procurement Agency has prepared a Law of Amendments to the Public Procurement Law (LAPPL). The purpose of the proposed draft of amendments is to achieve full compliance of the Bulgarian legislation with the legislation of the EU in the field of public procurement. The main amendments proposed in the LAPPL reflect the new elements in the EU directives and are made with a view to coordination, update and simplification of the procedures for public procurement contracts award in the EU, in keeping the main principle of the Treaty of Rome.

9.2. State Aids

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

In the field of state aid the Parliament has adopted laws and other normative acts, covering the main principles of the Acquis Communataire. Nevertheless, some amendments of the legislation are still needed to adapt it to the requirements of the new EU legislation.

The State Aids Act regulates the terms and conditions for monitoring and control over state aid, as well as the assessment of their compliance with the principles of the free competition. Under the Act “state aid” shall be any aid provided by the state or the municipality, or against state- or municipality-owned resources, directly or through other entities, in any form, which shall violate or jeopardise the free competition through placing in a more favourable position certain enterprises, the production or trade in certain goods, or the rendering of certain services. The Act explicitly specifies the cases where it shall not be applied, namely: state aid provided in agriculture and fisheries; state aid intended exclusively for the defence industry.

State aid may be provided solely when allowed under the regulations outlined in the Act. The provision of state aid is admissible when the aid is of social nature and is provided to individuals, under the condition that the aid is granted without discrimination related to the origin of the respective goods; when it is intended to eliminate the damages caused by a natural disaster or other extraordinary events.

The provision of state aid may be accepted as admissible, when the aid: encourages the economic development of regions with low level of living conditions or high unemployment rates; when it supports the implementation of a project of major economic significance for the Republic of Bulgaria and for the countries with which it has established a regime of monitoring of the state aids or for the overcoming of significant difficulties in the economy of the Republic of Bulgaria; when it assists the development of certain economic activities or individual economic regions, to the extent there is no adverse effect on the trade exchange terms between the Republic of Bulgaria and the countries, with which it has established a regime for monitoring of the state aids; when it assist the preservation of the cultural and historic heritage if it does not effect the commercial terms and the competition to an extent contradicting the mutual interests of the states.

Another important secondary legislation in the field of state aids is the Rules on the application of the State Aids Act. The document regulates the criteria and the conditions for assessment the compatibility of state aids with the principles of free competition within the meaning of the State Aids Act and the procedure on the investigation and the assessment of aids before the Commission on Protection of Competition. By virtue of Decision no 9 of the Council of Ministers, dated 4 January 2002, the Regional map of state aids was approved. The Association Committee EU – Bulgaria, by virtue of written procedure, passed the extension of the validity of the Regional map until 31 December 2006, or until the date of Bulgaria's accession to the European union, depending on which of the two events occurs earlier.

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

The authorization and control of the state aids is carried out by the Commission for the Protection of Competition, a specialized and autonomous state body. The Commission pronounces a decision whether certain subsidy is state aid or not. Compliant to the principles of free competition are aids provided to an individual enterprise at the total amount of less than BGN 200 000 over a period of 3 years, regardless of the format or source of the aid, with the exception of aids to export-oriented activities and such, by means of which priority is given to local rather than imported goods; in the area of transportation and shipbuilding; intended for products covered in Protocol No 2 on the articles treated in the Agreement for the

European Coal and Steel Community in relation to article 17 of the European Association Agreement between the European Communities and their member-states.

The monitoring and transparency of state aids at national, regional and municipal level is ensured by the Minister of Finance. The Ministry of Finance establishes and maintains a register of state aids, where all data both for granted state aid and the proposals to grant state aids at national, regional and municipal levels are entered. The Ministry of Finance submits to the Commission the information for the state aids entered in the register on a semi annual basis, as well as on a request from the Commission. The Minister of Finance prepares a consolidated annual report on state aids, which represents the total volume, allocation and amount of state aids in the Republic of Bulgaria. It is submitted respectively to the National Assembly, the Council of Ministers, the European Commission and published.

9.3. Encouraging the Gender Equality

By virtue of Article 14 of the Proposal for a Council Regulation COM(2004) 492 the gender equality principle has to be promoted during all stages of programming and implementation of the Operational programs.

The equality of men and women is firmly embedded in the Constitution of the Republic of Bulgaria (Article 6) and the national legislation, which has internalized a set of international documents on equal treatment to which Bulgaria is party. The Protection against Discrimination Act[69], effective since 1 January 2004, builds upon the constitution principle of equal legal treatment and prohibition of discrimination, and takes it further by introducing mechanisms for its practical implementation.

One of the purposes of the Protection against Discrimination Act is to ensure that women have equal opportunities for participation in all spheres of social life – the prohibition of discrimination, as provided by law, refers to different areas of life, like employment, education and training, health, housing, social protection, submission of goods and access to social services and agencies, economic activities, etc. The Act makes provision for at least 40% representation in governance of the underrepresented sex, which is in line with the European standards for balanced participation of women and men in decision-making.

In 2004 a structure responsible for gender equality policy has been initiated.

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[69] Promuglated in SG# 86 of 30.09.2003

The "Equal Opportunities for Women and Men" Sector, established in 2004 at the Ministry of Labour and Social Policy, is in charge of the development, coordination and implementation and control of the government policy for equal opportunities of men and women. Its main tasks concerning the National Development Plan are the strengthening the partnership by the implementation of the Operational Programs and the attraction of partners from Bulgaria and other countries for absorption of the EU funds. The structure is responsible for the implementation of a system for evaluation of the EU structural funds and European Social Fund absorption by creation of a methodology, introducing directly and indirectly the gender mainstreaming concept.

In November 2004 a consultative body - the National Council for Gender Equality with the Council of Ministers has been established in charge of the consultation, partnership and coordination among the government authorities and the non-government organizations by the elaboration and implementation of the national policy regarding the gender equality. Its members are deputy ministers, directors of agencies and representatives of the social partners. With the status of observers and experts from non-government organizations, working on gender equality issues could also be invited.

Since the beginning of the year 2005 the first National Action Plan for Encouraging the Equality between Men and Women is being implemented, adopted by Council of Ministers Decision # 47 of 09.12.2004. With the National Plan the institutions and organizations include all issues concerning the gender equality in their programs. A National Action Plan for Encouraging the Equality between Men and Women for the year 2006 has also been adopted.

The National Development Plan is coherent with the Employment Strategy for the period 2004 – 2010[70], providing measures for creating the legal, institutional and resource basis to ensure equal opportunities for women and men. The general measures of the Strategy aim to achieve better economic activity of women and create equal employment opportunities on the labour market.

The tasks of the Strategy are to be implemented by the beginning of 2007. As for enhancing the economic activity of women, some measures are provided for developing a strategy for a better balance between family and career.

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[70] Adopted with a Council of Ministers Decision of 06.12.2003

In line with the European Employment Strategy, a National Employment Action Plan has been developed and implemented annually since 2001; it provides programs and projects for implementing the policy of promotion of equal gender opportunities.
The gender equality issue will be ensured at all stages of programming and implementation of the National Development Plan. It has to be taken into account in the criteria for project selection. Moreover, for all project implementation reports information for the participation of all persons separated by gender and their equal representation has to be included. The influence in regards to the gender issues will be a necessary element by the evaluation of all measures, sub-measures and projects of the respective Operational Program. The various organizations for equal opportunities, including the non-government sector as well as the Commission for the Protection against Discrimination have to be consulted during the planning, implementation monitoring and evaluation of all envisaged activities.

9.4. Environmental Protection

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

The Law on biodiversity – (promuglated., SG, #77 /2002) , fully transposes into the Bulgarian legislation the requirements of Bird Directive and Habitat Directive. It is envisaged that by the date of accession, Bulgaria will have a list of protected zones, completed standard forms, specific structures and mechanisms for their protection and for implementation of the activities provided in the Biological Diversity Act. The Act sets out the criteria for identification and evaluation of the zones of European importance (article 7), which are identical with those, set out in Attachment III of the Habitats Directive. On the basis of the completed evaluation, within 4 years of the adoption of the Act, a national list of the zones of

European importance in Bulgaria, including for birds, should be prepared. Articles 31 –34 of the Act fully transpose the provisions of article 6 (2), (3), and (4) of the Habitats Directive concerning the requirements and the assessment of plans and projects which might have a negative impact on the protected zones.

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

10. COMPLIANCE WITH THE EU STRATEGIC GUIDELINES

The republic of Bulgaria considers that its development programme fully addresses the CSG while ensuring that the strategy and operational programmes address the specific needs and the development stage of the country.

The CSG present three central guidelines on which the strategy and actions should the built. In the previous sections this document has presented and explained how Bulgaria’s strategy addresses its development needs. The actions envisaged are fully in line with each of the guidelines adapted to and complemented with additional actions address the specific weaknesses of the Bulgarian economy.

The CSG present three priorities which the cohesion policy should address, and invites the member states and candidate countries to develop their strategy based on these:

- increasing the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;

- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies;

- creating more and better jobs by attracting more people into employment or entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

While the strategic document is quite self evident in the importance Bulgaria has placed on the priorities expressed in the guidelines, this section summarised how overall the strategy satisfies these needs, addressing all important specific items mentioned in the CSG.

10.1. Making Bulgaria and its regions more attractive places to live, invest and work

Bulgaria's central aim is to develop a knowledge economy with a balanced growth. To achieve this, the country has to improve the quality of its infrastructures, in particular those needed for a modern economy. The creation of sustainable growth and employment opportunities beyond the capital city will strongly depend on transport infrastructure and on the access to advance telecommunication systems across the country, as well as a well designed human resources policy.

Overall, the focus is to transform the present economic structure, which is dominated by outdated inefficient production processes, low productivity, badly maintained infrastructures and a lack of a sufficiently adaptable workforce. It presents a bold but feasible plan to reverse the present situation, by aiming at modernising and adapting in parallel infrastructures, human capital and the quality of production processes and services provision. Efficiency, competitiveness, balanced growth and environmental protection, are all crucial elements of the strategy with a particular care to ensure that these objectives work on synergy. This is in line with the Gothenburg and Lisbon Agendas.

10.1.1. Basic Infrastructures

Bulgaria's strategy concentrates the largest part of its resources to renovate and modernise the infrastructure of the country. Given the touristic potential of the country, increasing the attractiveness of Bulgaria overall is of particular importance.

The actions directed towards the development of transport infrastructures will also be one of the backbones of regional development, assisting the regions to expand their market reach and improve the employment opportunities of the inhabitants. A coordinated network of motorways, main and secondary roads is planned in this respect. This network includes the routes identified as a priority by the TENs

In addition investments necessary to create a knowledge economy are high in the agenda, such as the development of ICT.

10.1.2. Околна среда и растеж

The Bulgarian strategy clearly expresses the need to preserve the environment while fostering growth. As a touristic destination the whole year through, the country depends strongly on its ability to preserve its natural heritage. The strategy integrates a mitigation efforts for the potential negative impact of higher growth on nature. Given the large inefficiencies of polluting industries and the derelict state of environmental infrastructure, investments in these areas can offset a considerable part of the negative effects. The compliance of EU environmental requirements for industries is high in the agenda and should already have an important impact, energy efficiency increases are a national priority.

Investments in a multi-modal transport network, connecting road, rail and waterway transport system will reduce the present dependence on road transport, reducing air pollution. While Bulgaria fulfils without problems its Kyoto commitments, it is aware that constant efforts to maintain if not reduce emissions further should be undertaken.

10.1.2.1. Biodiversity

Bulgaria has a large biodiversity heritage and recognises the need for its protection, thus the importance of Natura 2000. Bulgaria has been developing a National Action Plan for the protection and rehabilitation of Black Sea and a National Strategy for Biodiversity. The country already counts several large natural parks, such as the Rila National Park, Central Balkan National Park, the Pirin National Park or the Strandzha Natural Park.

10.2. Improving knowledge, innovation and entrepreneurship for growth

Bulgaria's places a very strong weight on human resources and competitiveness in its strategy. This country recognises that its future economic development will depend on its ability to develop an economy based on high productivity and investment in modern technology and innovation. While the challenges ahead are large, Bulgaria has the basic requirements in place. The strategy aims at rebuilding and improving its already present research centres and improving public-private partnerships in this respect.

The strategy stands on three fundamental pillars:

- Human resources: Education, training and lifelong learning
- Infrastructures: ICT development, increasing broadband Internet access to all
- Public and private research and innovation: Investment in ICT and production processes of SMEs, investments to foster R&D for public institutes and private businesses.

To allow this to work the strategy relies on the establishing of poles of excellence, bringing together high technology SMEs around research and technological institutions and by developing and creating regional clusters around large companies. A well functioning business support service is part of Bulgaria's priorities.

10.2.1. Finance

Bulgaria is aware that access to finance can be a difficult barrier, especially for SMEs. It is therefore developing a plan to draw in the EIB and EIF or other possible partners financial institutions to ensure that investment capital for good projects is available for EU structural funds private co-financing.

10.3. More and better jobs

More and better jobs are one of the central messages of the CSG. Bulgaria aims to increase the living standards of its citizens, by increasing employment opportunities. This country believes that many untapped endogenous growth opportunities exist in most regions of the country. The strategy primary focus is to create the environment and the necessary investment support to develop this endogenous potential. This goes from assisting alternative employment in rural areas and developing an alternative tourism sector further to investments in innovation for existing but under-exploited research centres and supporting innovation in SMEs.

As already mentioned earlier, this strategy is backed up by investments aimed at increasing the transferable skills and flexibility of the workforce.

11. ANNEXES

ANNEX 1. ADDITIONALITY TABLES

To be drafted by MEUF Directorate, MF

ANNEX 2. FINANCIAL TABLES

To be drafted by AEAF