

MONITORING OF BULGARIA'S ACCESSION TO THE EUROPEAN UNION

**FRIEDRICH
EBERT 
STIFTUNG**

A 01 - 00592

Friedrich Ebert Stiftung, Regional Bureau - Sofia

**Monitoring of Bulgaria's
Accession to the European Union
2000**

Under the supervision of

Irina Bokova and Dr. Pencho Hubchev

Authors:

Irina Bokova

Dr. Antonii Todorov

Dr. Andrei Ivanov

Dr. Gancho Ganchev

Dr. Stoyan Alexandrov

Mariana Tuhchieva

Vladimir Pavlov

Dr. Antoaneta Simova

Pavlina Popova

Dr. Veselin Minchev

Dr. Goran Bankov

Prof. Katia Vladimirova

Sofia, 2000

The contributions of the authors are done in personal capacity.

Content	page
Preface	11
Introduction	12
<i>Irina Bokova</i>	
 Chapter 1. European Standards in the Bulgarian Political Life ...	26
<i>Antonii Todorov, Andrei Ivanov</i>	
1.1. Introduction	26
1.2. The Political Role of the State	27
1.3. Parties and Political Pluralism	29
1.4. Political System – Elements of Motivation and Participation	34
1.5. Political Values and Projects	41
1.6. European Consensus	42
1.7. Independence of the Media	47
 Chapter 2. Macroeconomic Problems	50
<i>Gancho Ganchev</i>	
2.1. The Currency Board Arrangement and the Macroeconomic Stabilisation	50
2.2. Maastricht Criteria and Perspectives of the EU Membership ...	52
2.3. Macroeconomic Policy Instruments, Possibilities and Constraints of the Macroeconomic Regulation	56
2.4. The Financial Sector	60

ISBN 954-90036-8-X

GRAFIMAX © 2001

@ Friedrich-Ebert-Stiftung, Regionalbüro Sofia



2.5. Emerging of Efficient Markets .....	.63
2.6. Conclusions .....	.68
2.7. Tax policy as an Instrument of the Economic Policy .....	.71
<i>Stoyan Alexandrov</i>	
Chapter 3. Economic Restructuring, Competitiveness of the Bulgarian Economy, Differences in the Economic Development .....	.83
3.1. Restructuring of the Industry: Privatisation and Investment process. Assessment, Analysis and Perspectives .....	.83
<i>Mariana Tuhchieva</i>	
3.1.1. Introduction .....	.83
3.1.2. Privatisation .....	.84
3.1.3. Liquidation .....	.87
3.1.4. Foreign Investments .....	.88
3.1.5. Industrial Policy of Bulgaria and the EU .....	.92
3.1.6. Conclusions and Recommendations .....	.94
3.2. Competitiveness of the Bulgarian Economy .....	.96
<i>Mariana Tuhchieva</i>	
3.2.1. Criteria, Priorities, Perspectives .....	.96
3.2.2. Conclusions and Recommendations .....	.99
3.3. Business Environment and SME Policy .....	.100
<i>Vladimir Pavlov</i>	

3.3.1. SME and the EU .....	.100
3.3.2. Development of Small and Medium Enterprises in Bulgaria .....	.104
3.3.3. SME and the Integration of Bulgaria in the EU .....	.106
3.3.4. Participation of Bulgaria in the EU programmes .....	.107
3.3.5. Recommendations .....	.110
Chapter 4. Agriculture .....	.111
<i>Antoaneta Simova</i>	
4.1. Role and Structure of the Bulgarian Agriculture .....	.111
4.2. Human Resources and the Development of the Rural Area .....	.116
4.3. Competitiveness of the Bulgarian Agricultural Products .....	.119
4.4. Conclusions and Recommendations .....	.123
Chapter 5. Internal Market .....	.125
<i>Pavlina Popova, Veselin Minchev</i>	
5.1. Introduction .....	.125
5.2. Free Movement of Goods .....	.126
5.3. Free Movement of Services .....	.132
5.4. Free Movement of Capitals .....	.134
5.5. Free Movement of Persons and Companies .....	.135
5.6. Competition Policy .....	.137
<i>Pavlina Popova</i>	

5.6.1. Introduction	137
5.6.2. Rules Applying to Undertakings	137
5.6.3. State Aid	139
5.6.4. Advantages for Bulgaria from Adopting the EU Competition System	141
5.6.5 Public Procurement	141
5.6.6. Conclusions and Policy Recommendations	142
Chapter 6. Approximation of Legislation	143
<i>Paylina Popova</i>	
6.1. Introduction	143
6.2. Framework of the Approximation Process	144
6.3. The Bulgarian Constitution and the Europe Agreement	146
6.4. Accession Partnership and the National Programme for the Adoption of the Acquis	148
6.5. Mechanisms, Programming and Ensuring of Compatibility of the New Legislation	149
6.6. Priorities and Recommendations	151
Chapter 7. The Social Policy Reform: Opportunities and Barriers before the Social Change	153
<i>Goran Bankov, Katia Vladimirova</i>	
7.1. The Social Dimensions of the Integration and Possible Assessment Criteria	153

7.2. The Social Differentiation and the Change in the Structure of the Bulgarian Society	158
<i>Goran Bankov</i>	
7.3. Priorities and Recommendations on Incomes and Social Insurance	159
7.4. Restructuring of the Labour Force	163
<i>Goran Bankov</i>	
7.4.1 Employment, Unemployment and EU Labour Market Policies	163
7.4.2. Change of the Employment Model and Restructuring of the Labour Force in Bulgaria	164
7.4.3. Bulgarian Labour Market Policy	171
7.4.4. Equal Opportunities for Men and Women	174
7.4.5. Conclusions and Recommendations	177
<i>Katia Vladimirova</i>	
7.5. Health and Safety Working Conditions	179
<i>Katia Vladimirova</i>	
7.6. Education	182
<i>Katia Vladimirova</i>	
7.7. Conclusions	187
<i>Katia Vladimirova</i>	
Abbreviations	190

Preface

After Bulgaria became an associated member in 1995 and following the beginning of the negotiations for membership this year the country faces a remarkable challenge. The negotiations bear historic significance for Bulgaria as this is a chance for it to be admitted in the All-European family and to benefit substantially from the integration in an economic sense.

The unequivocal consensus shared by all the major political parties on the membership issue provide a good basis for the work to be accomplished in compliance with the EU standards. The negotiations which are expected to continue for a number of years, will impose significant requirements to different governments and parties and the society at large.

The Friedrich Ebert Stiftung, Regional Bureau – Sofia started this year a project "Monitoring of the Accession Process of Bulgaria to the European Union". The aim of the project is the preparation of an independent expertise on the actual situation of the integration efforts towards the EU. It is meant not only to take stock of the current stage but to deliver recommendations on how to improve the situation in the country. It is a deliberate effort to give "the floor" to experts from civil society institutions. The study should provide additional information to the general public and the international institutions concerning the achievements and to assist the Bulgarian government in adapting to the European standards.

Michael Weichert
Director, Regional Bureau – Sofia
Friedrich Ebert Stiftung

Introduction

Irina Bokova

The enlargement of the EU is a historic process that has undoubtedly confirmed, especially after Helsinki Summit 1999 when Bulgaria and Rumania were invited, that the political stability and economic prosperity can not be guaranteed only through the participation of south-east Europe in this process – a conviction firmly shared by all Bulgarian governments after 1989. Though this decision is political in nature – the very establishment of the EU is primarily a political decision and then economically based, the invitation to start membership negotiations bears historic value. It is the positive message expected by all of us who live in this turbulent region.

At present when the invitation for membership has been extended and the negotiations have commenced Bulgaria finds itself in a situation when the euphoria and the political declarations should give way to an objective, unbiased and comprehensive analysis and policy on the next steps and especially on the priorities and objectives – mid and long-term. These objectives have to represent national, realistic and nation-wide agreed priorities.

Such an approach underpins the present study “The Monitoring of the Accession Process of Bulgaria to the EU” conducted by a group of independent researchers. The study aims to define the framework of the main political, economic, social and legislative priorities which according to us are important not only and exclusively for the process of reforms and transition to a market economy but primarily are important for the accession of Bulgaria to the EU.

Obviously these two processes of adaptation considering their basic principles and objectives overlap to a great extent. However, the integration efforts and the strategy of Bulgaria have its own integrity and specifics that have to be carefully analysed and turned into a facilitator, and not an impediment, for the modernisation of the Bulgarian society and the national economy.

It should be underlined that the issue of economic growth – a fundamental issue for an economy in transition, cannot be entirely and solely accommodated through the issue of membership. Certainly, the advantages and indirect factors for influence on this process are many from the point of view of the future membership – access to the international financial markets, growth of the direct foreign investments, assistance to the transport and other infrastructure from the pre-accession funds.

It is quite obvious that the membership-driven policy limits a country-spe-

cific development strategy and a politically managed modernisation with its instruments – selective industrial policy, substantial promotion of export and protectionist measures. On the one hand, the membership limits the flexibility of the economic policy, on the other it safeguards against financial markets risks and introduces strong budget and financial policy within the framework of the Economic and Monetary Union.

In other words, the steps and measures which Bulgaria implements in regard of its preparation for the EU membership are not a panacea and can not solve by themselves the problems of the economic development and growth. This is a prerogative of a national policy which has to define the ways to benefit from the advantages of a membership and how to relate it to a realistic growth strategy.

It is well known that Bulgaria enjoys firm and irrevocable consensus on the European orientation and the EU membership. This consensus was clearly defined by several successive sessions of the National Assembly and in the political platforms of almost all parties. It resulted in the newly adopted decision on establishing a Council on European Integration to the Speaker of the Parliament. All parties in the Parliament, regardless of their quota in the Parliament have equal representation in the Council.

The analysis on the development of Bulgaria in recent years shows the existence of a clear will and consistent policy for the establishment and strengthening of a pluralistic and democratic ruling system. But the economic development and the reform process witnessed uneven, inconsistent and often party-biased policy. In fact Bulgaria failed to achieve a consensus-based economic policy immune to political changes to be implemented consistently by succeeding governments from different parties. The absence of such an “economic consensus” is to a large extent the reason for the lack of a clear national strategy for development that may serve as a basis for a national EU accession strategy.

The relations between Bulgaria and the EU have evolve in the past decade – 1988-2000. They commenced by the establishment of initial contacts and reached the level of starting accession negotiations. The main stages of the relations are:

- 1988 – The People's Republic of Bulgaria establishes diplomatic relations with the European Economic Community;
- May 1990 – signing of the Agreement on trade, commercial and economic co-operation. The EEC launches Phare Programme for Bulgaria;

- 1991 – European Community includes Bulgaria in the General System of Preferences;
- May 1992 – opening of the negotiations on the European Agreement for association between the European Community and its Member States and Bulgaria;
- March 1993 – signing of the Europe Agreement for association between the Republic of Bulgaria and the European Community and its Member States and the Interim Agreement on Trade and Related Issues;
- December 1993 – entering into force of the Interim Agreement on Trade and Related Issues;
- December 1993 – signing of an Additional Protocol to the Europe Agreement and the Interim Agreement on Trade and Related Issues;
- June 1994 – signing of Agreement for compensation of the delay of the entering into force of the Interim Agreement on Trade and Related Issues;
- December 1994 – signing of the Second Additional Protocol to the Europe Agreement and the Interim Agreement on Trade and Related Issues
- February 1995 Entering into force of the Europe Agreement the provisions of which substitute the EEC – Bulgaria Agreement on trade, commercial and economic co-operation and the Interim Agreement on Trade and Related Issues;
- December 1995 – Bulgaria applies for EU membership;
- January 1996 – the EU Council of Ministers decides to open a procedure related to the Bulgarian application for membership and authorises the EC to prepare an opinion on the Bulgarian preparedness to join the Union;
- April 1996 – signing of the Third Protocol to the Europe Agreement;
- July 1997 – initialising of a Protocol for Adaptation of the Europe Agreement in view of the EU enlargement by new Member States and the results from the Uruguay Round of the multilateral negotiations in GATT;
- July 1997 – the EC submits an opinion on the Bulgarian application for membership;
- March 1998 – Decision of the EU Council of Ministers to adopt the Accession Partnership with Bulgaria;
- April 1998 – opening of the preparatory stage of the negotiations – analytical screening of the acquies;
- December 1999 – European Council in Helsinki invites Bulgaria to start negotiation for membership in the EU

- March 2000 – Start of the accession negotiations.

At large the history of the relations between Bulgaria and the EU can be split into two main periods: preparation and entering into force of the agreements related to the accession of Bulgaria to the EU and the beginning of accession negotiations and preparation for membership.

The Europe Agreement, entered into force in February 1995, recognising the profound nature of the democratic changes in Bulgaria and taking into account the EU aspiration to decisively support the completion of the transition to market economy in Bulgaria as well as to assist Bulgaria in its effort to cope with the social and economic difficulties of the restructuring process, is **aimed at establishing an association between the European Community and its Member States on the one hand and Bulgaria, on the other.**

The Europe Agreement stipulates the establishment of an association between Bulgaria and the European Community through conducting a regular political dialogue and co-operation, based on mutual values and aspirations; gradual establishment of a free trade area during a transitional period not longer than 10 years, approximation of the economic regulations in the area of free movement of labour, providing of services, free movement of capital, competition; approximation of legislation; development of the economic, cultural and financial co-operation.

For its part the EU is making steps to prepare itself to accept new members and the most important event is undoubtedly is the adoption by the European Council in Copenhagen of a set of membership criteria:

- stability of the institutions guaranteeing democracy; the rule of law; respect for human rights and the rights of minorities;
- functioning market economy as well as the capacity to cope with competitive pressure of the market forces within the European Union;
- the ability to take on the obligations of the membership, including adherence to the aims of political, economic and monetary union.

The conditions of enlargement that the European Council in Copenhagen imposes on the EU is to develop "a capacity to absorb the new members while maintaining the momentum of the European integration process". The inclusion of this condition is aimed at the protection of both the EU and the newly admitted states' interests.

In December 1995 the European Council in Madrid took a decision to accelerate the preparations for membership and underlined the necessity of adjustment of the administrative structures in the candidate countries in order

to ensure smooth implementation of the Community policies after the accession.

The main element of the accession process is the reinforced Pre-accession strategy aimed at supporting all candidate countries to align to the greatest possible extent their legislation with the that of the EU before accession. The Strategy, together with the European Agreements, which continue to be the basis of the relations of the EU and the countries from Central and Eastern Europe, is focused on the Accession Partnerships and the increase of the aid for preparation. The implementation of the pre-accession strategy is accompanied by an analytical screening of the EU legislation with each of the candidate countries.

The Accession Partnership is a new instrument that encompasses all the priorities for a specific candidate – the adoption of the *acquis*, the financial resources, allocated for this purpose, including the Phare programme. In this context the financial assistance is linked with the candidate countries' progress and, in particular to their national programme for the adoption of the *acquis*. The EU Council of Ministers decides on the principles, priorities and the immediate objectives and conditions included in the **Accession Partnership**. In case one of the elements which is important for the progress of the pre-accession process is missing in a certain candidate country the EU Council of Ministers takes a decision for the adaptation of the Partnership or for the cancellation of the financial support.

The Accession Partnership for Bulgaria, adopted with a decision of the Council of the European Union, is aimed at placing all of the priority areas for the future co-operation in a single framework, as defined in the Opinion of the European Commission on Bulgaria's application for membership, the necessary financial support and the conditions for receiving such support. The Partnership ensures the adoption of political documents, related to the accession process: National Programme for the Adoption of the *Acquis*, adopted by the government on March 25, 1998; Joint assessment of the economic policy priorities, delivered in the framework of the association institutions, the Agreement on Combating Organised Crime, which is supposed to be adopted by the EU and the candidate countries will be invited to join, the "Road Maps" of the internal market, approved by the EC and elaborated on the basis of the European Commission Opinion on Bulgaria's application for membership.

These political instruments are not a part of the Accession Partnership but their priorities are in compliance with the Partnership.

The Accession Partnership underlines that Bulgaria has to advance to the solving of all the issues pointed out in the Commission's Opinion as it stresses on the circumstance that the adoption of the *acquis* is not sufficient enough by itself if the structures for its proper and effective implementation are not in place.

On the basis of the Commission's Opinion and the discussions in the EU Council of Ministers the following short and mid-term priorities for Bulgaria were determined:

Short-term Priorities

Economic reform: definition of the mid-term priorities in the economic policy and a joint assessment in the framework of the Europe Agreement; continuation of the privatisation programme for banks and the state-owned enterprises, adopting measures for restructuring of industry, the financial sector and agriculture and encouragement of the direct foreign investments;

Strengthening of the institutional and administrative capacity: adoption of a law on public service and achieving progress in the state administration reform; institutional building in the areas of internal financial control, environment, nuclear safety and customs, strengthening of the phyto-sanitary and veterinary control, in particular, at the borders; establishment of the necessary structures for regional and structural policy.

Internal market: further alignment with the *acquis* of the legal framework of the intellectual and industrial property rights (strengthening of the protection measures), financial services, taxation; preparation of an initial inventory of the state aid and adoption of the necessary legal framework for its monitoring as well as adoption of a new competition law.

Justice and home affairs: specific measures to combat corruption and fight organised crime, strengthening of the border control.

Environment: further introduction of the EU framework legislation and elaboration of detailed approximation programmes; implementation of strategies, related to the specific pieces of legislation. Planning and implementation of the programmes and strategies.

Energy: elaboration of a comprehensive long-term energy strategy and respect of the nuclear safety standards, commitment to adopt a realistic timetable for the decommissioning as it is envisaged in the Nuclear Safety Account Agreement.

Midterm Priorities

Political criteria: further efforts to integrate the Roma population and respect for individual freedoms.

Economic reform: finalisation of the privatisation process. Strengthening of the market institutions.

Economic policy: regular review in the framework of the European Agreement on the joint assessment of the economic policy priorities with emphasis on the performance of the Copenhagen membership criteria and the adopted EU *acquis* in the area of economic and monetary policy (co-ordination of the economic policy, submission of convergence programmes, evasion of hyper deficit). It is expected that Bulgaria will follow a policy which will aim at achieving real convergence in compliance with the objectives of the Union for economic and social cohesion and a policy of nominal convergence. The primary objective is the introduction of the EURO although Bulgaria is not expected to accept the EURO immediately after its accession.

Strengthening of the institutional and administrative capacity: conclusion of the reform at all levels, including the training of the civil servants, enhancement of the functioning of the judiciary system and improvement of the education of lawyers in EU legislation and its practical implementation; further development of the National Court of Auditors and the structures of the internal financial control; establishment of anti-monopoly structures and bodies for monitoring of the state aid; strengthening of the accounting, auditing, statistics and nuclear-safety regulatory bodies; strengthening of the home and justice affairs institutions (through appropriate training of police, customs, ministerial and court staff), reform of the customs and tax administration in view of the application of the EU legislation and strengthening of the institutions in the area of foodstuffs control.

Internal market: alignment with the *acquis* of the policy in the area of competition, state aid, customs, taxation, audio-visual, state procurement (ensuring transparency), adaptation of the standards, structures for assessment and establishment of a system for monitoring the market and the harmonisation of the technical legislation and the industrial standards. Further alignment of the Law on Competition and the stimulation of the enterprise development, including the SME and further alignment of telecommunications, consumer protection and the internal energy market legislation.

Justice and home affairs: development of an effective management of the borders and border control systems; implementation of the migration policy and asylum procedures; fight against organised crime and corruption (in particular money laundering, drugs and illegal trafficking of persons), alignment of the visa policy and the implementation of the international agreements, especially in view of the Schengen *acquis*.

Agriculture: restitution of the land, establishment of a land register and a functioning land market, alignment of the agricultural legislation (including the phyto-sanitary and veterinary control, and in particular the control over the external borders) with particular attention to the aspects related to the environment and the protection of species. Extension of the opportunities for the application of the CAP and more specifically the basic managerial mechanisms and administrative structures to monitor the market and enforcement of structural measures for agricultural development, modernisation of some foodstuffs enterprises and improvement of the testing and diagnosis facilities, restructuring of the foodstuffs sector.

Fisheries: development of conditions for adoption and implementation of the common policy in the sector.

Energy: implementation of a comprehensive policy, based on efficiency and modern technology and abidance of the Bulgarian commitments to gradually decommission the NPP "Kozloduy" and storage and recycling of the nuclear waste.

Transport: further efforts to implement the *acquis* in the land, maritime and air cargo transport (safety rules) and to secure the necessary investments for the transport infrastructure, primarily those related to the Trans-European Networks.

Employment and social policy: establishment of appropriate labour market structures and a joint review of the employment policy as an element of the preparations for participation in the EU co-ordination; application of the legislation on labour health and safety care and development of structures for its implementation, in particular timely adoption of the framework directives on health care and safety; ensuring of equal opportunities for men and women; furthering a more active social dialogue; development of adequate social protection, undertaking steps for the alignment of the standards of the public health care with the EU requirements.

Environment: development of the structures and the possibilities to monitor and control, constant planning and implementation of the programmes for

approximation, related to different pieces of legislation. Particular attention should be paid to the protection of the water resources, the air, including the institutional requirements in this area. The requirements of environmental protection and the necessity of sustained economic development should be combined in the planning and the implementation of the national and sectoral programmes.

Regional policy and cohesion: introduction of a legislative framework and development of administrative structures and budget procedures. Enhancement of the financial instruments and the control mechanisms in view of the participation in the Community's structural programmes after the accession.

In accordance with the decisions of the European Council in Luxembourg, the enhanced pre-accession strategy is coupled with the conducting of an analytical screening of the *acquis*. Bulgaria, together with the rest of the candidate countries, commenced this preparatory stage of the negotiations in April 1998.

The screening of the *acquis* foreruns the accession negotiations and is essentially a preparatory stage for the identification (examination) of the problems which will be negotiated. The screening deals with the 31 negotiating chapters of the future Accession Agreement. As a result of its participation in this exercise the Bulgarian side gained a lot of information and experience in communication with the European Commission that will contribute to a great extent to the process of negotiation positions elaboration.

The first phase of the negotiation preparations is the so called "screening" of the *acquis*. It started in July 1998 and was concluded in July 1999. A second screening was conducted in the beginning of 2000 through a "written procedure". The aim of the screening was to identify the questions which may arise at the negotiations. It was performed in multilateral and bilateral sessions with the Commissions where the Commission teams presented in detail the 31 negotiating chapters. At the multilateral meetings the experts of the Commission elaborated on technical adaptations of the EU Treaties needed to accept new members.

At the bilateral sessions the following important issues were discussed:

- whether they are able to accept the relevant parts of the *acquis*;
- whether they intend to request transitional periods on different chapters;
- whether they have already adopted the necessary legislation, if not when they intend to do so;
- whether they possess the necessary administrative structures to adopt and

implement the *acquis*. If not when they plan to establish them.

As it was mentioned earlier on the negotiations with Bulgaria were opened on February 12 2000 and the country presented a general position on all chapters. In the beginning 6 chapters were opened: culture and audio-visual policy, education and vocational training, CFSP, SME, science and research, external relations. 4 chapters were preliminary closed in June – CFSP, education and vocational training, SME and science and research. The other two remained under discussions which will not impede the process of further opening of chapters.

In this regard it is important to underline that the opening and closing of chapters should not be absolutised but should be regarded as a normal process of negotiating and discussing with the Commission the policies, tendencies and intentions in view of aligning the legislation and its implementation in compliance with the EU standards. This is an important and necessary element of the accession process.

At the same time it is worth mentioning that the Bulgarian side is well aware that as the decision of opening the negotiations was a political decision, the decision to accept Bulgaria as a new member will be also a political decision. This, however, does not imply that Bulgaria should underestimate the efforts needed to take the necessary steps – adoption of legislation, restructuring or establishment of institutions capable to enforce the legislation and other "technical" activities. Chapters will be opened, they will be discussed and closed, and at a later stage occasionally re-opened. It should not be forgotten that the integration of Bulgaria in the EU has different aspects which go beyond the technical requirements of one or other directives. The EU integration for Bulgaria means co-ordination and harmonisation of all aspects of the public and economic life – political and social systems. The aspiration for the EU membership should be underpinned with the understanding of its vital national necessity and that the risks of its slowing down – i.e. marginalisation of Bulgaria in the European context are much greater and with far more reaching consequences than short-term cost.

In other words Bulgaria needs to have a national strategy for accession consisting of several aspects:

- analysis on the readiness to meet the Copenhagen criteria – establishment of the basic elements of a functioning market and competitive economy;
- approximation of the legislation and building the administrative capacity for its implementation;

- analysis on the implications of the introduction of new policies and legislation on different sectors of the Bulgarian economic and social life;
- sectoral analysis on the Bulgarian economy considering the possibilities of entering the Internal Market and on this basis a definition of mid and long-term priorities and policies.

Well known are the various data and analysis on the level of the Bulgarian preparedness to become a EU member and the different forecasts made on this basis - percentage of the EU GDP per capita, the data on the turn-over and the export of the different countries, average salary, compared to other countries and the EU Member States. These figures are somehow reflected in the present study and they undoubtedly are rather worrying. It is obvious that in the nearest future due to different reasons Bulgaria will not be in the position to meet in a quantitative sense some of the often mentioned possible criteria for economic development. What I want to underline here and now is that, according to the authors of this research, the most important condition which will be crucial for the future Bulgarian membership is the ability of Bulgaria to demonstrate positive and irreversible tendencies in all aspects of its socio-economic life.

In the political area Bulgaria has to show evidence for the existence of an established and functioning pluralistic society and a democratic election process, of a society where there is a clear division of power between the different branches and a strong respect for the human rights and fundamental freedoms, where the freedom of speech and thought is respected and corruption is not a feature for this or that government.

In an economic sense Bulgaria must strive for a sustainable economic growth tendency and integration into the economies of the EU countries in terms of the investment process, transfer of technologies, industrial policy and financial control. Bulgaria has to firmly embrace the rules of competition, the transparency of privatisation and public procurement - the basis of the market economy. In this respect the introduction of a currency board in 1997 bears great importance and generates problems of different nature which require specific solutions.

Last but not least Bulgaria must accompany its economic objectives and policy with a bearable and inclusive social policy which is to be able to cope with the extremely difficult problems of poverty and unemployment and the isolation of entire social groups from the economic and social life.

It is true that Bulgaria is still far from the approaches of its European

partners as they are set up in the decisions of the Lisbon EU Council concerning employment, economic reforms, social cohesion as the logic of the Bulgarian priorities and development is different. At the same time these approaches should be taken into consideration as "the Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". It should be taken into consideration that while the Bulgarian population is fighting for its survival, its European partners are deciding on "modernising the European social model by investing in people and building an active welfare state".

The main areas which must be a priority from the point of view of the future membership of Bulgaria in the EU and the analysis of the current situation are as follows:

- economic growth;
- combating poverty;
- fighting corruption;
- effective state administration.

The four areas have a direct relation to the pertinent and sometimes wrongly addressed problem of the alternatives or the lack of alternatives for the Bulgarian policy. Wrongly addressed because it should unfortunately be mentioned that if somebody takes political advantages of this then the focus, the substance of the concept for "alternative" is replaced. Of course, there is no rational and sensible alternative to the Bulgarian aspirations to establish a market economy and to succeed in the European integration and achieve the well-being of the people. Of course, there is no worthy alternative to the efforts of Bulgaria to create a free and democratic society. But at the same time it is more than obvious that there is an alternative to the means and policy we are seeing at present. Namely the seeking of development alternatives and free discussion are signs of maturity, of the realisation of our European identity. Namely, the seeking of alternative accession approaches in order to accelerate and find more useful and favourable solutions is at the heart of the present study.

Also the need to elaborate concrete and clear strategies in different areas is obvious - information strategy, business strategy, regional development strategy etc. The other approach leads to chaotic, ineffective and not always inter-related measures.

Of course the changes within the EU itself are very important to this end,

or more specifically the different ideas for further development recently launched in the framework of the IGC debate and outside of the Conference. The various proposals for reform of the institutions, for amendments to decision-taking arrangements and the extension of the issues, decided by a simple majority vote constitute a real interest. From the enlargement perspective, however, most important are the issues related to the long-term policy approach and the concept for the future of a unified Europe.

Unfortunately, it should be mentioned that after the euphoria of the early 90-ies when the overcoming of the division of Europe seemed easily achievable and the public expectations were very high, nowadays, after 10 years of democratic reforms we are witnessing another approach which indicates hesitance and irresolution, but primarily a lack of political vision and audacity. Confronted with the challenges of the globalisation and the expiring, to some extent, of the post-war model of "social" Europe as we know it, the EU and the Member States must reform their policies and approaches simultaneously and at the same time find the appropriate formula for the enlargement to the East. These are not by all means contradictory aims but obviously the EU sets the first objective as its priority.

Of particular interest are the latest ideas of the German foreign minister Mr. J. Fischer and the French president Chirac which not only aim at reviving of the French-German integration "engine" but are exemplary for the trends of the EU political thinking. Though there are slight nuances in the statements of the two politicians what deserves special attention is on the one hand, their will to deepen the integration processes through some elements of federalism – for example the establishment of an "integration nucleus" of Member States with more closer integration, and on the other - their apparent intention to "postpone" the enlargement and the tendency to create a "new" status, probably "semi-full" membership for the candidate countries.

From the point of view of the Bulgarian membership perspectives it is worth noting the following:

First of all, undoubtedly is the threat of the delay and postponement of the enlargement process. The formula adopted at the European Council in Feira stipulating that each candidate country, including the newly invited among which is Bulgaria, will be considered separately and on its own merit seems to be acceptable and gives equal chances to all candidates. Lately, however, a real danger emerged that this formula may be used for the delay of the accession of the first group candidate countries that started negotiations in 1997 as the

actual timeframe for their accession is already 2006. This coincides with the timeframe mentioned for the second wave of candidates, without Bulgaria and Rumania, or the so called formula 10 + 2. In practical terms this may mean the delay and postponement of the Bulgarian and Rumanian accession. Some indications of such a scenario have already been noted – a more limited number of opened negotiation chapters, a slowing down of the pace of the negotiations, concern expressed on the lack of economic growth and retarded structural reforms.

Second, this is the danger for Bulgaria of substituting the process of integration with "regional integration" i.e. the participation in the Stability Pact. The Stability Pact has its positive meaning for the region and for the acceleration of the solving of some important problems from an economic point of view, mainly infrastructural projects. At the same time, it is obvious that the regional integration plays an important role for Bulgaria, but it can never replace the future EU membership. This is not some kind of opposition to the regional integration but the fact that Bulgaria would be a much more reliable and stable partner in the region when it becomes an EU member.

Considering the above-mentioned, the position of the Bulgarian government or more precisely the lack of such a position is worrying. The failure to understand that nowadays many of tomorrow's decisions are being created, discussed and adopted is quite obvious. The inability or the unwillingness to accept reality, probably due to domestic political considerations, does not make the events less possible and does not eliminate them. Today Bulgaria needs a clear accession strategy, elaborated on the basis of a realistic analysis of the policy and decisions of the EU and its Member States, of the political thinking tendencies of our partners and of the developments in the region.

The present study does not have an ambition to analyse all aspects of the Bulgarian preparation for EU membership. There are various problems, they have different aspects and nature like the very idea of the integration. This research primarily aims to be part of the broader debate going on within the Bulgarian society on the European integration issues and to place some accents which the authors of the study consider to be especially significant today.

CHAPTER 1. European Standards in the Bulgarian Political Life*Antonii Todorov, Andrei Ivanov***1.1. Introduction**

The issue of the European standards in the Bulgarian political life concerns the question of comparison between the political practice in Bulgaria and the practice in the EU countries. On the one hand, the issue is to what extent we can properly describe a common EU political model in spite of the differences between the various Member States. On the other, the issue is how the Western type democracy can be translated successfully into the Bulgarian society.

In fact the question comes to the understanding of the very nature of the Bulgarian transition. This transition is often described as an adoption of the European political standards or an introduction of European political institutions. This is obviously a passive position condemning the Bulgarian political choice to a mirroring of foreign experience. In this way the political elite discharges itself of responsibilities on the evolving process and can always justify its failures with external causes.

The transition can be apprehended by another more responsible approach. It has its own logic which make the results identical to the European political models. If we accept that the essence of the transition is the creation of a political, multiparty democracy and market economy coupled with a socially-oriented state then it is not surprising that Bulgaria is getting closer to the existing EU standards of political life by following such a model. This approach permits the evasion of the implicit opposing of the EU political requirements against the future members and the political model in Bulgaria.

Quite often the Bulgaria's accession difficulties are explained through the specifics of the Bulgarian history or, in particular, the specifics of the national model of communism. The reasons, however, are often in the concrete political decisions, taken throughout the last decade that have limited some ensuing opportunities for a more rapid move towards the European model.

The description of the European model is in itself difficult. The formula of democracy and market economy is rather too concise in order to successfully serve the objectives of this study. The democratic system has a lot of variations but some common features can be found in all of them:

- defining the political role of the state as a guarantee of the rights and freedoms of the individuals and the rule of law;

- ensuring a real and based on true competition party pluralism;
- consensus on a single framework of European values based on respect of human rights and freedoms and ensuring equality of people;
- developed civil society with autonomous institutions;
- free media and active public opinion.

The achievement of these parameters of the social and political life represents the essence of the transition in East Europe and in Bulgaria.

1.2. The Political Role of the State

The most important anticipated transformation in the transition period is related to the role of the state. Above all Bulgaria witnessed the dismantling of the Party-State system. The old power structure is considered to be the basic impediment of the dynamic development of the society. Its dismantling opened space for the development of the civil society and in a more general sense defined the boundary between public and private. The transition in Bulgaria, like in the rest of the East European countries, represented a withdrawal of the state from non-specific functions related to the overall management of the society.

In this sense a democratic state had to acquire other functions – protecting the individual rights, respecting the basic freedoms and the rule of law. Thus the transition was creating a new type of European state in East Europe, the frontiers of which are determined by the individual freedoms. The Bulgarian Constitution adopted in 1991 guarantees the autonomy of the private sector and the individual rights. It ensures the principle of the state liability towards the citizens. The Constitution stipulates the supremacy of the international agreements, signed and duly ratified by Bulgaria, which to a great effect relates to the international conventions on human rights. At the same time Bulgaria became a member of the Council of Europe and ratified the European Convention on Human Rights with the accompanying protocols (with the exception of the protocol on the capital punishment, later in 1998 adopted in the Bulgarian legislation).

Bulgaria accepts from the very beginning all these principles of the European political life and thus the building of a democratic state from the very start is in compliance with the European standards. The issue whether this compliance is efficient, working and practical is something else.

Bulgaria already enjoys the existence of modern European public institu-

tions.

- the Constitution guarantees the rule of law;
- the supremacy of the international agreements, especially those related to the issue of human rights has been stipulated;
- the European Convention on Human Rights together with the Protocol on the competence of the European Court has been ratified;
- a three-instances judiciary system is in place;
- the European prosecution standards are introduced, including the abolishment of the capital punishment and the serving of term of imprisonment is according to the European norms.

At the same time the state remains the main instrument for the achievement of the fundamentals of democratisation and the accomplishment of the economic transformation (such as privatisation, restitution). The state authorities perform the bulk of the work in this regard which is quite inevitable but at the same time increases bureaucracy and prevents stimulation of co-operation with the civil society. There is another side of the problem. The assumption by the state of major functions regulating the transition is a positive phenomenon if the public authorities are at the disposal of everyone, preserve their autonomy, remain impartial to economic and private interests. It is the issue of the distinction between the private and public spheres – the main characteristics of the European political model.

Quite often in Bulgaria the state is an instrument of private, group or party-biased interests and is used in private but not in public interest substituting eventually the public matters with private ones. This phenomenon reinforced by the introduced and accepted understanding that democracy means less statehood, limits the potential of the authorities to preserve the public interest and to guarantee accordingly the legal order. In the general sense this tendency compromises the state legitimacy at all.

- In this sense the problem of corruption as illegitimate “privatisation” most of the public power is turning out to be one of the main obstacles in the transitional period;

- The weakening of the state authority favoured the expansion of the activities of organised crime and endangered the respect for fundamental human rights;

- Throughout the transitional period the civil service was a victim of party struggles and influences thus compromising its effectiveness and impartiality to private interests.

As a whole these developments are extremely dangerous as they compromise the European model of a democratic state and the state of a rule of law. The general trend in Europe towards “less statehood”, often confused with the classical liberal idea of the limited statehood which is opposed to the mighty state of the communist doctrine, led to the dangerous limitation of the powers of the public authorities. The newly-emerged mafia benefited from that and succeeded in occupying influential positions in the economy and in the public authorities. The withdrawal of the state from the classical positions of a public power in many cases is negotiated in favour of a number of groups which exist in the margin between the public and the private. In this case the main responsibilities of the state in a democratic society are under question – its responsibility for the integrity of the society, for the integration of the different social groups as well as its responsibilities for the human rights and mostly the guarantees of people's life and property.

Throughout the debate on the Bulgarian transitional period the question of the “optimal state” is not a nostalgia for the “communist statehood”, but a position asserting the overall responsibilities of the state towards the society, democracy and human rights.

1.3. Parties and Party Pluralism

From the very start of the transitional period Bulgaria accepted the European principles of the expression of the popular will. Regular, free, direct and fair elections are already a part of the political history of the transition and the election results enjoy public confidence. The practice of observing the elections by a network NGOs (together with foreign observers) such as the Citizens' Initiative for Democratic Elections or the Bulgarian Association for Fair Elections and Civil Rights has been well established. The latter has been assisted by different private and competing public opinion agencies (BBSS-Gallup, MBMD, Alpha Research, Sovas-5).

After 1990 Bulgaria witnessed 9 election campaigns:

4 parliamentary (1990, 1991, 1994 and 1997);

2 presidential (1992 and 1996)

3 local (1991 – together with parliamentary elections, 1995 and 1999)

The gained experience allows us to draw the conclusion that the European standards in conducting elections have successfully been implemented. There are no major accusations of unfairness. If there are irregularities they are

resolved in court. The presence of foreign observers is rather symbolic.

Throughout the transitional period the rules for conducting elections were altered several times. A mixed electoral system for members of parliament was applied in 1990 – 200 representatives were elected by a proportional party list system in 31 multi-mandatory election regions and 200 were elected by a majority system in two rounds in single-mandatory regions. In 1991, 1994 and 1997 a proportional system was selected in 31 multi-mandatory regions with a threshold of 4 % as for the distribution of the mandates the method of d'Ondt was applied. In the local elections the municipal councillors were elected through proportional voting while the mayors – through a majority voting in two rounds. Only in 1994 the first three candidates were allowed to go to a second round. In the 1999 local elections one white bulletin consisting of the list of the councillors or the names of the mayors was introduced for the first time. This bulletin replaced the colour bulletins – one for each party list or candidates for president or mayor.

The changes in the electoral system were often subject to debates. Though there is no single European standard (the majority of the European parliamentarians are elected through a proportional system), the introduction of one colour (white) bulletin since 1999 to a large extent eliminated debatable issue of the party bulletins colours. The aim of the change was to place all the candidates in equal positions. Under the old regulations it was considered that the holders of one-colour bulletins (5 major parties, the rest participated with a white bulletin with different coloured strips) were enjoying a "psychological" advantage.

At present the issue of the election threshold and the introduction once again of the majority system are at the heart of a new debate. The objective is to avoid the proliferation of votes to very small and insignificant parties and thus to encourage people to cast their vote for specific individuals and not for anonymous party lists. The seeking of an efficient and just electoral system in Bulgaria corresponds to the efforts undertaken in various EU countries.

Bulgaria already has well-established structures of party pluralism. The current Law on Political Parties is relatively liberal in view of the party establishment and registration. It requires a minimum of 50 party members and the registration of the party in a court register. There are more than 200 parties in Bulgaria but about 40 participate in elections.

The Constitution imposes restrictions on the establishment of parties which call for a change of the constitutional order by force, for racism or sep-

aratism or are based on ethnic or religious grounds (Article 11, para. 4). On the one hand, these restrictions reproduce what is accepted as a principle in most European constitution. As to the restriction for the establishment of parties on religious or ethnic foundations it is favouring the secular state where all the citizens are enjoying equal access to party life without any discrimination on religious or ethnic principles.

The latter is contested by a number of influential human rights organisations in Bulgaria (like the Helsinki committee) as a discrimination of the freedom for political activities. Usually two organisations are quoted – the Movement on Rights and Freedoms – MRF, (supported by more than 50 % of the Bulgarian Turks) and the United Macedonian Organisation "Ilinden" (claiming to be a political representative of the Macedonian minority in Bulgaria). The Constitutional Court dealt with both cases but its decisions on the two cases were contradictory. In 1992 the Constitutional Court refused to declare the MRF non-constitutional while in 2000 it determined "Ilinden" as non-constitutional. In spite of the clear distinctions between the two organisations (the MRF unlike "Ilinden" has never called for separatism and has always contributed to the integration of the Bulgarian Turks) those two decisions triggered debates and doubts as to the impartiality of the Court. Some of the human rights organisations suspected a sign of nationalism in the decision concerning "Ilinden" and the rejection of the right of self-identification. One of the explanations is that the society rejects the idea of a Macedonian nation. The human rights organisations argued that "Ilinden" does not officially proclaim separatism (such ideas have been expressed by some leaders of the Organisation). Due to this the human rights activists consider that the Constitutional Court should not be involved as this implies the notion of the collective misdeed but that the civil courts should deal with cases of separatism.

In a lot of cases the EU is critical to the restrictions for the establishment of parties on a religious and ethnic basis. At present the issue of Constitutional text amendments has been put forward on the agenda. The basic issue here is not whether the amendments would create conditions for separatist activities (the amendments may abolish the restrictions on the religious and ethnic issue but strengthen the texts concerning the prohibition of separatism). It is more important to determine whether the Constitution is not too restrictive towards the right of association and whether it is not infringing the principle of equality, regardless of people's ethnic or religious adherence. In fact some worries

in that regard still exist. For example, there is a text in the Constitution stipulating that the orthodox religion is the traditional religion in Bulgaria. This text has its meaning although all the citizens and the religions are equal. Mostly due to the fact that recently orthodox clergymen often attend official ceremonies (such as national holidays, military ceremonies and others). This is incompatible with the secular nature of the state and generates a sense of inequality among citizens.

The law permits the participation in elections only of organisations which are registered as political parties. It is considered that this creates transparency of the political actors. Lately the issue whether the civil associations and movements which do not have the necessary specifics and organisational structures of the classical political parties can take part in elections is being debated. In fact the law discriminates the independent candidates by implying that an independent candidate must collect at least 2000 signatures in his support. At the same time any party registered with a minimum of 50 members, can nominate its candidate for president. The appearance of many civil associations and movements on the political stage is a result of the credibility crisis of the institutionalised policy in the parties. It is an expression of the disbelief in the democratic nature of parties, which in many cases are organisations, authoritatively ruled by their leader.

Another major problem in this regard is the democratic control over the parties. This can also be seen as an European standard although problems in this respect exist in many EU states. The parties are the main instruments for the selection of political leaders and for the establishment of the public policies. The parties are the basic channel for political promotion and a source for recruitment for the state authorities. Practically speaking it is impossible to be promoted to a key position in the state administration without a political blessing from one or other party.

In relation to the party system the situation reminds of the Fourth Republic of France and Italy 20 years ago – enormous role and power of the parties accompanied by a deep fragmentation of the political environment and weak democratic control within the parties. In many cases the party leaders expropriate the leadership of the organisation forever and the parties are turned into an obedient entity.

The relations between the parties and business are causing some concern as well. In many respects the political parties which do not possess entirely legitimate sources of financing tend to become dependant on private econom-

ic interests. "The purchase of influence" by the economic formations is one of the main sources of the political corruption and compromising the political behaviour in Bulgaria.

This is a public problem and not an issue at a party level. If we can speak of European standards in this aspects we should mention:

- independence of parties from any lobbies and large companies;
- the financing of parties should be transparent and open to public scrutiny;
- the existence of an independent public control over parties financing.

Though these standards are not applied universally the general trend in the EU is in that direction. The Law on Parties is generally considered to be outdated and needs to be amended. The tendencies of the envisaged amendments to the law are as follows:

- introduction of public financing of the political parties and establishment of public control over party financing;
- more precise regulation of the requirements for establishing a political party, including the increase of the member threshold to 5000.

The first issue relates to the European standards for transparency of the political life and for ensuring independence from economic influence. The most important, however, is that the control is not exercised by the executive branch (which depends on the ruling party) but by an independent public institution free from governmental interference.

The second issue is linked to the tendency to limit through legislative measures the number of political parties and to make them more representative. On the other hand this may be considered as a restriction on the right of association and as an imposition of party monopoly by the large parties over the small ones. Some researchers consider that this will consolidate the party architecture firmly dominated by two parties (UDF and BSP). The introduction of a more precise judiciary control over party statutes may have a better effect and will make parties more democratic. Of course, the problem quite often is in the fact that the party members fail to influence the policy or to change the corrupted leadership of the party through party statute.

The parties contribute to the stabilisation of democracy through the mechanisms of political mobilisation. The stability of the democratic institutions is an European standard. The stability of the democratic institutions depends on the representative nature of the political parties and the activity of the citizens in the democratic political process.

The public opinion polls in Bulgaria prove that Bulgarians support the multiparty democracy as the most acceptable political form of governance. But after 10 years of transition the public opinion is increasingly sceptical towards the big parties and the party system in general. The reasons are different:

As a whole the big parties are not representative enough. The parties in the Parliament represent 50 % of the votes and its share decreases after 1990;

The percentage of the non-voting is increasing. The participation in elections in 1991– 1992 was 75 – 80 %, which is average for the EU, dropped down in 1996–1999 to 60 – 65 %.

An unproductive competition is emerging between the political parties and civil movements to represent the political interests of the society.

To a great extent these problems are problems of the EU as well. The question is whether in Bulgaria exist effective mechanisms, rules, procedures and practices which to allow the preservation of the democracy and transparency in party activities.

1.4. The Political System – Motivation and Participation.

The establishment of transparent rules for motivation and participation in politics is among the most important elements of the process of modernisation of the political system. The lack of these rules will condemn politics to constant corruption scandals and they will not be groundless. At the same time the political elite is strongly reluctant (enjoying large-scale unanimity and with no substantial differences among different parties) to introduce transparency and predictability in this area.

Economy and Everyday Politics

One of the most important reasons for the reluctance of the political class relates to different time periods perceptions and to different standards of relations. Bulgaria is not simply in a state of structural transformations but is trying to compensate the political experience in applying European standards lost in the 70-ies and 80-ies.

This “compensation” is rather partial and has its price. It is the same price, which the Bulgarian society paid for the delayed start of the transition (or the absence of a decade of “preparations”) – the appearance of new “mutants” of old relations, which continue to be reproduced in the new millennium. The

first “mutant” of that kind is the reappearance of the party-state system.

In 1997 the UDF came to power not as a result of a comprehensive strategy, well established structures and effective party mechanisms against misappropriations, but because of the catastrophic failure of the BSP and the lack of alternatives. This is the reason why the UDF, as a majority of the actors in the Bulgarian transition, had to “learn on the move” and gather knowledge and experience piece by piece. The Union like its predecessors fell in the captivity of the so-called “resurrected mutants”. In two years and a half the UDF succeeded to revitalise the party-state system and the accompanying apparatchik style of career promotion, the reappearance of nomenclature, the confusion of professional competence with loyalty, the strengthening of the state role in the economy and in the distribution (in the name of the state) of huge investment flows. The merger of the party with the state generated (in greater proportions than ever) new corruption potential.

This may be considered as the most dangerous tendency at the start of the membership negotiations since it compromises in perspective the authenticity of the party, which has unequivocally embraced the responsibilities of the Euro-Atlantic choice of Bulgaria. The more the ruling party consolidates its positions and strengthens its control the more it avoids to speak about corruption and “clientelism”. In parallel with that confidence in it (as well as confidence in the sincerity of its politics) is put under question. The public opinion polls illustrate this worrying tendency. In January 2000 an Alpha Research representative poll 65 % of the respondents describe the ruling party as “ruling in favour of close circles to the authorities” (in March 1998 only 58 % share this conviction). The percentage of those who assume that the UDF is “ruling in favour of the public interest” is decreasing from 37 % to 24 %.

The second substantial problem is the retarded but inescapable social stratification or the reordering of the society. At present the new social structure is gaining shape on the basis of the erosion of the old one, inherited from the previously centrally managed and subsidised economy.

The formation of the new stratification of the society was postponed or developed in limited proportions because of the slow and inconsistent reforms. It was narrowed to the appearance of a new, extremely wealthy layer of the Bulgarian society with extreme levels of consumption potential and fortune made on the edge of the law. An important element is that the process of formation of this layer was feasible because of lack of legislation adequate to the new situation, because of lack of laws which to prohibit some kind of activi-

ties. Emblematic to that extent are the banking bankruptcies, the decapitalisation of the real economy through non-reimbursable credits. Another scheme was the privatisation through establishment of "parallel" private structures – duplicating the state structures as the owners of the newly established private enterprises continue to act as managers in the state sector.

A direct consequence of this inconsistency is the "double rejection" which the Bulgarian population witnesses nowadays. It suffers twice. On the one hand, the safeguards and networks of the centralised planning system no longer exist (the most tragic example in this regard is the bankruptcy of the previous state pension system. Its resources were swallowed by the state budget and later wasted and today the pensions of the people who paid their contributions all their life depend on the contributions of the present active population). And the latter are steadily decreasing due to political, economic and demographic reasons. The same relates to the health care and education systems. On the other hand, the Bulgarian citizen is deprived because he is not able to benefit from the new opportunities and the chances provided by the market economy.

The third problem is the insane dualism of the markets in Bulgaria (the labour market, the consumer market and the emerging health care market). By half of its essence (the supply parameters) Bulgaria is closer to Europe, while considering the demand potential, the country belongs to the East and primarily to the Balkans.

The European levels of equipment and running costs require European levels of supply. The European level of supplies meets the East European level of incomes and respectively of effective consumer demand. The low income level and the incapability of the state to conduct an aggressive monetary policy because of the restrictions of the currency board freezes the demand to levels similar to those of the past centralised economy. This further dramatises the process of regrouping of the Bulgarian social stratification.

The above-mentioned factors profoundly jeopardise the system of political participation and motivation. In conjunction with the resurrected party-state approach in state management they may provoke a deep confusion between declared values and actual political practice. The legal framework (for example the newly adopted Law on Civil servants) is still not a guarantee against such a development.

Mechanisms of Motivation and Corruption

Corruption means misuse of power for personal benefit. No matter how undefined is the notion of "misuse", the fact is that by definition the active side of corruption is the authority, the political elite in power which is responsible for the distribution of the social wealth. The problem of corruption is predominantly an issue related to the political elite in power. The actors outside of the authorities, who can be related to the corruption may participate in corruption activities, but they have a secondary role.

The issue of corruption, the intensity and the angle of its debate largely depend on the perceptions of those in power. In the European context the attitude of the authority may reveal the degree of readiness to adhere (in the sense to adopt) to basic European values. The attitude shows how the authority will use the problem and the level of seriousness to fulfil the stated promises.

The first worrying symptom is related to the definition of corruption. Corruption, in general, means a deal of a peculiar nature. It is a peculiar type of "sale-purchase" contract of goods and services. As in any sale-purchase contract the corruption may involve two or more parties among which the transaction is to be done. As in any sale-purchase contract we can have here a barter (payment in kind, i.e. favour against favour) or direct payment (in cash, or in an off-shore bank account, in "preferential" prices for a vacation with "free of charge" rent for a yacht, etc.). The specifics about corruption is that its transactions are hidden, not transparent as they are violating certain rules. These rules may be either regulated (and then the respective activities will come within the provisions of the law) or generally (then the respective activities are legal, though they contradict to morale, traditions and habits).

In this sense the primitive bribery is only a small segment of the big complex of corrupt behaviour. Another example is the "monetisation" of a political post – i.e. when the control over a state-owned property becomes a source of benefits. Corruption always exists when one of the parties in a deal intentionally distorts regulated or just generally accepted rules (of fair competition, of conflict of interests, of abuse with power, of ethic codes, of paying taxes, etc.). Therefore, corruption is a much broader notion than what is stipulated in the Penal Code and prosecuted by the law.

The approach of the elite in power is different. The dominating approach towards corruption in Bulgaria at present may be defined as "formal-judicial" as "an action to the results". However, it is unavoidably limited. The anticor-

ruption measures can be applied to an individual (by definition positioned in an authority structure) whose activities are subject to the provisions of the Penal Code. In this regard the individual behaviour, monitored by regulations of different nature, is not a problem and is not usually prosecuted.

At present the notion "corruption" is treated in four laws (on Higher Education, on Defence and Armed Forces, on Ministry of Internal Affairs and in the repealed Law on the Central Agency for Combating Organised Crime), in one decision of the Parliament (on Measures for Fight against Crime and Corruption), in two regulations (on the Ministry of Defence Inspectorate and on the application of the Law on the Ministry of Internal Affairs), in the Code of Behaviour of Officials (1979) and in three decisions of the Constitutional Court (6/1993, 3/1995, 4/1996). The notion of corruption is not defined and it can not be defined in the Penal Code. It is "dissolved" between different economic activities. This leads to the conclusion that the very nature of "corruption" permits various interpretations which are often politically predetermined. What is put into the definition of corruption is also quite indicative of the intentions and agenda of the ruling elite.

The amendments to the Penal Code adopted in the last years significantly widened the list of the illegal activities, but as a rule they can not exhaust the whole spectrum of corruption behaviour, especially in its "clientele" aspects. Thus, the fight against corruption inevitably has to go beyond prosecution proceedings. The Constitutional Court decision favours that kind of philosophy. The Constitutional Court decision No. 5/17.05.1995 on Constitutional Court suit No. 3/1995 (State Gazette v. 62/1995) stipulates explicitly that activities which may be regarded as corruption are not always considered crimes under the Penal Code.

Thus, there is also a need to consider in the anti-corruption measures not only as "an action to the results" but as "an action to the behaviour" as well. This second consideration supposes the existence of an internal code of conduct obligatory for some professions the violation of which however is not subject to prosecution. At present this consideration is certainly disregarded by the ruling elite, which firmly follows the formal-judicial approach and in this way provokes the feeling of hesitancy and even ambiguity in the anti-corruption policy.

Financing of the Political Process

It is not a coincidence that the public usually pays greater attention to the "individual" corruption. At the same time from a political point of view the main concern is the "systematic" corruption as an element of the mechanism of financing and lubricating the political process.

As it was mentioned Bulgaria witnessed the resurrection of the old Party-State model of political relations. But the process was partial, without the central planning system which was an inseparable part of this model. Therefore, this modified model was deprived in the new market environment of the state resources for its own self-financing which inevitably led its deterioration in "clientele" networks. This is one of the most crucial contradictions in the process of further Europeanisation of the Bulgarian political system.

In most cases corruption generates the establishment of "clientele" networks based on informal relations through appointments of "loyals" at the different levels of the governmental-party-economic-non-governmental structures or through an exchange of mutual favours that make them difficult to investigate and prosecute. Such a mechanism has an enormous negative corruption potential since the "clientelism" is just another, more "soft" and more obscure type of corruption. The more this kind of relations penetrate the state authorities the more corruption turns into a rule of life and leads to the alienation of the political system and the country from the European values.

We are witnessing a real paradox: "clientele" relations of the political system are presented by the ruling majority as the price of the consolidation of the state and the consolidation of the state is considered to be the necessary condition for the further Europeanisation of the political system. The outcome is that the Europeanisation of the political system is carried out through its "clientelism".

Why did this happen? Undoubtedly, it is the outcome of a conscious choice between short-term and long-term perspective. The choice between the unpredictable lack of control over relations, based on unorganised (independent) in a political sense individuals, and the predictable dependence of the "clientele" was made by the ruling majority in favour of the latter group, with the consciousness that the subordination and loyalty must be rewarded. The ordinary "elements" in the mechanism of the executive branch, who understand that they do not have a chance to "participate in history", demonstrated robust political instinct and manifested their demands to the extent that the very func-

tioning of the mechanism became increasingly dependant of the two parties in the agreement – those looking for loyalty and those offering it. As in any corruption activity each of the parties covered its part of the road between them. The rewards are usually secured through state appointments (for example in the Board of Directors of privatised “jewels” of the economy, in which the state deliberately preserves its role) or through ensuring access to projects with foreign financial aid.

As a result discrepancy between declared European objectives and practically defended Balkan values, commitments and expectations emerged at the different public administration levels. The years of transition failed to condemn the modern Bulgarian model where the state is considered as a potential of resources to be wasted. All the governments seemed to share such an approach, including the incumbent, which contrary to the rest pretended to make a difference. In the long-term such a policy may be detrimental for the social conscience.

The main political problem is the contradiction between the aspirations of the ruling elite to meet the public expectations for reduction of the corruption (which is the basis of its survival) and the style and policy conducted by this elite during the last years. We are witnessing a serious internal contradiction. If it is considered that the intentions of the elite to combat corruption are really sincere then it has to possess the necessary implementation potential. The present potential is dependent on the loyalty of “our people”, i.e. a kind of “rewarded” structures (this precludes the level of control over them). In other words, in order to combat corruption the elite has first of all to fight against itself. This means to impose on himself a “restrictive” regime, to establish a system of relations and procedures which will not generate corruption and “clientele” expectations.

Therefore, the corruption in Bulgaria is neither a legal matter nor an element of a personnel policy. It is not related to a simple readiness to “sacrifice” compatriots for the purification of the party conscience from corrupted politicians. It is primarily a political issue and demands political will to define the problem in its integrity avoiding ambiguity and obscurity and providing effective counter-measures. Eventually, this will require a total reassessment of the party-state system model of ruling and its corruption elements. Without this recapitulation any effort for modernisation of the political culture will be worthless.

1.5. Political Values and Political Projects

In the course of the transition Bulgaria witnessed the appearance and development of elements of an European value system. According to their genesis the values shared by the Bulgarian society are close to the values of the EU societies. In spite of the historical differences the studies confirmed the existence of similar value structures. The transition in Bulgaria towards a new political model of West-European type introduced and developed new values which are linked to a new modernisation: responsibility of the individual, participation of citizens, individual initiative, solidarity among citizens, tolerance and respect for differences, environmental values etc.

The heart of this value system is the support for democracy. There are no influential groups in the Bulgarian society which may contest the pluralistic democracy as the best political model. There is a wide spread consensus on fundamental democratic values such as freedom of speech, equality and respect for individual rights. As a whole in the Bulgarian society the restrictive attitude elements have diminished significantly and the level of tolerance is rather high which is a result of the gained experience during the transition.

At the same time the public opinion considers the overall social model in Bulgaria in its complexity including not only the mechanisms of empowerment and execution of the political mandate but the whole socio-economic situation. The efficiency of the market economy is judged together with the success of the political democracy. The economic hardships of the transition and its social price undermine the social credit of the democratic system.

The transition in Bulgaria showed that democracy is stable when the citizens are actively involved and that democracy is impossible at the price of unacceptably high social stratification and poverty. That can be regarded as an European standard as well. The unacceptable inequality has always injected the idea of “a strong hand”. The poverty, in its return, always reproduces easily manipulated individuals. The political use of the Roma population, which is among the poorest in the country, is one of the worst examples.

The Bulgarian transition witnessed a wide spectrum of social projects specific for the European political landscape. By 2000 Bulgaria enjoyed the appearance of all the European political platforms – from left to right. For a long time, especially in the beginning of the transition a discrepancy between the generally accepted European political platforms and the specifics of the newly emerged actors of the Bulgarian political life existed.

The classic lines of political differentiation in Europe (left-right, democracy-totalitarianism, conservative-liberal) were not adequate to the Bulgarian political reality. That often caused confusion and incompatibility between the EU parties and their Bulgarian analogues. In most of the cases the European platforms were used as shields for practical reasons.

A process of clarification of the ideological and political environment started in the recent years. The main criteria applied was the similarity to the European understanding of the political differentiation. The latest discussion in different sectors of the political scene led to the formulation on the basis of the European criteria of several influential political projects: Social-democracy, Christian-democrats and Liberals.

It must be mentioned that the European standards are reproduced in these political projects from the very beginning. The authors of these new formations and party platforms strive to approach the European analogues. They do not oppose the Bulgarian political tradition to the European political models. This relates also to such a specific Bulgarian political tradition as the rural movement and as well to the newly emerged formations as MRF or Internal Macedonian Revolutionary Organisation.

1.6. European Consensus

The "European consensus" that emerged in Bulgaria from the very beginning is considered to be favourable for the Bulgarian transition. Since 1989 two thirds of the Bulgarian population have confidence in the EU. During the last months and especially after the BSP approval of the support for NATO membership the European consensus has been transformed into an Euro-Atlantic consensus.

In most of the public opinion polls the majority of the population believe that Bulgaria must be oriented towards Europe which means that the prevailing part of the Bulgarians firmly accept the European, and more precisely, the West-European environment as most corresponding to the country's interests. The people are convinced that Bulgaria must become an indispensable part of the community of those European states which have established democracies and embodied the modern civilised tendencies. At the same time the specific expressions of such an adherence – the parameters and the "elements" remain unclear.

This conclusion is confirmed by public opinion polls on European and inte-

ration issues. The research on public perceptions conducted in 1998 – 1999 showed some contradictions between perceptions of the European values and the perceptions associated with the notion of "Europe"¹. The outcomes partially confirm the conviction (broadly promoted by the media) that the membership in the EU and NATO are two sides of one coin – the Euro-Atlantic identity. The society, however, is slowly moving towards a higher degree of differentiation of "the two sides" as they are vague and mixed in the minds of the people.

The support for the EU membership in the poll for the civilised identity remains very high in 1998 and 1999 – 76 % in November 1998 and 75 % in April 1999. The analysis of the support as such does not indicate much if we do not understand what is supported and also what the people imagine as a timeframe of the membership negotiations.

The answers to these questions clearly outline the altitude of the people's illusions (mildly put unrealistic expectations) concerning the real problems which the Bulgarian society has to cope with. For example, in 1999 40 % of the people, according to the April 1999 A.C.A. poll on the civilised identity, believe that Bulgaria will become an EU member in 5 years and only 22 % - in 10 years. The "realists" or those who think that the country will be in the EU after 15 – 20 years are 13 %, while the "pessimists" who think that Bulgaria will never join the Union are 8 % in April 1999.

This and other polls bring to at least two conclusions: First, the Bulgarian people definitely desire to see its country fully integrated in the EU. This optimistic attitude is a result of a substantial and intense public campaign especially on behalf of the incumbent government which set out an unrealistic timeframe for the conclusion of the accession negotiations. On the other hand, this attitude reveals serious ignorance about the accession process and a lack

¹ The analysis below sum up the data from the following polls:

"Aspirations of the Nation" poll (representative for the country and also for two municipalities - Rousse and Smolyan), carried out in two stages: in the end of 1998 and in the beginning of 1999 by the Agency for socio-economic research "A.S.A." for UNDP. The first part of the poll was devoted to the aspirations related to the civilised identity;

Data from representative for the country polls of Alpha Research Agency, conducted in March-December 1999 and January 2000;

Data from representative for the country polls of Market Test Agency, conducted in January 2000;

of adequate information on its substance and implications that occasionally leads to a confusion masterminded by segments of the political elite. Here we again come across interesting contradictions: on the question what impedes the Bulgarian integration into the EU, 91 % are convinced that the answer is in the "ineffective economy", 89 % think that the main reason is the absence of "rigid standards of quality and control" and 87 % find the "level of criminality is quite high".

Without any doubt the above-mentioned findings are true. They are really the main obstacles on the way to integration but at the same time it is unrealistic to expect that these issues can be tackled in 5 or even 10 years. The assessment of the Bulgarian economic situation in 1999 does not provide grounds for optimism. In March 1999, according to the Alpha Research study, 21 % consider the economic situation as improving, 47 % on the contrary as deteriorating while in November 1999 the figures are already 11 % and 55 %. This may be regarded as an inclination to assume that an "economic miracle" will happen or, most probably, that people rely on expectations of "preferential treatment" (if they started negotiations with us then it means that we are needed and they will take us even with the part of our problems).

Such expectations, stimulated by the elite, of a speedy (and even non problematic) integration may have in perspective a negative effect in view of an possible delay of the negotiations (it is probably unrealistic to expect results earlier than 2010, without taking into consideration the unpredictable development of the processes on the Balkans).

"Europe" continues to be regarded as a civilised model, but as a general value system assessed in quite broad categories. This model and its choice are still contemplated irrationally. In this regard the European Union as a political and economic project needs to be "apprehended" and (probably) recognised as own by the Bulgarian society. That's why it is "less known", compared to Europe in principle. It is much easier to declare adherence to "European values" than to follow "European procedures".

Therefore, the success of the accession process will not so much depend on the pace of the adoption of the *acquis* but on what extent in their evolution (or if we put it bluntly - knowledge) the Bulgarian society and the Bulgarian elite will move in the same direction and how far the Bulgarian people will succeed to find real grounds for the made European choice.

The most important event in the contemporary Bulgarian history is probably the way this choice was made. For the first time in its modern history Bulgaria and its political elite had the opportunity for its own, not dictated

from outside choice. In reality, in the beginning of the 90-ies the country enjoyed open opportunities – to move steadily westwards or eastwards. Serbia, which in the post-World War period was regarded as incomparably more European oriented than Bulgaria, illustrated in the best way the spectrum of opportunities. The affiliations towards a "Slavonic" type of orientation provides grounds for such a choice. Regardless of that, the ruling majority selected from the very beginning the European and NATO option as its own responsibility and did not leave to the discretion of the public – a referendum, for example.

The Atlantic Component of the European Choice

In fact the second segment of the Euro-Atlantic option of the ruling elite – in favour of NATO membership, was the most dramatic. As the support for NATO membership was weaker than that for the EU membership, this was the moment when the elite took upon its responsibilities on behalf of the society. The choice was complicated additionally by the war in Kosovo and the deteriorated relations between the Alliance and Russia, when the support for membership normally drops – in November 1998 59 % are in favour of NATO membership, while in April 1999 they are only 48 %. At the same time the percentage of people who do not approve the membership in the Alliance remain practically unchanged in the period April – December 1999, i.e. 45 – 46 %, according to periodic Alpha Research polls.

These figures reveal more than a change in the attitudes. Their interpretation should not be regarded apart from the price which the society and its political elite (or more precisely that part which does not escape from its responsibilities to pave the way to NATO) paid for this choice. It is different to make such a step in Poland, Hungary and the Czech Republic with their "complicated" relations with Russia and the USSR and to take on such commitments in Bulgaria – again "complicated" but different history. On the other hand, it should be admitted that the "attractiveness" of Bulgaria as a potential ally from the point of view of NATO was questionable for a long time.

It should be confessed that the problems in front of the decision in favour of NATO membership were created by the Bulgarian elite prior to 1997. Instead of taking the responsibility of adhering to the Alliance, throughout the years the idea of integration into "the Euro-Atlantic structures" was promoted. However, this hesitance allowed, according to the interests, free interpreta-

tions. For Russia it was a tacit refusal of the membership, for NATO – unexpressed wish. As a result Bulgaria fell into a “twilight zone” or “zone of negative interests”. None of the parties – neither NATO, nor Russia, was interested enough to invest in attracting the country in its own area of influence, but was sufficiently motivated to counterbalance the interests of the opponent.

This uncertainty continued until 1997 when the care-taker government of Stefan Sofianski unequivocally declared the Bulgarian aspiration to join the Alliance. The clearly stated will had to be backed by a recognition on behalf of the Alliance which would pull out the country of the “twilight zone” and invite it in the zone of NATO interests. That happened during the Kosovo war. Practically this is the only war that Bulgaria wins in political sense. The unconditional support of the NATO operation led to a shift in the perceptions towards Bulgaria. Bulgaria gained a tacit status of a candidate-member of the Alliance. It is still distinct for the full-fledged membership, but sufficient enough as a strategic orientation and as a message both to the external actors and to the political factors at home. Quite exemplary of the significance of this message is the pro-Atlantic evolution in the latest months of the traditional “anti-NATO fortress” – the Bulgarian Socialist Party.

This evolution gives an interesting perspective to the analysis of the perceptions on the European and Euro-Atlantic integration alternatives of the country. In all studies on that matter, the “Slavonic world” comes as a primary option (in a special research on public aspirations, 15 % choose “the Slav people” as an answer to the question “What should be the Bulgarian orientation”). However, this is an expression more of a cultural than of a political or economic identity. Until 1944 Russia is regarded more as a liberator from the Turkish yoke rather than a social or political model (Germany is considered to be the model). In a political sense Bulgaria has primarily followed the European model. The Slav model is accepted after the Second World War in a combination with the Soviet model. In the 90-ies the alternative “Europe - Slav world” is a camouflage of the alternative “Europe - Russia” and more specifically “Russia - NATO”. But as it was already mentioned that was a sign of indecisiveness rather than a conscientious rejection of the European orientation of the political elites.

The aspirations for a Slav adherence are losing their ideological background, specific for the first years of transition when it meant anti-NATO vote. These affiliations could probably be considered an attempt to be in Europe without losing our own identification and maintaining traditional friendships

(this may also be regarded as a wish to avoid turning Russia hostile). To a great extent this is an illustration of a pragmatic approach. This hypothesis is confirmed by the evolution towards moderate Atlantism of the Bulgarian Socialist Party, which may be regarded as a partially pro-Slav formation.

The problem is that behind this consensus there is much more ignorance than knowledge about the real issues of the Bulgarian accession to the EU. In the political debate the EU is seen as a promise of freedom and prosperity rather than a specific project of public transformation. The public opinion regards the EU as a donor. At the same time there are no discussions on the Bulgarian input and contributions to the unified Europe. The public awareness of the EU mechanisms for identifying joint interests as well as for the differences between the Member States is rather poor. As an example the subsidies issue is often quoted but few really know what it is about.

The risk is to make out of Europe a simple promise which never happens, like an ever distant horizon. The latter generates scepticism, disbelief in the EU success, an alienation from Europe. This may be harmful to the transition as it may open two undesirable options:

- increasing of the apathy and alienation of the citizens from political participation. That will transform the accession into a process, led by technocrats and threatens democracy to become an oligarchy;
- widening of the social basis of nationalistic and anti-European political projects that may lead to the ignition of old ethnic and nationalistic conflicts.

This is the reason why the challenge is in the fact whether the political elite will succeed in transforming the European consensus into a clear project for Bulgaria's accession to the EU. The accession is not an automatic process, following the European geopolitics and logic. If it is accepted in that way, the accession of Bulgaria to the EU will fail to mobilise the public participation and will condemn it to a technocratic and undemocratic approach.

1.7. Independence of Media

The freedom of speech in general and the independence of the media in particular are an indispensable part of the European consensus. The achievements in Bulgaria to this end are impressive but at the same time provoke some thoughts whether the freedom is real or declarative in nature.

In general the freedom of speech can be described as an individual right of individuals. It means that everyone is free to share different ideas and will not

be prosecuted for them. In this sense there is freedom of speech and freedom of media: very few examples can be quoted when someone was prosecuted for his statements and opinions. There is great degree of public opposition to that. A wide network of NGOs which monitor the practices in this sphere exist. However there are problems and they must be assessed in two ways:

The legislative framework of the media independence (including the newly adopted Law on the Access to Public Information);

The real economic parameters of the environment ensuring (or not) the independence of the media.

Legislative Framework

The legislative framework steadily evolves in the last years towards providing greater opportunities for centralised influence and control. It is related both to the provided by the law sanctions against slander and the impeded access to public information and the subjective interpretations of the conditions under which information can be provided.

The legislative framework, however, is the only one (and not the most important) channel of potential exertion of pressure over the media. In order to speak about independent media, it is not enough to deliver a message without a fear of being prosecuted. It has to be heard, i.e. to be disseminated.

Financial Independence of Media

This element is frequently missing. In all conflict cases concerning the freedom of speech it is not interpreted as a right of individual expression, but as a right to have your opinion disseminated. The freedom of speech is replaced by the right to be heard and the individual rights are transformed into an obligation to an institution (the media) to ensure the exercising of this right. It is often forgotten that this institution is not bound to any commitments of that sort.

Of course, there are written and unwritten rules, regulating the margins of the acceptable, beyond which the refusal to disseminate an opinion is at least in contradiction with good behaviour. The issue here is not about the cases when these limits are crossed, but when a refusal to disseminate cannot be excused by these rules. In such cases it can be related only to the moral credibility of the censorship, which is not in conformity, not polite, not decent and

is in contradiction with the democratic principles. However, it cannot be interpreted as unfulfilled obligations. The media as an institution has no commitments to disseminate. It is as free and sovereign subject in a market environment as the individual with its personal opinion.

In practice the freedom of speech is nothing else but a two-way free choice. The individual is free to deliver or not his opinion and to select a media for its publishing. The media is free to decide whether to publish or not (this is the very meaning of the well-known sentence – “Manuscripts are not censored and not given back”). It is just as it is at the free market: the seller is free to ask any price, the buyer is free not to pay. The problem is not in the censorship “suffocating” the free speech, but in the market in general which imposes the parameters of demand. Today anyone who disregards the demand of the market is lost. The market with its narrow criteria limits the opportunities in front of speech. And the reason is simple: the market is democratic, every minute there is a referendum in which the votes are replaced by currency denominations and the winner is the commodity enjoying the greatest demand. The general “taste” is not sophisticated in an ethics sense, neither is it dissident-oriented in a political sense (a good illustration is the open conformism which appears in the media in time of stable state management).

It took the Bulgarian media a long time to get used to viewing the freedom of speech through economic perspectives. The economic aspects of the media independence are gaining significance in view of the total privatisation of the newspapers market and the continuing withdrawal of the state from the electronic media.

Therefore, the assessment of the independence of the media in Bulgaria requires defining independence “from whom and in the interest of what” and at the same time – “independence on what price”. In this sense the independence may turn out to be formal (similar with the case of formal and real participatory democracy). The most free and financially independent media are those which correspond to the mass expectations and are not in great need of freedom of speech (this relates to the financial survival, including the advertising incomes). Those which do not meet the market requirements are condemned to compete for preferential treatment – for example, high incomes from advertisements unbacked by actual media influence.

CHAPTER 2. Macroeconomic Problems

Dr. Gancho T. Ganchev

2.1. The Currency Board Arrangement and the Macroeconomic Stabilisation

The main event with lasting impact on the banking sector and the macroeconomic dynamics is the introduction of the currency board type monetary regime from the 1-St of July 1997. This was done by the approval of the new Law on the Bulgarian National Bank and the new Law on Banks. These laws, as well as the new regulations of the BNB, put the banking system in principally new conditions (see also: Stanchev K.:1998). The new setting can be summarised as follows:

- no lender of last resort functions, except in the case of systemic banking crisis;
- no direct financing of the fiscal deficits by the BNB, with the exception of the operations of SDR purchasing with IMF;
- the BNB is no more allowed to operate with government bonds through open market operations BNB;
- the quantity of the reserve moneys is limited to the level of hard currency reserves of the BNB Issue Department;
- liquidity and capital adequacy requirements for the commercial banking sector are increased;
- the role of the BNB Supervision Department is strengthened;
- the international accounting standards are applied more rigorously;
- the government deposits are included in the liabilities side of the Issue sector are tightened;
- the exchange rate of the Bulgarian currency is pegged to the DM and from the first of January 1999 to the euro (1.95 leva per euro).
- The BNB is obliged to exchange freely leva for DM at fixed exchange rate.

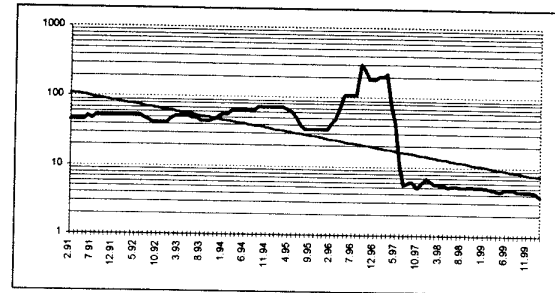
Because of the strict implementation of the currency board principles, Bulgaria successfully overcame severe hyper inflation period in 1997 and achieved rapid financial stabilisation (see for example: OECD:1997:p.61).

The macroeconomic environment shifts, directly affecting the financial and the real sector, can be summarised as follows:

- dramatic decline of the so called Basis Interest Rate (BIR) from 300%

per year (15-16% in the moment of the official introduction of the new monetary regime) to 4-5% now;

GRAPH N 2.1. BASIC INTEREST RATE IN % PER YEAR
(SEMI-LOGARITHMIC SCALE)



Source: BNB.

- decline and stabilisation of inflation rate, emergence of periods of decrease of consumer price index;
- decline of the fiscal deficit, decrease of the share of government debt servicing in the structure of budget expenses (the share of interest rate payments decreased from 52% in April 1997 to 7% an year later);
- gradual stabilisation of the trade on forex market, limited possibilities for profitable speculative interest rate arbitrage operations;
- restoration of confidence in the Bulgarian currency, improvement of the liquidity of the commercial banking sector;
- significant increase of the BNB hard currency reserves, reflecting the extended external financing, fast privatisation and the process of re-magnetisation
- official policy of actual adherence to the eurozone;

2.2. Maastricht Criteria and Perspectives of the EU Membership

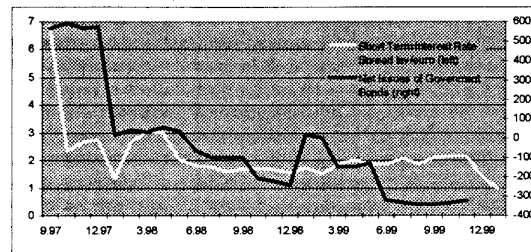
The internal and external stabilisation of the national currency allowed the country to mark important progress in terms of the so-called Maastricht convergence criteria, measuring the ability of the respective economy to participate in the Economic and Monetary Union. The former criteria concern the stability of the exchange rate, the deviation of the long term interest rates from the levels prevailing in EU, the inflation, the fiscal deficit, and the state debt, related to GDP.

The fiscal surpluses in 1998 and 1999, the decline of the net Government debt as percentage of GDP, the decrease of interest rate levels, the relatively low inflation and the fixed exchange rate of the national currency, make the formal requirements for participation in the EMU more accessible what is clearly part of the Government EU integration strategy.

In some cases, however, the convergence to the EU figure is misleading. For example, the level of the so-called basic interest rate (BIR) in Bulgaria, corresponding to the short term interest rates on money markets in the EU countries, is converging to respective levels in DM, and even becoming lower, especially in 2000. In the same time, the interest rate differentials between long term assets remain significant. This difference reflects the existence of long term risks.

The fiscal surpluses, registered recently, do not reflect macro economic policy, aiming to avoid economic overheating. The surpluses do not help also to eliminate the eventual crowding out of the private sector from the capital markets. This policy is simple precautionary measure against excessive trade deficit growth, caused by the real overvaluation of the Bulgarian currency.

GRAPH N 2.2. NET ISSUES OF GOVERNMENT BONDS AND SHORT-TERM INTEREST RATE SPREAD BETWEEN BGL AND THE EURO



Source: BNB.

The examples of the interest rates and fiscal surpluses rise the question whether the convergence to the EU parameters is appropriate at this stage. The theory of the optimum currency areas teaches us, that the emphasis must be put on the optimisation and not on the participation itself (Gandolfo:1987:373). The right question is - what are the economic parameters, determining the rational for the country to participate in the currency zone and what circumstances condition the very institution of regional zone of monetary integration.

After the introduction of the Currency Board the nominal and real parameters of the money supply dynamics are remarkably stable in the sense, that the growth rate is steady. We must admit however, that the real volume of the broad money (monetary aggregate M3) is fluctuating around the level, representing only one third of the real money supply prevailing before the introduction of the new regime.

Nevertheless, the structure of the internal credit changed radically. The private sector attracts more than 80% of all credits. The Government employs just 4-6% of the internal loanable funds, compared to 42-45 before the new monetary regime (contraction of about 10 times). The share of the state-owned enterprises declines too, but to much lesser extent. The dramatic decline of the Government share is due to the policy of substitution of internal for external

financing. The banking financing of the fiscal sector is negative.

The basic idea of the theory of the optimum currency areas is to transform the external shocks for given group of countries into internal ones. This can be done if the economic cycles are sufficiently synchronised and the economic policies are adequately co-ordinated.

The foreign trade among the countries-participants in the monetary zone should be highly integrated, there should be free movement of capital, labour, goods and services. In addition the economies must strongly diversified, the productive and technological structures must be interdependent.

The condition *sine qua non* is the interpenetrating of banking and financial systems. The monetary and fiscal policies should be based on similar targets and instruments. The countries sustain similar macroeconomic parameters.

Some of the above summarised requirements are objective by nature and are consequences of the economic evolution of the respective economy. Others, like the level of co-ordination presuppose political will and evaluation of the costs and benefits of participation in the eurozone.

Example of the country that did not meet the objective criteria at the initial stage of the EMU, but had the political will to join the zone, is Greece. On the contrary, countries, like United Kingdom and Sweden do meet the objective criteria, but have negative evaluation of costs and benefits of participating in the EMU, so the political will is absent.

Bulgaria, unlike Sweden, do not meet the objective integration, synchronisation and convergence criteria to join the EMU. Nevertheless the Bulgarian economy is effective part of it. This means that the country bears the negative consequences of the zone without possibility to share the positive effects.

In particular, since the country is not member of EMU and is not participating in the process of co-ordination and decision making of the European Central Bank, all the monetary policy decisions continue to be external shocks to the country.

Because of the currency board regime, Bulgaria cannot benefit from the other traditional benefits of the zone- the country cannot maintain lower level of hard currency reserves. The relative economic isolation from the EU and the insufficient synchronisation and structural interdependence do not allow the country to benefit substantially from the lower level of speculative capital flows among the countries, as well as from the advantages of unique mean of payment, accumulation and financing.

On the contrary, all the problems, that could be aggravated by the curren-

cy zone- loss of autonomy of the monetary policy, additional constraint to fiscal policy, higher unemployment, stronger regional discrepancies and so on, are already present.

The problem is, that the creation of zones of monetary stability and the introduction of common currency are the final phases of the economic integration and the integration of EU countries in particular. An economic integration strategy, based on reverse order of integration, i.e. monetary integration first, real next, maybe successful under very restrictive circumstances. Only countries like Estonia succeed in that.

The "normal" accession strategy presupposes, from macroeconomic policy point of view, two stages. The first is gradual stabilisation and disinflation, transition to sustainable growth. This stage can be associated with the fulfilment of Copenhagen criteria- functioning market economy, capacity of taking on the responsibilities of EU membership, competitiveness of the national economy.

The second stage assumes orientation towards implementation of fiscal programs and monetary policy changes, allowing for EMU. In particular, the monetary policy should be ready to meet restrictions, resulting from the fixing of the exchange rate, including higher co-ordination with the ECB. It is considered, that only the Visegrad four plus Slovenia are ready to proceed to the second phase.

To resume, the normal accession strategy reproduces, though in shorter duration, the same stage of the original evolution of the integration of EU countries- opening of the economies, liberalisation, modernisation and dynamisation, introduction of elements of common economic policies and co-ordination and after that- accomplishment of the Economic and Monetary Union.

The re-ordering of the integration phases presupposes that the country should assume additional economic risks. Such strategy can succeed only if supported by additional foreign capital inflow. In principle however the additional risk, *ceteris paribus*, most certainly repulses then attracts foreign capital.

It is well known, that the Copenhagen criteria include convergence of the average per head income levels to that in the EU. The overvalued and exchange rate facilitated the convergence to the nominal (Maastricht) criteria, but worsened the expectations in terms of sustainable real economic growth, what makes the fulfilment of Copenhagen criteria more difficult. Nevertheless the latter and not the former are obligatory for the accession countries.

We can conclude, that the Bulgarian economy is objectively outside the boundaries of the European optimum currency area (the eurozone). It belongs, at this stage, to its periphery, where the costs of participating exceed the benefits.

2.3. Macroeconomic Policy Instruments, Possibilities and Constraints of the Macroeconomic Regulation.

The specific variant of currency board arrangement introduced in Bulgaria, assumes interdependence between the official hard currency reserves, government deposit with BNB, commercial banks reserves and the monetary base. This interplay, taking into account the relation between the reserve money and broad monetary aggregates, represent mechanism, that conveys the macroeconomic policy signals from monetary to real economy and may affect inflation.

These possibilities exist because of the Article 39 of the BNB Law, that allows the Central Bank to open current accounts and deposits of the Council of Ministers, commercial banks, international financial institutions and other organisations. BNB is also official state depository and services technically the execution of state budget, according to an other Article- 43.

In practice all that means, that the Bulgarian variant of currency board arrangement (in the balance sheet of the BNB Issue Department the foreign currency reserve equals the money in circulation plus Government and other deposits); the changes of the volume of government deposits affect the monetary base directly. The money in circulation increase if the Government deposits decrease and vice versa.

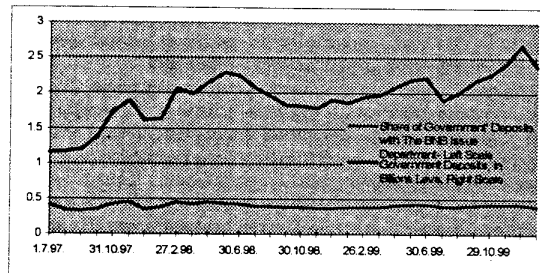
This means in fact, that there are some technical room for monetary policy, but the initiative is not in BNB, but in the Government. To conclude, the currency board in Bulgaria eliminates not the monetary policy, but shifts the power from BNB to Government (see for more details on the topic: Nenovsky N., Hristov K.:1999:20).

The Government may affect the quantity of money in circulation through open market operations. If for example the fiscal sector increases the net issue of government bonds and transfers the respective funds to the Government Deposit in BNB, then it will clearly reduce the quantity of money in the economy. If the Government decreases the BNB deposits in order to finance the additional purchases of goods and services, then the money in circulation will increase.

According to currency board paradigm, the main factor, determining the level of the monetary base is the official hard currency reserve. In order to have an automatic adjustment mechanism the currency board should preclude the so called sterilisation. If sterilisation exists, then automatic adjustment through inflation and trade balance is under question. In the case of Bulgaria however the elimination of sterilisation is problematic.

BNB cannot have in reality a sterilisation policy, but the Government has such opportunity. The stable and high level of the government deposits with BNB means that the fiscal sector increases its deposits when the reserves increase and reduces the deposits if hard currency reserves decline. This is by definition a sterilisation policy (see Graph 2.3).

GRAPH 2.3. GOVERNMENT DEPOSITS WITH BNB



Source: BNB.

It is clear also, that government is recalling money from circulation when money supply increases faster than needed and that the state is injecting additional money, when economy needs liquidity. Given the stable money multiplier, the regulation applies not only to the primary money, but also to broader money aggregates. The coefficient of correlation between the government deposit and the broad money (M3) equals 0.83 for the period 1.7.97-31.12.99.

Particular interest represents the interplay between the Issue and the Banking Departments. The Deposit of the Banking Department is in the liabilities side of the Issue Department, together with the Government deposits.

Consequently, the variations of Banking Department deposit have the same effect on the money in circulation, like the variations of the Government deposits. On the other hand however, the liabilities of the Banking Department include IMF loans. This means, that the IMF resources are one of the sources of the official hard currency reserves.

Because of these connections, the loans received from IMF may influence the quantity of money in circulation only through the deposit of the Banking department in the Issue department. The more the loans received from the international financial institutions are transformed into deposits in the Issue Department the lower the impact on the money in circulation.

One of the factors affecting the monetary base are naturally the trade and current account balances and foreign capital flows.

The policy of high real exchange rate plus the fiscal restriction have strong impact on the foreign trade balance and indirectly on the money supply in the economy. The foreign trade surplus, existing before the introduction of the currency board (1997) arrangement gradually disappeared and was replaced by trade deficit at about 1 billion dollars per year since 1998.

This situation forces the government to maintain high primary fiscal surpluses in order to compensate, at least partially, the trend of increasing foreign trade deficit. In parallel the Government is under heavy foreign pressure to accelerate the privatisation process, the latter being the main source of financing the current account deficit.

The primary fiscal surplus means that the fiscal impulse to the real sector is negative (i.e. implies lower growth and high unemployment). The acceleration of privatisation in turn creates additional social tensions both from the point of view of higher structural unemployment and corruption issues.

It is well known theoretical fact, that there is no guarantee for the existence of automatic adjustment mechanisms of the currency board type and the price-specie flow mechanism in particular. Every thing depends on the specific parameters of the respective economy and the particularities of the implemented arrangement. There are symptoms, that the negative impact of the fixed exchange rate is increasing over time because of the accumulated inflation.

If this is the case, a vicious deflation circle is possible- trade deficit may cause decline of official reserves, decrease of money supply, decrease of production and exports and additional worsening of trade deficit and so on. Even if this worse scenario does not happen, it is clear that it is not possible to main-

tain internal and external equilibrium without macroeconomic regulation on the part of the fiscal sector and BNB.

The analysis of the impact of the present currency board arrangement on the macroeconomic stabilisation would not be complete without current account (services) and the capital account.

Because of the substantial payments on the hard currency foreign debt, the services balance is usually negative for Bulgaria. Because of the same reason, the services, excluding tourism, are not strongly affected by the exchange rate. An other reason for the lack of sensitivity of the services is low level of foreign portfolio investment in the country.

The currency board arrangement influences the capital account in two ways. It is well known that the short term capital flows are strongly influenced by the interest rate differential between the national currency and reserve currency. In the first half of 1997 the relatively high differential between the lev and the foreign currencies the inflow of foreign portfolio investment was relatively high and amounted about 184 million US dollars.

In the first half of 1998 the balance of the short term capital becomes negative and this trend is stable after that.

The balance of the long term capital and foreign direct investment in particular is positive after the introduction of the currency board. This trend however is not a direct consequence of the introduction of the new regime. It reflects to higher extent the Government policy in the field of privatisation.

It must be emphasised nevertheless, that under the currency board regime the Government is objectively forced to accelerate the privatisation on the one hand and the risk assessment of the big foreign investors, especially in terms of exchange rate and inflation risks, are lower, on the other.

It must be added, that in period of 1998-1999, the level of foreign direct investment was negatively influenced by the Russian and Asian crisis, the conflict in Kosovo and other international factors. The positive capital account results were achieved with the support of official financing through IMF, the World Bank, EBRD and EU.

The positive capital account balance is the main reason for the increase of official hard currency reserves. The second reason is the change of the hard currency positions of the firms and the population. The inflationary impact of the hard currency reserve growth is low because of the mentioned policy of sterilisation.

The dramatic decline of the so called Basic Interest rate from 462 % per

year in march 1997 to 5-6% at the end of the same year and 4-5% in mid 2000 had also its consequences. The hard currency deposits of the population did not decline, but actually increase since 1997. The banking sector shifted from negative to positive increasing net foreign assets, thus adding to the negative short term capital balance.

Finally, the policy of fiscal restriction and negative internal financing, influenced negatively the internal demand in contrast to the positive developments of the balance of payments, that led to build up of foreign reserves. Thus the positive trends in terms of growing foreign reserves and money supply were compensated by the negative fiscal impulse and the sustainable economic growth is still not achieved.

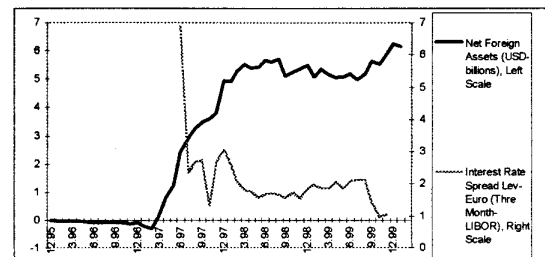
2.4. The Financial Sector

The ability of financial markets to attract and channel external savings for domestic economy or the opposite, to transfer domestic savings for more efficient investment abroad, is decisive from the point of view of countries in transition. The efficiency and the competitiveness of internal financial markets is closely correlated with the efficiency of market mechanism of the country.

It is well known from the main identity of the national accounts that the difference between domestic saving and investment equals the current account balance and the one hand and the increase of the financial assets (corrected for double counting of the banking sector and the net inflow of portfolio investment and changes of the banking sector net foreign assets), on the other.

The increase of savings concerns mainly the internal state debt, broad money and the corporate securities. This addition expressed in foreign currency using the effective exchange rate should equal the net foreign capital inflow

GRAPH 2.4. NET FOREIGN ASSETS OF THE BANKING SECTOR



Source: BNB.

The whole period from mid 1997 (the introduction of the CB) up to the mid 2000 is characterised by outflow of short term capital through the increase of the net foreign assets of the banking sector and portfolio investment.

The calculations demonstrate that the capital outflow can be stopped if the exchange rate is increased from the present level of about 2.25 levs per dollar to about 3 levs per dollar. To eliminate and reverse the capital flows through the banking sector foreign assets the equilibrium exchange rate should be even higher.

To support (*ceteris paribus*) the present exchange rate level the country should export short term capital at about 300-400 million dollars per year.

One of the main reasons for the capital outflow through portfolio operations for the period 1997-1998 was the high growth of the capitalisation on the internal corporate securities markets. This process reflected the obligatory re-evaluation of the corporate fixed assets in 1997 required by the IMF because of the introduction of Currency Board after the short hyper inflation period. The re-evaluation led to increase of face values of the corporate securities.

This exogenous increase of the nominal value of the corporate securities was not supported with real increase of domestic investment (in fact the latter remained at historically very low level). Since the increase of saving was higher than investment, the difference had to be invested abroad through portfolio capital outflow. This capital outflow represent a repatriation of the speculative profits obtained at capital markets.

The Currency Board type automatic adjustment mechanisms can function appropriately if the prices are not sticky. The re-evaluation of fixed assets closed the system of staggering prices, that may move mainly upward.

The right solution to the problem of fixed capital prices under currency board would be to consider them as accumulated future profits and not as historical records adjusted for inflation. Under such approach the financial assets prices would be the base for the fixed capital evaluation. This approach would transform the evaluation of the fixed capital into market based process and not a simple administrative calculation with negative economic consequences.

On the other hand, in order to stimulate investment, the fixed capital expenses should be excluded from profit taxation. The new rules would be applicable for the period after 1997. This approach would avoid, at least to some extent, the creation of system of overlapping contracts, perpetuating inflation under fixed exchange rate.

The other trend, that becomes more or less pronounced after 1998, is the de-intermediation. In 1998 the capital markets attract two time more savings than the banking sector. An other trend, typical for 1999 and 2000 is increase of the real sector indebtedness to foreign banks and financial institutions.

This process however is not classical de-intermediation since the increase of the securities markets capitalisation is not connected with visible growth of investment. On the other hand the extension of foreign financing of Bulgarian companies clearly demonstrates that the domestic banking sector is not competitive vis-à-vis the foreign, mainly European banks.

An additional element is the high risk associated with the emerging domestic securities market. This market went through its first speculative bubble (caused as mentioned to some extent by administrative errors) in the beginning of 1998 and through its first crisis in 1999. In 2000 the corporate securities market is highly unstable and unpredictable.

In principle we have to possible evolution. The first is to rely on market forces. This under the overvalued exchange rate and overvalued fixed assets means the economy should go through severe deflation and decapitalisation that will eliminate the „excessive“ capital.

The second variant is should be to pursue full employment policies in order to secure higher capacities utilisation. The second variant however is very difficult to implement from both practical and conceptual point of view under the currency board regime.

As a matter of fact, in spite of the present relatively high inflation generat-

ed by the high energy prices, in the next one or two years the deflation is the most probable variant of economic adjustment. As it concerns the capital markets, the decline of prices continues in 1999 and the first half of 2000. Up to now, only 5% of foreign investment are effectuated through corporate securities markets.

In the same time, the low levels of corporate securities quotations may induce some changes of foreign investment trends. We can forecast some decline of the role of privatisation since the share of state property is decreasing. On the other hand, the low financial assets prices may make them more attractive for the foreign investors. These trends, together with the introduction of the new trading system on the Bulgarian Stock Exchange may help the recovery of capital markets.

2.5. Emerging of Efficient Markets

The construction of functioning market economy has two decisive directions. First, the creation of „complete“ system of markets, allowing for taking into account of all the factors affecting the economy (Grossman:1989:137). Second, the improvement of the market efficiency (allocative, informational and transactional, i.e. fast, complete and cost-efficient use of information in the decentralised exchange.

The core of the „complete“ system of markets are the financial markets since they permit to extend the physical and temporal boundaries of the bilateral exchange and to build a market economy with long planning horizons. That's why the development of financial markets have particular importance for the overcoming of the so called „transitional recession“ and the shift to sustainable growth.

In fact, the substance of the idea of the functioning market economy, being the basis of the Copenhagen criteria, is the establishment of complete system of markets. Any successful accession strategy should be based on the system of measures facilitating and accelerating the generation of such economy.

In the case of Bulgaria, especially after the introduction of the currency board arrangement from the first of July 1997, the main question is whether the new monetary regime accelerated or impedes the process of establishment of system of efficient markets.

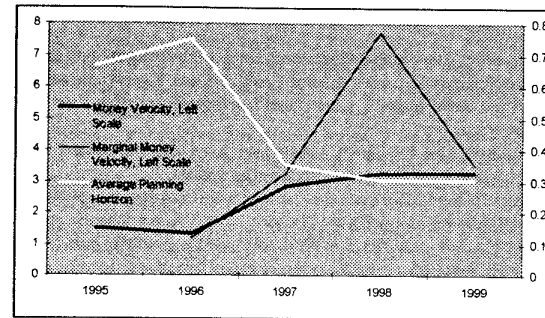
The basis of all financial markets is the money market. The money on the one hand, facilitate the decentralised exchange. On the other, they make pos-

sible the accumulation of financial resources. According to the economic theory, the accumulation of money (notes, current accounts, deposits), given the existence of income bearing financial assets, like government bonds and corporate securities, make sense only if the higher liquidity of the monetary assets permits to effectuate unexpected transactions or speculative operations.

The aggregated quantity of money, accumulated in a given economy, related to the GDP, produced for some period (one year), gives us the velocity of money of average monetary unit in the economy. The inverse value represents the average period of circulation of a monetary unit. That is, the average period of time, from the advancement of the initial sum of money to its' recovery by selling the respective product. The dynamics of the average period of circulation of the broad money may be seen as natural measure of the prevailing planning horizon duration.

When economic risk increases, the planning horizons decline, the quantity of money in circulation decreases, the money velocity increases, inflation accelerates. In the opposite case, when the prevailing risk assessment declines, the planning horizons increase, the real money demand expands, the velocity decreases. It is also well known, that when the planning horizons are longer, the possibilities for economic growth are more appropriate (Takayama:1990:445).

GRAPH 2.5. VELOCITY OF MONEY, MARGINAL VELOCITY AND AVERAGE PLANNING HORIZONS (PERIODS OF CIRCULATION)



Source: BNB.

At Graph 2.5, we can see the dynamics of the average velocity of the monetary aggregate M3, the marginal velocity as well as the average planning horizon.

We can observe directly, that the introduction of the currency board coincides with the acceleration of the marginal and average money velocity. The planning horizon declines from 8.5 months to 4 or more then twice. This reflects both the hyper inflation in the beginning of 1997 and the introduction of new monetary rules, requiring more prudent treatment of all the economic risks.

The marginal velocity of circulation reaches its maximum in 1998 and declines after that converging to the average velocity. This dynamic reflects the gradual stabilisation of the money velocity.

Consequently, in spite of the dramatic decline of inflation, on average the ability of economic agents to foresee the future and to co-ordinate their activities for longer periods, declines, compared to the period before the introduction of the currency board.

The planning horizons decline can be explained only by the worsening of the efficiency of the whole system of markets. This means that the prices reflect less information, then before. The economic agents, that are making their decisions under the market rules (i.e. decisions, based on the price infor-

mation), are facing higher risks or uncertainty.

The process of worsening of the market efficiency may be illustrated by the analysis of the dynamics of the Basic Interest Rate (BIR) or other financial prices.

According to the rational expectations theory, if the economy possesses with liquid secondary markets for different financial assets, there should be interdependence between short and long term interest rates spread and the future short term rates.

This connection between short-long interest spreads and expected future rates is used in many econometric forecasting models.

Since the forecasting can never be absolutely accurate, the approach of similarity was recently adopted. The idea is that the econometric analysis should capture the main trends in the dynamics of the respective data.

The research on the basis of the rational expectations shows, that after August 1997 the differential between short and long term rate ceased to be a reliable indicator for future development of interest rates. The end of 1999 is especially interesting, because the market assumes a trend oriented toward increase of interest rate level, but the actual development under the fiscal policy pressure is in the direction of decline of interest rates.

This radical change of efficiency of the money market is clearly connected with the new monetary regime.

The latter has three important consequences for the money market and interest rate level.

First, higher dependence between the BIR level and the interest rate on the international financial markets.

Second, dominating role of the fiscal sector in the process of formation of the rate of interest.

Third, disappearance of the connection between the basic interest rate and the liquidity positions of the commercial banks, that existed under the previous monetary regime.

The increased dependence of the BIR on the international financial markets clearly cannot explain the decrease of efficiency of financial markets, since these international markets are both efficient and do not go through similar structural shifts.

The distortions of rational expectations in the period after 1997 are connected with the new functional role of the fiscal sector and the loss of some functions of the BNB. This problem needs special attention, but nevertheless

some conclusions can be drawn at this stage.

BIR influences without doubt the interest rates on the interbank money market. The very fluctuations of the BIR are generated by the needs of the fiscal sector for additional refinancing in domestic currency. In other words, from the point of view of the banking sector, the fiscal sector requirements are „noise“, that only disturbs the emerging trends or creates trends, that are based on the fiscal sector needs only.

This is in sharp contrast to the situation before the introduction of the currency board, when the BIR was used in the mechanism of commercial banks refinancing and, by definition, was forced to follow the general trends on the interbank money market.

The changing interplay between the interbank market and the interest rate structure introduces changes in the very banking sector behaviour. They can be conceptualised as a transition from liabilities management to reserve assets management.

As it is well known, the liabilities management is an active strategy, based on changes of the interest rate of deposits and other conditions, affecting the volume of liabilities. Such a strategy requires liquid primary and secondary markets of all financial instruments, on the one hand, and macro economic framework, characterised by high economic growth, on the other.

Under the reserve assets management the emphasis is on the liquidity management, capital adequacy and minimal risk exposure, guaranteeing acceptable profitability. The shift from liabilities management to reserve assets management is a natural evolution of the Bulgarian banking system under currency board rule, reflecting the abolition of the lender of last resort functions and the high supervision requirements.

The reserve assets management as a typical banking strategy means market segmentation since it presupposes maintaining of fixed assets structure and lack of liquid secondary markets.

To resume, both the behaviour of the real sector as reflected by the velocity of money circulation and the financial sector, on the example of the money market efficiency and BIR behaviour, show worsening of market efficiency. This means that the situation, from the point of view of Copenhagen criteria is not improving.

This confirms the doubts, that a very fast increase of the financial sector prudential requirements in terms of liquidity and capital adequacy, as well as the excessively strong impact of the international financial markets, may weaken

the banking sector in the eastern European countries (Eatwell et al:1997:38-38).

2.6 Conclusions

First, the Bulgarian type of currency board does not exclude the possibility of control over the money supply; it transfers the means for that from the Central Bank to the Government. The theory of currency boards presupposing the existence of automatic mechanisms for maintaining of the equilibrium of the balance of payments without the intervention of the state does not confirm by itself. The attainment of sustainable internal (full employment) and external equilibrium presupposes the implementation of macroeconomic policy.

Second, in spite of the impossibility of carrying out autonomous monetary policy in a situation of fixed currency rate and free movement of capital, the fluctuation of the exchange rate EURO-USD plus the existence of inefficient capital markets allows for certain freedom in the monetary area provided that there is a close co-ordination with the policy of the European Central Bank.

Third, the worsening link between the difference long-term/short-term interest rates and the subsequent dynamics of the short-term interest rates reflects the following: increased segmentation of the financial markets; existence of direct influence of the fiscal policy of substitution of internal financing with external over the dynamics of the interest rates; shifting the strategies of the commercial banks from management of liabilities to management of assets; worsening of the liquidity of the secondary financial markets.

Fourth, the decreased efficiency of the financial markets after the introduction of the currency board indicates that the prices do not reflect the overall economic information accessible to the economic agents, i.e. the investment decisions should reflect directly additional circumstances, such as fiscal policy, financial and structural policy of the government, etc.

Fifth, in the circumstances the financial sector needs preliminary co-ordination of its plans with the economic policy of the government, including in relation to the volume of bank financing of the state debt, the desired level of the interest rate, the participation of the commercial banking sector in the crediting of enterprises with state share, outlining the possibilities for financing of the local authorities, etc.

Sixth, the restoration of the role of the market/price information presup-

poses the overcoming of the segmentation of the financial markets and especially the creation of liquid primary and secondary markets of state and corporate securities as well as the expansion of the intra-banking depository market.

Seventh, the more active crediting of the real sector by the commercial banks will require management of the liabilities in the banking sector that may be based either on a liquid internal market or on the restoration of functions of creditor of last resource.

Eighth, the dynamisation of the capital market as an alternative to the bank crediting requires a new approach from the state, namely the realisation of the bigger privatisation operations through the stock exchange as well as improvement of the institutional environment.

Ninth, given the absence of substantial positive changes in the internal financial market and in the regulation of the banking credit system, the liquidity of the commercial banks and of the other financial intermediaries will depend to an even greater extent on their access to the international financial markets.

Tenth, the instability in the short-term interest rates (as a result of the fiscal and monetary policy of the European Central Bank) leads to a probable continuation of the existence of a considerable spread between the short-term and long-term interest rates.

Eleventh, the lowering of the interest rates creates a situation in which the financial intermediaries become assets sensitive as well as sensitive towards the reinvestment risk of the resources released as a result of the negative internal financing of the budget.

Twelfth, in the circumstances the progress towards the implementation of the main Maastricht convergence criteria (inflation, currency rate, budget deficit) given the existence of problems in the area of the long-term interest rates and the state debt is at the expense of the decrease of the effectiveness of the market mechanisms and the increase of the risk linked to the development of the real economy and therefore, at the expense of slowing down of the implementation of the Copenhagen criteria (functioning market economy).

REFERENCES:

1. Avramov, R., The Currency Board and the Financial Crisis- The Bulgarian Experience, BNB, Discussion Papers, June 1999.
2. BNB, Information Bulletin, Different Issues.
3. Eatwell et al., „Not Just and other Accession“- The Political Economy of the EU enlargement to the East, Institute for the Public Policy Research, 1997.
4. Dobrev B., The Currency Board in Bulgaria: Design, Peculiarities and the Management of the Foreign Cover, BNB, Discussion Papers, August 1999.
5. IMF, World Economic Outlook, May 1999.
6. Ganchev G., The Interest rates on The Interbank Market, in Banks, Investment, Markets, 3/2000 (Sofia), p. 11-17.
7. Hanke S., Lars J., Schuler K., Russian Currency and Finance, Routledge, 1993.
8. Ganchev G. (ed.), Functioning of the Bulgarian Economy Under Currency Board Arrangement, AEC, Working Papers Series, 1997.
9. Grossman S.J., Rational Expectations and the Informational Role of Prices, in Barro R.J. (ed.) Modern Business Cycle Theory: Harvard University Press & Basil Blackwell: 1989.
10. Miller J. B., The Currency Board in Bulgaria: The first Two Years, BNB, Discussion Papers, October 1999.
11. Mundell R.A., A Theory of Optimum Currency Areas, The American Economic Review, vol. 51, 1961, 657-667.
12. Nenovsky N., Hristov K., Monetary Regimes and the Real Economy (Empirical Tests Before and After the Introduction of the Currency Board in Bulgaria), BNB, Discussion Papers, December 1999.
13. Gandolfo, G., International Monetary Theory and Open-Economy Macroeconomics, Springer-Verlag, 1987.
14. OECD Economic Outlook, June 1999.
15. OECD, Economic Outlooks, Bulgaria, 1997, 1997.
16. Stanchev K. (ed.), I.M.E., Banking Sector Management Under Currency Board, Occasional Papers, Sofia, 1998.
17. Takayama A., Mathematical Economics, Cambridge University Press, Cambridge, 1990.
18. The Top 100 Banks in Central and Eastern Europe, Deloitte and Touche, 1999.
19. Yotzov V., Nenovsky N., Hristov K., Petrova I., Petrov B., The First Year of The Currency Board in Bulgaria, BNB, Discussion Papers, September 1998.

2.7. Tax Policy as an Instrument of the Economic Policy

Stoyan Alexandrov

Two are the main reasons imposing changes in the tax legislation and in the financial policy.

The start of the negotiations with the EU commits Bulgaria to approximate the Bulgarian tax legislation with the EU law. As an associated country Bulgaria has done a lot in this area during the process of drafting and adopting of the tax legislation in force. The provisions regulating most of the taxes (Law on VAT, Law on Excises, etc.) are to a large extent consistent with the EU practice. However, there are significant differences which should be removed during the negotiations for accession. The harmonisation of the tax legislation should cover both the separate tax laws and the procedural legislation. At the same time it should be mentioned that the EU Member States still have to further co-ordinate their tax policy including the organisation of the separate taxes. Also the EU Member States have not yet harmonised the procedural norms. Due to this one and the same case rulings in different proceedings lead to different legal results. Taking into account that the Bulgarian legislation in force (commercial, banking, tax, etc.) is based to a large extent on the German law as well as the close co-operation between the Bulgarian and German tax administrations we can make the conclusion that "the harmonisation of the Bulgarian procedural law and in particular of the taxation procedural law should be based on the approximation of the law of a leading EU Member State, i.e. Germany. (Taxation, 2000, p. 190-191, Stoyan Alexandrov).

The second main reason imposing amendments of the tax legislation in force may also be discussed in view of the Bulgaria-EU negotiations for accession. The successful conclusion of the negotiations is linked with the achievement of significant economic results which can not be done without a reviving of the economic activity. The achieved financial stabilisation is a necessary but insufficient condition for the completion of this aim. The existing tax burden, the weaknesses in the organisation of the separate taxes and in the tax procedures, including the unsatisfactory performance of the judiciary, are not able to provide the adequate climate for economic growth, for the improving of the economic activity and strengthening of financial discipline, including taxation discipline.

The necessity of activation of the business sector should not be viewed only in the context of the EU negotiations. The change in the tax policy has

been discussed and the necessity of it has already been substantiated before the invitation for the negotiations. A number of businessmen, politicians and academicians have repeatedly pointed out that the delay of the fiscal and the structural reforms leads not only to the aggravation of the economic and social contradictions but may cause political instability, threaten the currency board arrangement and the fragile macroeconomic stability.

The macroeconomic and financial stabilisation reached with the introduction of the currency board are not sufficient conditions for the necessary economic growth. The change of ownership, the privatisation, is also necessary but insufficient for the achievement of the desired economic growth. The problem may also be found in the fact that the quality of the performed privatisation was not good. Many of the new owners do not possess neither the managerial experience nor the market positions and financial resources to develop high technology productions, to improve the productivity and the competitiveness of the produced goods. There is lack of qualitative, so called strategic, investors which to invest in new productions or in the competitiveness of the produced goods. The foreign investments are usually linked to the privatisation but not to new capacities or products.

If the present situation is preserved even a 3-5% growth of the GDP will not resolve the heavy economic and social problems. When the privatisation is completed Bulgaria will have difficulties with the balancing of the balance of payments and the future servicing of the internal and primarily of the external debt. The deficit in the balance of payments and in the current account will be preserved, they will even increase, the pressure on the currency board will be reinforced which will to a greater extent be blamed for the economic situation, for its in competitiveness and inefficiency. The defenders of the proinflation financing will become more aggressive. As an alternative to all this is the idea that Bulgaria take the risk and significantly decrease the tax burden. The proposals vary from a 10-25% to 50 % diminishing of the different tax brackets. The effect of such a step may be seen in a few directions:

First, the abrupt tax reduction will give economic activities the initial impact which the economy badly needs. The tax cuts will allow companies to increase their own resources for the financing of the technological and product renovation of the production, for the improvement of their competitiveness and from there of sales and incomes. The improved competitiveness of the produced goods will lead to the rise of export which will reflect positively on the trade balance and the balance of payments. The income growth as a result

of the decreased taxes and the better effectiveness of the production, will increase not only the future revenues of the budget from the taxation and the health and social payments due on them, but will also increase the purchasing demand. The latter will broaden the domestic market and will give an additional momentum to the stimulation of the economic growth.

Second, the lower taxation is one of the prerequisites for a substantial improvement of the tax collection and the decreasing of the share of the "shade" economy. The success in this field is also linked to the necessary changes in the organisation of the different taxes, to the operation of the tax and customs administrations as well as of the judiciary system.

Third, the significant decreasing of the taxes, the improvement of the organisation of the different taxes and the work of the supervisory authorities will not only decrease the share of the "shade" economy but will also create conditions for fair competition. And this is a prerequisite for the attraction of more and more better foreign investors. The better foreign investors are of primary importance for the desired and necessary technological renovation, for the improvement of the management, for the expanding of the business activities and strengthening of the competitiveness, for expansion of the existing market and the gaining of new ones.

Fourth, the decreasing of tax and social security burden will lead to an increase of the rate of savings and accumulation. Aside from the rise of the own resources it will increase the banks' resources for crediting the real economy as well as for the decrease of the price of the credits.

Fifth, the fulfilment of the said positive expectations will eventually lead to the growing of the budget revenues. This will not only compensate the budget for tax reductions but will also ensure additional opportunities for the State to increase the budget expenses without undermining the achieved macroeconomic and financial stabilisation.

Sixth, provided that the expected positive results can not be achieved and on this basis a full compensation of the losses in the budget from the decreased taxes can not be reached, the risk of disruption of the financial stabilisation may fully be covered by the expected privatisation revenues. There are some fears that if the decision for the reduction of the tax burden is not accelerated not only will the desired economic activity and the economic growth based on it not be achieved but this will deepen the existing contradictions. The fiscal reserve will inevitably be touched and the risk of a future tax burden reduction will increase significantly.

Without arguing the logic of the aforesaid, when a decision for a more significant reduction of the tax and social security burden is taken the following facts should be taken into account:

The accumulated internal and foreign debt. Only the interest payments on the debt (internal and foreign) are 27.5% of the budget revenues in budget 2000, respectively 22.3% of all budget expenditures. Aside from the interest payments, the instalments will also be significant in the future. From the beginning of 2000 the amortisation (5 % annually) of a considerable part of the internal debt with the ZUNK bonds started. In July 2001 will begin, through 21 equal semi-annual instalments, the amortisation of the bonds with initially reduced interest payments (their face value is \$1.658 billion). Under the same scheme but from July, 2002 the arrears bonds will be amortised (with face value of \$1.611 billion). There are also terms of maturity for the debts to the Paris Club, IMF, World Bank, European Union, etc. Despite of some successful operations (the settlement of the debt to the banks from COMECON) the absolute amount of the debt for the last years is standing at a relatively constant level. We also have to consider the fact that the servicing of the debt during the last years was facilitated by the relatively low level of the interest rates at the international markets and especially in Bulgaria.

The problem with the servicing of the debt is not so much in its absolute amount as in its relative share in the GDP and in the revenues from the export. Until recently the poorly working and inefficient economy was not a direct threat to the security of the debt because against the debt Bulgaria had state-owned property for billions of US dollars. Up to now approximately 70% of the state-owned property has been privatised and, as it was mentioned, the amount of the debt is almost the same. It is true that with the revenues from the privatisation the fiscal reserve of the State was increased. However, its amount is far below the amount of the debt. The privatisation in Bulgaria was carried out, and still is, in the worst possible way. Instead of strategic investors, owners of the bigger part of the state-owned property became the famous management employee buy outs which do not possess the managerial skills and markets, nor are they able to or have intentions to invest in already privatised capacities. In most cases the new owners behave as leaseholders but not as owners. They can be hardly expected to invest in the technological and commodity renovation of the production, to have an aggressive marketing and advertising policy, to increase significantly the competitiveness and effectiveness of the production in order to create income to ensure higher salaries and

at the same time to increase the budget revenues. Most of the new owners are interested primarily in the fast return of the investments made by them either by the sale of part of the company assets or by hiding or transforming of the to evade paying taxes. Their behaviour is additionally supported the opportunity given to them to use the so called compensatory bonds as a payment instrument, the price of which is 10-15% of their face value, as well as the lack of post-privatisation control.

Therefore, the ownership change is a necessary but insufficient condition for economic growth.

The size of the debt, the possibilities for its servicing during the next years, the quality of privatisation and to what extent and when it will be a bearer of economic growth, are factors which need extensive analysis when taking the decision for the taxation at one or another level, as well as the scheduling of its reduction. The time lag between the reduction of the tax burden and the effect of this reduction must be assessed very carefully. It depends not only on the macroeconomic environment but also on several factors, one of which is the quality of the privatisation. The risk of unachievement of the expected fiscal result should be examined attentively as well as to what extent this risk may be compensated with the fiscal reserve of the Government, with the flow of foreign investments or with the possibility of getting additional loans (internal and primarily external) by the Government.

The promoted ideas for new agreements with the creditors sound quite unserious and the chance for achieving substantial success is quite small. The main part of the foreign debt is to the London Club and to speak for a new agreement with the London Club is at least unserious. Negotiations with the London Club were carried out while the creditors of Bulgaria were mainly private commercial banks. The signed agreement with the London Club in the summer of 1994 reduced and restructured the debt to the private commercial banks. The reduced debt was reframed into three kinds of Brady bonds emitted by the Bulgarian Government. These bonds are freely traded at the bond markets and are in the portfolios of thousands large and small investors. The bonds have good profitability and security and we can hardly imagine that somebody is in a position to ask and to receive consent for the renegotiating of the terms of these instruments. If there is any such hypothetical possibility it is obviously linked to the threat of Bulgaria's falling into a debt crisis. Even if it is true we can hardly accept that the Brady bonds holders will show understanding and sympathy and will voluntarily deprive themselves of the opportu-

nity to profit from the Bulgarian Brady bonds. Even more inappropriate is the launching of this idea in the current situation: macroeconomic and financial stability, preparation of a new agreement with the IMF, negotiations with the EU and the firm promises of the Government that these negotiations can be finalised successfully during the next 6-7 years.

In the context of the abovementioned it is hard to expect successful negotiations for the reduction of the debt with the Paris Club or with IMF, the World Bank, G-24, etc. It is a pity that some chances to negotiate with the Paris Club were missed and in particular concerning the settlement of bilateral obligations with some of member countries of the Paris Club (Germany, Italy, Spain, Austria, Holland, etc.). In its strive to receive an invitation for NATO and to start accession negotiations with the EU Bulgaria missed the opportunity to negotiate a certain reduction and restructuring of the debt, including through operations such as debt/environment, debt/nature.

Anticipations are low that the other creditors of Bulgaria (IMF, the World Bank, G-24, etc.) will show readiness to talk at all about any reduction of our debt to them. It should be kept in mind that these institutions have no such precedent and that in the future we will also rely on their support for our balance of payments.

Therefore, the conclusion is that it is difficult for Bulgaria to count on any understanding of the creditors and that Bulgaria has to serve its debt such as it is. The forthcoming tax and budget reform is discussed in this respect. At the end it should be mentioned that the imposed use of the compensatory bonds will for years ahead block the using of ZUNK and brady bonds as payment instrument in the privatisation deals which will lead to a certain easing of the future servicing of the internal and foreign debt. The market price of the Brady bonds and the ZUNK is 5-8 times higher than those of the compensatory bonds. The only possibility in this direction is the imposing of an explicit requirement that the privatisation of different enterprises, such as Bulgartabac, be performed with debt instruments. In this case the question is whether the cash payments should be preferred or the using of debt instruments as a payment means be preferred.

Second, the structure of the population (retirees, unemployed, employed), its migration, etc. This problem is very well known but it is very relevant to the tax reform. It can not be spoken for a substantial reduction of the tax and social security burden without taking into account such factors as:

- the number of the retirees;

- the number of the unemployed people;
- the number of the employed people and the average of the incomes, etc.

The current situation is such that the payments for the pension funds do not ensure the required sums for the payment of the licensed pensions. Every year, with the adoption of the State budget a transfer to the budget of the National Insurance Institute (NII) is allocated as well. In budget 2000 the amount of this transfer is equal to 8.5% of the tax revenues and 6.9% of the total budget revenues.

The interest payments in the republican budget plus the transfer to the NII are 36% of the tax revenues and 30% of the total budget revenues. If an increase of the interest rates or of the social securities is not accompanied by increased budget revenues, the opportunities of the budget to finance other urgent expenditures would be limited strongly or a higher budget deficit will be triggered with all the consequences evolving from that.

The calculations for the improvement of the employment need thorough analysis taking into account that significant optimisation of the employed in the privatised enterprises lies ahead. The problem will be the employment in the agricultural sector. Some flowing of sums to the health insurance funds can be expected. So far there is no developed effective system for control against overcharging of the provided health services which will be paid by the health insurance funds. In this regard there should be readiness for transfers from the republican budget to the health insurance funds or for redirection of certain revenues (including such from privatisation) to these funds as well as for the using of part of the fiscal reserve of the Government for this purpose.

The limited domestic consumption and incompetitiveness of the Bulgarian goods on the foreign markets are obstacles for the improvement of the employment and the reduction of unemployment. It leads not only to an allocation of more resources by the State but also narrows the base on which the social and health insurance payments are calculated.

Third, the existence of a time lag between the decision and the entering into force of the tax burden reduction and the increase of the tax base as a result of this reduction. It is unrealistic to expect that the decrease of the taxes will automatically lead to an increase of the tax base to compensate the declining budget revenues. It is naive also naive to consider that the reduction of the taxes will sharply improve the tax discipline and that the tax payers will stop hiding part of their incomes. The expectation of a significant improvement of the work of the supervisory authorities (tax and customs administration, financial

control, etc.) and of the judiciary is doubtful. The change of the mentality in the professional view is a long and difficult process. The establishment of specialised financial courts will be particularly difficult.

Fourth, the reform of the expenditure part of the budget. The reforms in the area of education, science, culture, healthcare, etc. are a slow and painful process. The introduction of the market principles in these areas is unavoidable but it can not and it should not be carried out hastily. The reform of the army and the urgent commitments in the area of environment should also be taken into account.

These are only part of the factors which should be considered during the implementation of the tax reform.

The preliminary conclusion which may be drawn is that it is necessary and advisable that all tax laws – material and procedural – be amended. The question is to what extent and when it should be done. As far as the negotiations for the EU accession are in their very beginning urgent activities related to the tax harmonisation of all laws and taxes are not necessary. Moreover, part of the laws are to a large extent compatible to the EU law. Good examples in this respect are the customs legislation, VAT law, etc.

From the point of view of the real economy and the business some of the measures are delayed. A lot of the decisions launched by the Government and co-ordinated with the IMF may materialise as early as the end of 1999 and be implemented in Budget 2000.

What are the general proposals for the necessary amendments in the tax laws which are in force?

The backbone of the State budget revenues are the so called indirect taxes – VAT, excises and custom duties. They provide 70.8% of the total tax revenues and 57.2% of State Budget revenues.

The VAT has a leading role among the indirect taxes. It holds 45.6% of the tax revenues planned by the Budget 2000 and 38.1 % of all the budget revenues in the State Budget.

The indisputable advantages of this tax are the reason for its broad implementation all over the world. It is implemented in all of the European states and virtually is the first pan-European tax. In the organisation of the VAT the EU Member State have reached the greatest compatibility.

The VAT introduced in Bulgaria as of April 1, 1994 was analogical to those in the EU. The initial draft of the Law on VAT went through a lot of amendments but the basic principles of the VAT organisation were preserved.

However, there still remain a number of obscurities leading to problems in the administration of the VAT. Therefore the organisation of the VAT should be improved with the purpose of moving closer to the European norms and practice.

It is necessary that some texts of the law be precised in order to achieve more clarity in most of the definitions. Such are the definitions for which persons have obligations to pay VAT and the defining on that basis of the taxable and non-taxable deliveries, the definition of import and in particular import of services, the definitions of imported, transport means, etc.

There are a lot of unclariities and incompleteness in the financial leasing, agency services related to the international transport (spedition, brokerage and other activities), tourist services, including the services of the touroperators, in the determination of the date of the origination of the tax event, etc.

In order to limit the opportunities for tax misuses the Law on VAT introduced a quite substantial number of specific events for determination of the tax base. This impedes not only the administration of the tax itself (difficulties are faced not only by the tax payers but also by the supervisory administrations) but also represents a deviation from the VAT principles applied by the EU. Such are incompatibilities of our law with the Sixth Directive of EU related to the subject coverage of the tax, the definition of "tax event", etc.

A lot of discussions and respectively proposals exist concerning the amount of the VAT. There are different opinions on whether the uniform rate should be preserved or the rate be differentiated. Publicly expressed opinions for the decrease of the VAT rate are prevailing as most of the offering rates are 18% and 15 %. Countless are the proposals concerning the broadening of the non-taxable supplies.

Without going deeper into the discussion and thus to evaluate the pros and cons of one or other proposal we would like to mention a few things.

First, it was mentioned, that VAT provides above 45% of all tax revenues in the State Budget. A possible reduction of its rate (even with 2%) or the broadening of the scope of the non taxable deliveries, as well as the introduction of differentiated rates will have as a final result a significant decrease in the budget revenues. This conclusion can hardly be disputed. The expectation that the possible reduction of the VAT rate will lead to a relative diminishing of the prices of the taxable goods and services which will lead to the increase of the domestic consumption and will give an additional momentum to the economic growth is disputable. We have the feeling that the idea that the

social policy should be carried out through the increase of the personal incomes and the maintaining of low prices continues to prevail. At the same time, the created difficulties for the business are not the high rate of the VAT but the unfair competition and the fact that some pay VAT and other do not. This problem will not be resolved with the decrease of the VAT rate with 1-2 even with five points. The decision is elsewhere but not in the VAT rate. When the VAT rate is uniformed, no matter whether it is 15, 18 or 20 % it itself does not influence the competitiveness of one or other manufacturer and does not give a privileged position to one, discriminating another.

Second, the harmonisation of the VAT in the EU is in the direction of removing of the VAT differentiation and the introduction of a uniform rate. Why should Bulgaria reject what the EU is aiming to achieve.

Third, taking into account that the reduction of the rate of the direct taxes has a much greater effect (economic, social and political) we consider that the reduction of the VAT rate at this stage would not be a good solution. This does not mean that this idea can not be considered. It is possible for a decision for the reduction of the VAT rate, for example with 2%, to be taken which to enter into force in the beginning of 2002 or 2003 and to take the next step and in 2005-2006 introduce a rate which will be applied in the EU. The gradual reduction of the VAT should depend on the future economic development of the country, the improvement of the tax and financial discipline, the improvement of the work of the tax and customs administrations, the reform of the budget sector, etc.

The said does not mean that the organisation of the VAT should not be improved. Except the mentioned about the presicing of many of the text of the law and the definitions aimed at the compatibility with the EU principles and legal norms, there exist a few problems which need an urgent solution. Primarily this is the introduction of a voluntary registration under the Law on VAT as well as an improvement of the refunding of the tax credit. The decisions in both areas to a large extent depend on the operation of the tax administration. The reduction of the 6-months period for a refund of the tax credit to 4 or 3 months is a solution but hardly the best one.

The excises provide about 18-19% of the tax revenues and about 14-15% of all revenues of the State Budget. Virtually they are the second important resource of budget revenues.

The Law on Excises is to a great degree compatible with the EU legislation. The compatibility concerns both the scope of the law and the mechanisms

for taxation of the basic groups of excise goods. There is a certain difference mainly in the excise rate. In the future a certain alignment with the minimum EU excise rates will be sought. The alignment with the European practice in the area of excise taxation is related to the establishment of a system of inter-related warehouses (called tax warehouses or warehouses under tax/customs control) based on the EU model.

The custom duties in Bulgaria play a minor fiscal role. They provide below 5% of the tax revenues. Their role is more important in view of the regulation of the foreign trade relations. The Customs Tariff in force is co-ordinated with the by-laws, decisions and requirements of the WTO concerning the goods imported from the EU Member States, CEFTA. Also bilaterally agreed customs duties are applied for Turkey. The free trade idea finds its realisation both in the framework of the already established economic unions and on an international basis within the WTO. The customs duties are losing more and more their fiscal and economic role. An important role play the so called non-tariff barriers but they are not a subject of this study.

The closest tie with the interests of the business and economic growth have the so called direct taxes. The main direct taxes are the tax on profit and the tax on the personal incomes. At present both taxes provide approximately equal in their amount revenues – about 12-15% of the tax revenues and 10-12% of the total revenues in the State Budget.

With a view of the EU approximation of the direct taxation difficult and responsible work lies ahead. At the same time it should be mentioned that there are significant differences in the taxation of the incomes in the EU itself. The differences in the taxation of the personal income are particularly big. This hinders the summarisation of the EU practice and on this basis the assessment of how close or different our legislation is from this practice.

However, it is certain that the basic principles set up in the Bulgarian legislation take into account the positive global practice, including the EU practice.

At this stage the directions and improvement of the taxation of the corporate incomes might be focused on the following:

First, the reduction of the tax on the profit to 15-20% for all taxable entities. Those are the declared intentions of the Government. There is also the understanding of the IMF. This step will have not only definite positive economic impact but also psychological. The losses of the fisc, even if the desired economic activity is not achieved, will not be very big due to the fact until now

a number of legal and illegal ways for minimisation or avoiding the taxation on the profit exist.

It can be assumed that the low level of the taxation will lead to the improvement of the financial discipline and the increase of the collection of the tax. It is also expected that the interest of the foreign investors will increase and not only through the privatisation.

Second, a more broad use of the accelerated amortisation and the introduction of tax investment credit. Both instruments, if they are skilfully used, allow a significant change in the investment climate and at the same time the carrying out of a competent and focused state policy in the area of investments as a whole, and in particular in the regulation of their technological, sectoral and regional structure.

Third, precisising of the transformation of the financial result for tax purposes as well as the mechanism of the advance payments.

The changes in the taxation of the personal incomes could be sought in the following directions:

First, change in the non-taxable minimum. The aim should be that this minimum is brought nearer to the minimum living standard. It is advisable that the pros and cons for the linkage of the non-taxable minimum with the family and social status of the tax payer be weighed up once more. Having in mind the global practice it is difficult to recommend a transition to a taxation of the family, respectively the household, although quite credible arguments in this direction could be found.

Second, the reduction of the tax burden as a whole with approximately 15-20%. This can be achieved not only through the increase of the non-taxable minimum but also through a correction of both of the admitted by the law expenditures and the tax brackets. The maximum tax rate should not be higher than 30-35%. Balance between the corporate taxation on profit and the personal incomes should be sought.

Third, simplification of the patent tax procedure and an optimisation of its rates.

CHAPTER3. Economic Restructuring, Competitiveness of the Bulgarian Economy and Differences in the Economic Development

3.1. Restructuring of the Industry: Privatization and Investment Process. Assessment, Analysis and Perspectives

Mariana Tuhchieva

3.1.1. Introduction

Two periods are introduced for the sake of the analysis. The first period starts with the beginning of the transitional period and ends in 1997 and the second one is from 1997 onwards. The dividing line between the two periods is the introduction on July 1 1997, of the currency board arrangement.

The restructuring of the Bulgarian economy, the privatization and the investment processes are analysed on the basis of these two periods.

The midterm perspectives of stabilization and economic growth in Bulgaria much depend on the implementation of a balanced structural reform with a strong emphasis on privatization. Regardless of the governmental programmes underlying the strategic objectives Bulgaria continues to lag behind the majority of the candidate countries for accession in the areas of restructuring, privatization and attraction of foreign investments and investors with long-term interests in the Bulgarian economy. A number of reasons are brought forward. Considering the period up to 1997 the main reason were placed on the political instability – the frequent reshuffling of the governments and the inability of conducting a consistent policy for restructuring the economy. In 1996 – 1997 an additional factor aggravated the situation – hyperinflation aggravated by the accumulation of unpaid credits in the economy and the decapitalization of the commercial banks that provoked a crisis in the banking system. In the period after 1997 the main obstacles are considered to be the complicated regulative framework, the overall intransparency of the privatization process that led to more frequent public warnings of corruption, the impeded access to investment credits and others.

The small share of the production with high value added and the great costs inherited from the past are at the heart of the poor infrastructure of the Bulgarian economy. Deficiencies of that kind can be obviated through a focus structural reform.

3.1.2. Privatization

There are several methods of privatization provided for by in the Bulgarian law. Basically a state-owned enterprise can be privatized in two main ways:

- After its transformation into a trade company registered under the Commercial Code i.e. the incorporation of the company. In this case its liabilities (shares) are called for sale;

- Without preliminary transformation. The enterprise is privatized through sales of its assets.

The privatization of a specific state-owned enterprise may follow the main philosophy of the state privatization policy: to be in a liquidation as a result of aggravated economic performance or to be in a process of restitution. In addition a specific enterprise might be included in the list for mass privatization: after its transformation to be called for a partial or complete sell out of its assets.

Bulgaria uses two basic privatization techniques that can be applied simultaneously or separately and they are:

- Voucher privatization and;

- Cash privatization as the payment may be performed in foreign currency or Bulgarian currency.

On its part the cash privatization can be carried out through different procedures, such as:

- tender or competition;

- negotiations with potential buyers;

The application of a specific technique or combination of techniques much depend to a large extent on the model selected for restructuring (transformation) of the ownership, the industrial sector, the size of the enterprise and the type of the manufactured goods. As an example, the cash privatization is most frequently applied in food-processing, textile and tailoring industries. It is less used in the heavy and machine engineering industries that more frequently are subject to the voucher privatization. A mixture of techniques is applied in all areas of the industry with the exception of the food-processing.

Assessment and Analysis

Bulgaria commenced its economic transformation in the beginning of the 90-ies from far more difficult starting positions than the majority of the Central

and East European countries. The unfavourable conditions were related to the orientation of the Bulgarian industry to the markets of COMECON and especially Russia unlike the situation in the other economies in transition. The following collapse of these markets had an extremely negative effect on the national economy and the GDP registered reduction by 25 % in 1989 – 1992, the unemployment rate increased and the domestic consumption started steadily to decrease by 3 – 4 % annually. Based on that, the first attempts in privatization are indecisive and contradictory. Since 1991 several privatization schemes have been elaborated, nevertheless by 1996 the share of the medium and large companies with more than 67 % privatized assets is only 4 % of the total. At this initial stage the success in privatization is mainly due to the restitution of the land and the restoration of the small and large urban property. By the end of 1996 almost 90 % of the latter is restituted while the land restitution remains problematic for an extended period of time.

The second half of 1996 marks signs of positive changes in the development of privatization. The incomes from the cash privatization increased and the mass privatization enjoys its accelerated start. During this period through a cash privatization the biggest Bulgarian company for the production of caustic soda was sold to the Belgium chemical giant Solvay.

The mass privatization uses as instruments the privatization vouchers and is carried out in two waves: 1) the first one in 1996/1997 and is tied to the registration of the participants. This is the period of the establishment of the privatization funds as an institutional investor in the privatization process; 2) the second starts in the middle of 1997 and is focused on mass privatization tenders.

By the end of 1997 the privatization process in Bulgaria is carried out against the background of a continuous decline of the GDP (with the exception of a slight increase in 1994 – 1995) and a frequently altering legal framework. By the end of 1998 the Law on Transformation and Privatization of State-owned and Municipal Enterprises has been amended 15 times since 1992.

Table 3.1 Growth of GDP

% of annual growth	1993	1994	1995	1996	1997	1998	1999	2000*
GDP	-1.5	1.8	2.1	-10.1	-7	3.5	2.5	3.5

*Forecast data

Source: National Statistics Institute

The success in privatization and the level of the direct foreign investments is the highest in 1997 compared to all previous years. The contracted transactions of the cash privatization in 1997 amount to \$608 mln. In 1996 they are only \$442 mln. This positive development is due mainly to the sales of the assets of mining and manufacturing industries and tourism to big foreign investors.

In 1998 completely or partially are privatized around 1 495 enterprises as the contracted payments amount to \$1 029 mln. and the cash revenues are \$638 mln.

IMF assesses 1999 as the most successful year for the privatization in the history of Bulgaria. A breaking number of transactions is completed – 1 225. By the end of 1999 the share of the long-term fixed assets is by 19 % higher than in 1998 when they are at the level of 30 %. The total value of the privatized assets without the infrastructure amounts to 78 %. The biggest transaction are in the industrial sector that include the sale of the oil refinery Neftochim, steelworks giant Kremikovtzi, the chemical fertilizers factory Agropolichim and the national carrier Balkan. In the financial sector is completed the sale of "Expressbank".

In 2000 Bulbank was privatised and the privatization of Biochim bank is expected. In the cash privatization the largest revenues are expected from the deal of the Bulgarian Telecommunication Company and Bulgartabak Holding Group. As a result of the on-going restructuring and liquidation of enterprises in the state sector a substantial part of the labour force continues to be engaged in industries and services with low or negative level of profitability and with an uncertain future. The official level of the unemployment reached in 2000 is 18.1 % of the active population that constitutes a growth by 37.3 % compared to the same period of 1999.

3.1.3. Liquidation

The liquidation is applied as an instrument of the restructuring of the state-owned enterprises in cases when they are loss-making or because of lack of buyers they fail to be privatized. Until 1999 the state put under liquidation procedure mainly small size enterprises because their close-down did not have direct social impact. But by the middle of 1999 eleven big companies from the list for isolation with total assets of around \$126 mln. were declared in liquidation.

The monitoring of the enterprises from the list for isolation and their declaring in liquidation in case of an increase of their losses is one of the measures agreed with the IMF. During the last screening of the 3-years Agreement with the IMF in March 2000 this measure was assessed as successfully completed.

It is worth mentioning that the liquidation and monitoring by the state bears some contradictory impact. Instead of contributing to the overcoming of the negative tendencies in the state sector it brought to aggravating the situation. The mining company Gorubso is quite exemplary in this regard. By decision of the government dated April 1999 the debts amounting to 21 mln. levas of the six enterprises were discarded in an effort to increase their attractiveness for sale. Opposite to the positive expectations the enterprises of the company continued to incur losses of about 10.5 mln. levas. The branches in the towns of Kardjali and Luki that were in a liquidation procedure were successfully sold out. The branch in the town of Madan is facing difficulties in the transaction process while the branches Gorubso-Zlatograd and Gorubso-Rudozem are still incurring losses and it is envisaged to privatize only certain profitable segments.

This drives to the conclusion that if the single company Gorubso was not divided in separate enterprises but privatized as a functioning enterprise then the state might not have incurred additional losses stemming from the privatization. It comes to confirm the fact that some of the enterprises were closed without any attempts to sell them out.

By the end of 1999 the Liquidation Department of the Ministry of Industry (at present Ministry of Economy) is controlling 152 enterprises with total assets amounting to 161 mln. levas. 74 of the enterprises are privatized at the amount of 15.5 mln. levas and 40 of them are deleted from the Commercial Register.

According to the agreements reached with the IMF measures are taken to strengthen the financial discipline in the remaining part of the state-owned enterprises. The enterprises are obliged to present individual plans for financial rehabilitation in order to receive state subsidies during the transitional period. These plans should contain solutions for covering the losses and commencing a profitable business without subsidies by the year 2002. In addition to these measures the government has elaborated a list of 154 enterprises that will be financially monitored thus preventing the accumulation of new debts. It is expected in the near future the emergence of new obstacles in complying with the plans for financial rehabilitation of the companies.

3.1.4. Foreign Investments

The foreign investments are crucial for Bulgaria not only because of the direct impact of the foreign capital and business practices on the restructuring and the institutional changes, but also because of their important role in solving the problems of the balance of payments and in ensuring the midterm economic stability and growth.

The current macro-political situation in Bulgaria and the pace of restructuring will lead to reduction of the internal consumption in the nearest 2 – 3 years. The growth indicators will much depend on the increase of the export potential and the attraction of foreign investments to ease the tension in the balance of payments and the deficit in the trade balance that reached in 1998 the amount of \$381 mln and in 1999 - 998 mln. According to the provisional data of the IMF the trade balance in the period 2001 – 2004 will fluctuate in the margin of \$800 – 900 mln. while the running accounts for the same period will be around \$300 – 400 mln.

The privatization is the main source of generating foreign investments and the attraction of foreign investments will continue to be a real challenge for Bulgaria. The increase of the level of the direct foreign investments is a priority objective for the government considering their low level from the start of the transitional period. The macroeconomic stabilization is regarded as a favourable factor for an attraction of foreign investments and the figures for 1999 indicate an increase in the investments compared to the previous year despite the fact the privatization of the Bulgarian Communication Company was postponed and the expected revenues and investments are lower than the envisaged for 1999. According to the Agency of Foreign Investments the total

of the direct investments i.e. revenues and reinvestments by companies with a predominant foreign participation, amount to \$2 540 mln. for 1992 – 1998 period. The portfolio investments are around \$50 mln. They are considered as direct investments when more than 10 % of the company's shares are obtained. The investments in shares in 1999 are less by 10 % compared to the levels in 1998. The increase of the foreign investments is mainly due to the increase of the liabilities of the Bulgarian companies towards their foreign owners. The repatriated net profit by foreign owners in 1999 amounts to \$70 mln.

Table 3.2. Foreign Investments

Year	1992	1993	1994	1995	1996	1997	1998	1999
Annual level in US	34.4	102.4	210.9	162.6	256.4	636.2	537	600
Aggregated amount in US	34.4	136.8	347.7	510.3	766.7	1402.9	1939.9	2539.9
Index, 1992=100	100	398	1010	1483	2228	4978	5639	7383

Source: Agency for Foreign Investments, OECD, IMF

Germany (\$315 mln.) and Belgium (\$282 mln.) are securing one third of the total foreign investments. Almost half of the investments are in the industrial sector, 27 % are in the trade sector, and the rest are in the finance and tourism. The agriculture registers the lowest level of the foreign investments with only 0.2 %. The main specialization of Bulgaria in the framework of COMECOM was in the production of CD-ROMs, microelectronics and electrical devices for the defence industry. Until now the high-tech sector failed to attract substantial interest on behalf of the foreign investors.

The labour force quality in Bulgaria is considered to be a possible comparable advantage but at this stage the green investments are rather small. It is necessary to apply additional efforts to convince the foreign investors to commence more projects involving green investments. Otherwise, the level of the direct foreign investments might be reduced after the privatization of the most attractive companies. The estimations of the IMF for 2001 – 2004 do not exclude such a tendency.

Bulgaria is among the first CEE countries concerning favourable legal framework for foreign investors ensuing from the Law on Joint Companies (1980) permitting direct foreign investments in the country. The state-regulated prices and the limited trade regime combined with a state monopoly over

the foreign trade during this period restricted to a large extent the activities of foreign companies. By 1989 there are 39 joint companies in Bulgaria that are functioning mainly in the area of machine-building and electronics.

Bulgaria is among the first countries to adopt a legal framework for the attraction of foreign investments at the start of the transitional period. The Law on Foreign Investments, adopted in 1991, is one of the most liberal in the region. It grants foreign investors national treatment, the possibility to obtain 100 % of the ownership, it imposes low entry barrier thresholds and relatively simplified registration procedure. In addition, the law provides for unlimited opportunities for repatriation of profits and an opportunity for tax holidays for investments in priority areas. Subsequently, the preferential tax treatment for foreigners were abolished in favour of providing equal opportunities and stable environment for both local and foreign investors.

The legal framework of the foreign investments was complemented by the Law on Privatization that gives equal access of foreign investors to the enterprises called for privatization. At last, the Law on Concessions adopted in 1995 aimed at encouraging foreign green investments and investments in infrastructure. In 1995 the Agency for Foreign Investments was established, nevertheless the level of the foreign investments is very unsatisfactory compared to the adequate legal and administrative arrangements and commitments.

According to the assessment of the OECD Bulgaria continues to lag substantially behind the Visegrad 4 regarding the total foreign investments per capita. For the period 1989 – 1997 they are as follows: in the Czech Republic – 823; in Hungary – 1667, in Poland – 321 and in Slovakia – 227. Bulgaria is at the level of 147 that closely relates to Albania – 148 and Rumania – 149.

EBRD has become one of the biggest investor in Bulgaria by means of establishing of several investments funds in the country and the region. One of them is the Black Sea Fund established in cooperation with International Financial Corporation of the World Bank in August 1998. EBRD contributes 30 %, IFC – 16 % and the rest of the capitals is shared between several Greek and US private companies and pension funds. The main objectives of the fund is to secure shared financing for projects in the Black Sea area. Since 1992 EBRD has approved 28 projects in Bulgaria, 22 of them are in the private sector. The total amount of investments accounts to 341 mln. EURO. According to the strategy of the Black Sea Fund the food-processing, textile industry, cloth production, new technologies, construction and packaging materials should be regarded as most promising sectors for foreign investors.

The Euromerchant fund was established in Bulgaria in 1994 by the EBRD and the IFC to promote investments on the Balkans. Until now the fund has invested in 6 projects in Bulgaria including the tailoring and textile industry, the Goody's restaurants, aluminum window frames and foodstuffs packaging (Chipta chips). In 1997 the EBRD jointly with the Phare programme established a post-privatization fund with an initial 3-years period of functioning. The main objectives of the strategy of this fund is to participate on an equal footing with other share-holders in the management of the privatized companies, to stabilize them and to be engaged in its successful sale.

The most frequently mentioned reasons for the low share of the foreign investments are considered to be the lack of transparency in the business relations, the corruption, the inefficient administration, the bureaucracy, the political instability of the region, the inconsistent and contradictory changes in the legal framework, the customs regime, the unfair competition, the trade smuggling and others.

The foreign investors have a negative attitude towards the investment climate in Bulgaria regarded to be one of the most complicated in Europe. The most frequent complaints are related to the privatization considering the lack of transparency of the rules, procedures, laws, the commitments of the government and various bureaucratic obstacles accompanying the investment process. The investors often complain against the discretionary decisions of some of the competent authorities that unilaterally amend or cancel the agreed terms with foreign partners.

According to the IMF data, included in its report on Bulgaria published on April 19 2000, the business environment in Bulgaria has been evaluated on the basis of four factors:

- 1) Safety of property and contractual rights. The percentage of uncertainty of these rights is considered to be around 40 % in Bulgaria, 20 % in Estonia, 22 % in Poland and Slovenia and 25 % in Hungary;
- 2) "Soft" budget restrictions calculated as a share of the companies with unpaid taxes. In Bulgaria they are about 20 %, while in Estonia they are 10 %, in Hungary about 15 %, in Poland - 25 % and in Slovenia - 30 %.
- 3) Investment climate according to an ascending scale – the lowest 1 (no obstacles), the highest 4 (enormous obstacles). Bulgaria is placed just below 3, while Estonia, Hungary, Poland and Slovenia are at 2.
- 4) Corruption index according to a descending scale – from 10 (extremely free) to 1 (very corrupted). Slovenia has the "purest" business environment

with a grade of 6, followed by Estonia and Hungary – between 5 and 6. In the group of the candidate countries Bulgaria together with Rumania shares the last place with a grade between 3 and 4. The most corrupted country is considered to be Azerbaijan with a grade of 2.

Other factors of geographic, demographic and cultural nature exert influence on the foreign investments as well. Bulgaria has a small and weak domestic market that is culturally and geographically further removed from most of the European states in comparison with the other competing economies in transition. The foreign investments are also discouraged by the scarcity of natural resources, relatively outdated infrastructure and underdeveloped communications. Since 1991 a number of foreign companies have expressed an interest in the Bulgarian telecommunications. Because of the impediments of the constantly altering rules and conditions during the last 9 years the investment climate in the sector almost came to a standstill.

The high and unstable rate of the taxes are also considered to be an obstacle for the foreign investments as well. The foreign investors like their Bulgarian partners are also facing the problem of fluctuating tax laws, rules, ordinances and practices. In the current tax environment the success of the business is associated mainly with an evasion of the tax legislation or of establishing close relations with "appropriate" civil servants. This constitutes an element of the overall process of avoiding tax and customs duties.

Taking into account the above-mentioned problems as well as the difficult overall situation in Bulgaria, it is understandable that many foreign investors prefer not to invest in Bulgaria.

3.1.5. Industrial Policy of the EU and Bulgaria

The EU defines the industrial policy as a policy aimed at encouraging the industrial development on the basis of the global competitiveness which is a leading factor in generating employment and growth.

The industrial policy of Bulgaria is developed on the basis of Article 130 of the Treaty on European Union that stipulates the creation of conditions for the production of competitive industrial goods. Measures are consistently applied in this direction, such as:

- White book on "Growth, Competitiveness and Employment";
- Resolution of the Council of Ministers of October 10, 1994 for the adoption of an integrated programme for a support of the small and medium enter-

prises and craftsmen sector;

- Resolution of the Council of Ministers of November 21, 1994 concerning the promotion of the innovation policy in the Community as a prerequisite for a sustainable economic growth and for the creation of new jobs.

- Resolution of the Council of Ministers 96/413 which consists of an Action Programme for the increase of the competitiveness of the European industry.

The European Union underlines that the industrial production and the services complemented each other due to which the competitiveness of the industrial sector is an irreplaceable factor with a view of the full use of the possibilities for a creation of jobs in the services sector. At the same time the Internal Market in the energy sector and telecommunications has to be completed with a view of the rapid strengthening of the competitiveness in this sector and in the industrial sector. The competitiveness of the European industry is linked to the economic and social cohesion and the link is bilateral. On the one hand, the industry contributes to the economic and social cohesion and on the other, the cohesion provides to the industry a wider commercial and geographic framework.

The accelerated industrial progress, the increasing market globalization, the intensification of the international competition and the increasing role of the environment protection demand greater efforts and attention to the requirements of the markets from the point of view of the research policy and the establishment of an information society. The EU puts its priorities on avoiding distortions in the competition, on the opening of the Community market and the development of the human resources through vocational training. The latter constitutes a vital aspect of the structural adjustment and are factors for the increase of the competitiveness. A strategic role is assigned to the investments as a mean for the strengthening of the industrial cooperation.

With the opening of the accession negotiations at the European Council in Helsinki Bulgaria has to demonstrate that the industrial policy carried by it responds to the basic guidelines for the development of the EU policy in this sector. The following table compares the objectives in the field of industrial policy laid out in the EU Programme in the area of an industrial policy and the National Plan of Bulgaria for Regional Development.

Table 3.3. Objectives of the Industrial policy

Objectives in the EU Action Programme	Objectives in the National Plan of Bulgaria for Regional Development
1) Modernization of the industrial role of the state authorities with the view of eliminating the useless legal and administrative obstacles imposed on the enterprises, especially the small and medium;	1) Efficient utilisation of the local and regional resources for stabilization and enhancement of the socio-economic development of the regions and the country as a whole;
2) Ensuring healthy competition, both internal and external for the EU;	2) Encouraging the revelation and use of the potential and the comparative advantages of specific regions and with a view of an increase of their investment attractiveness and interregional and international competitiveness;
3) Strengthening of the industrial cooperation	3) Accelerated building and reconstruction of supplementary technical infrastructure with a regional and local significance;
4) Encouraging the intangible competition factors	4) Opening of the national economic area through implementation of trans-border cooperation programmes and through the establishment and development of trans-border communications;
	5) Ensuring conditions for alternative employment mainly in the regions with declining industries and undeveloped rural areas to prevent and discontinue emerging crises;
	6) Gradual improvement of the quality of life

The comparison proves that Bulgaria needs to solve basic issues of the social-economic development and market economy due to which the industrial policy will be one of the most sensitive sectors during the accession negotiations.

3.1.6. Conclusions and Recommendations

The macro-economic forecast for 2000 of the European Commission is that the stable tendencies of the past two years will continue. The GDP is expected to increase in 2001 by 4.5 % and in 2001 by 4.9 %. The increase of the

export will be the main generator for the increase of the industrial production. The deficit of the current account will be reduced to 4 % of the GDP as the expectations are that negative trade balance to be partially compensated by revenues from the services sector.

The devaluation of the real currency rate might be achieved only through deflation in case a substantial future deficit in the balance of payments and the fixed currency rate are still preserved. In this case some prices and nominal salaries will not decrease and may cause potential problems. The balance of payments can be corrected also by other way - through the reduction of the import and recession. At the same time considering the current difficult environment for an attraction of foreign investments the current account turns to be more important restrictive factor for the economic activities in Bulgaria.

The direct foreign investments are expected to increase also as a result of the privatization process. Additional efforts are needed for an attraction of "green" investments. They might become the only source for generating direct foreign investments if the forecasts for the completion of the privatization by 2002 prove to be correct.

The budget deficit for 2000 is expected to be slightly higher than in 1999 but still will remain quite balanced. The price increase will lead to an annual inflation of 8 % as the unemployment rate will remain high because of the ongoing restructuring of the state-owned and the services sectors.

Recommendations

1. Elaboration of a midterm programme for economic growth, inseparable part of which to be a programme for the restructuring of the industry;
2. Elaboration of a stable legal framework;
3. Substantial reduction of the licenses and permissions;
4. Improvement of the tax policy encouraging the small and medium business;
5. Reduction of bureaucracy;
6. The enhancement of the tax and customs control;
7. Ensuring greater transparency of the privatization process including through civil control;
8. Substantial improvement of the transport, energy, communication etc. infrastructure.

3.2. Competitiveness of the Bulgarian Economy

Mariana Tuhchieva

3.2.1. Criteria, Priorities, Perspectives

The coordination of the production in the framework of the central-planning economies resulted in a typical high concentration of different types of industries. In Bulgaria this anti-competitive heritage was very strong. With the exception of the former Soviet Union, Bulgaria witnessed a higher level of growth of the industrial enterprises than the average for the rest of the socialist countries. Throughout the first years of the transition the problems with the high industrial concentration were aggravated by the delay in privatization and the concentration of the economic activities in a small number of business groups. The transfer pricing, the evasion of taxes, the close relationship between the state and private enterprises, banks and state authorities impeded the competition, the efficiency and equal start opportunities.

A number of distortions associated with the transitional period complicate the overall assessment of the competitiveness of the Bulgarian industry.

Until 1997 the economic growth of Bulgaria is due mainly to the export from the state sector. At the same time the relation between the export and the profitability of the companies is rather insignificant. It means that in fact the most successful exporters were loss-making enterprises in the economic sense and they managed to keep up performance due to special trade credits, energy subsidies and accumulation of intra-companies dues. On the other hand, the registered by the basic exporters high profits were frequently inflated by price subsidies on raw material and energy.

Another important factor influencing the competitiveness of the Bulgarian industry till 1997 was the high level of macro-economic instability and the corresponding low level of credibility in the national currency. The strongly inflated Bulgarian currency brought to some trade advantages in the short term but proved to be an unstable factor for the economic recovery. The financial crises in 1996 reduced the access of the producers to trade credits and energy subsidies which reflected on their liquidity. On their side the problems of liquidity restricted the spectrum of strategies applied on micro level aiming for an improvement of the competitiveness through large fixed investments.

In a period of transition the evaluation of the aggregated situation of the enterprises is normally very difficult. The restructuring of the sectors might

provoke a temporary decline in production and lower efficiency. The investments and the new technologies require time before they commence to generate improvements. Moreover, the different models of trade specialization tend to demonstrate high level of dependence on certain stereotypes. In the initial years of the reforms it is rather difficult for a certain country to gain a new role in the international division of the trade flows.

The dismantling of the COMECON market caused a deep shift in the trade model of Bulgaria. The country lost its export share in goods with high value added such as electronics and machine-building. Nevertheless, the models of specialization were not significantly altered during the next years. Bulgaria failed to be flexible in the creation of initiatives which to promote corporate restructuring and economic effectiveness. As a result the export continues to be dominated by the traditional and extensive raw materials sectors. The low level of processed goods in the Bulgarian export is one of the indicators for the slow pace of the economy restructuring.

Bulgaria continues to be specialized in labour-consuming sectors such as shoe-making and tailoring business which is a direct result from the abundance of cheap labour force and in some capital-intensive industries such as non-ferrous metal, steel and iron, fertilizers that used to be developed with priority in the past. The mining sector is characterised with the highest average level of efficiency in the national economy. In 1997 the ferrous and non-ferrous sectors witnessed the highest indicator of revealed comparative advantages and contributed by one fifth to the total export. Energy products – oil, gas and coal, dominate the import. The first years of the transition are marked by a decrease in the competitiveness of the Bulgarian agriculture. Comparatively advantageous is the tobacco sector. Regardless of that the sector has to cope with the reorientation of the demand on the traditional for Bulgaria markets.

Bulgaria is lagging behind the rest of the economies in transition in the technology-intensive industries. While in the first years of the transition Bulgaria had comparative advantages in the specialized supplies (industrial machines and equipment) and high-tech goods, till 1998 they were completely lost. At present Bulgaria is characterised by out-dated technologies and lack of sufficient financial resources for their modernization.

Bulgaria has a limited success in attracting European companies that look for a reduction of the expenditures for labour force through transferring of their operations abroad. They are the so called assembling productions in which the foreign company supplies its subcontractors with raw materials,

parts and components, which processed or assembled them and afterwards the ready production is re-exported. In the beginning of the 90-ies such kind of production plays a major role in the Bulgarian export. It is mostly developed in textile and tailoring since there are preferential trade quotas in the EU. At present Bulgaria is lagging behind in this kind of production not only from Rumania but also from the rest of the countries from Central and Eastern Europe which are characterised with much higher expenditures for labour force.

An additional evidence for the specific difficulties of Bulgaria during the transition is the low level of the introduction of the standardization in the Bulgarian companies which has a direct impact on the quality of the production and the competitiveness of the Bulgarian goods abroad. According to the ISO statistics by the end of 1996 only 14 companies in Bulgaria have received license ISO 9000. As a comparison in Hungary they are 423, in Poland – 260, in Czech Republic – 366, in Slovakia – 135, in Rumania – 61.

ISO 9000 comprises standards and guidelines related to the systems of quality management, additional standards for terminology and specific instruments, for example: the process of verification whether the management system is in compliance with the standard. "Quality management" means what the company has to accomplish in order to ensure the compliance of its product with the requirements of the client regardless of the fact that ISO 9000 is not a standard for goods.

The ISO 9000 standard is becoming more important for the producers and exporters since it is indicative for the foreign customers and potential investors whether the offered goods and services correspond to the strict requirements for quality imposed by the developed countries. Non-compliance with this standard definitely condemns the companies to an unfavourable position since this reaffirms the doubts of a poor quality that is associated with the products of economies in transition.

The high level of education and qualification of the human resources in Bulgaria combined with a level of the salaries lower than the average for Eastern Europe may be considered as one of the potential prerequisites of competitiveness that can be favourable for the fixed investments. Taking into account the complicated state of the economy and the financial markets, the attraction of substantial foreign capital may be achieved through improvements of the investment climate. The human resources and strengthening of the investment environment may become one of the best chances for stable and

positive tendencies in increasing the competitiveness in Bulgaria in the near future.

The improvement of the competitiveness of the service sector in Bulgaria may be based on several conclusions deriving from the international practices. They show that the right combination between the alternation in ownership, liberalization of the market and a better regulation might generate greater efficiency and positive influence on the welfare. The policy in this area should be based on a limited number but crucial principles, such as: 1) separation of the monopoly elements from the potentially competitive in the sector; 2) enhancing the transparency and reliability in the economic relations through changes in the character of the regulation and intervention; 3) ensuring that the decisions taken are consistent and timely for all branches thus minimizing the risk of a regulatory arbitrage; 4) introducing a clear system of arbitrage of the disputes between regulators and contractors. The solution of these problems and especially the existence of an adequate market structure are of particular importance for the economy. A delicate balance should be established between the weak market institutions, the necessity to lessen in such circumstances the burden from the regulatory agencies and the improved efficiency to encourage the competitiveness of the branches.

3.2.2. Conclusions and Recommendations

Until 1997 the competitiveness of the exporting companies is due to the energy subsidies, the easy access to credits from commercial banks used for financing of possible losses and the unpaid dues to the state, the raw material suppliers etc.

The restructuring of the production in order to achieve competitiveness requires substantial investments in an unpredictable and unstable environment. According to the foreign investors one of the comparative advantages of Bulgaria is the labour force that is considered to be well qualified, motivated and relatively unexpensive compared to the rest of the CEE economies. Another advantage of Bulgaria is the relatively easy access to its domestic market and its favourable geographic location bridging Europe and Asia.

The ongoing restructuring of the economy will bring to a reduction of the production and the consumption in the nearest 2 – 3 years which will reflect on the pace of the growth of the GDP and it will stay relatively limited.

The strengthening of the competitiveness will require:



1) the improvement of the overall business climate including the implementation of the recommendations mentioned in 3.1.6.

2) Establishment and implementation of programmes for priority development of high-tech and infrastructural sectors.

3) Substantial investments in science and research programmes and higher education.

3.3. Business Environment and SME Policy.

Vladimir Pavlov

The development of small and medium enterprises is a prerequisite for a sustainable economic growth. It bears economic and social aspects. The SME in the developed countries are the main generators of economic growth and contribute to the creation of new job opportunities. They play an extremely positive role in combating unemployment.

3.3.1. The SME in EU

The SME in the EU countries play a substantial economic and social role. They face a number of specific problems which in the 90-ies are increasingly debated and solved on an all-European level – in the EC and other EU institutions. Two Action programmes, an Integrated SME programme and financial schemes for support under the Structural funds and the European Investment Bank are among the arrangements that have to cope with the issue. The ex-Commissioner for SME Christos Papoutis underlines that the SME are the backbone of the European economy.

The debate whether the enlargement of free trade and the establishment of a single market facilitates or impedes the development of SME continues to unfold. On one side the opening of the EU countries markets enables the internationalization of the SME and permits to go beyond the national markets. On the other, the creation of new EU regulations is an expensive endeavour especially for the SME which leads to an increasing number of cases where different rules are applied to large and small companies.

The extension of the common policy of the EU countries in various areas – finance, trade, transport, agriculture, competition and others influences the development of the SME especially through financing different projects. The last years witnessed the elaboration of a common policy in the area of the

SME.

At present there are over 16 mln. companies in the EU, 99 % of them are regarded as small and medium. The manpower in the EU accounts for 80mln., 70 % of them are engaged in the SME sector. 70 % of the turn-over in the EU belongs to the SME. The standard EU company comprises of 9 people personnel. More than a half the EU companies have only one person. In the EU the average ratio is 45 companies per 1000 inhabitants. In Germany, Netherlands and Denmark it is 30 per 1000, in Greece and Portugal – 60 per 1000. The differences are reflection of the varying average size of a company – in the Mediterranean countries – 4 persons in a company, in Northern Europe – 9 people.

The middle of the 80-ies witness a more systematic approach towards the SME issue. A special task force on SME was established in 1986 with the main objective to harmonize the SME policies on a national level and in the framework of the EU.

By the end of the 80-ies EU demonstrates a better understanding of the necessity to extend the joint activities on the SME since they accelerate the economic growth, combat unemployment and contribute to the development of a civil society. The swift development of the new technologies more clearly defines their fundamental role in the innovation process. This brings on the agenda the issue of the necessity of an initial support of the SME.

In 1989 a EU Council resolution stipulates the crucial importance of the measures taken to support the SME on a national and European level.

The budget of the 1993 – 1996 Action SME Programme accounts for 112 mln. ECU and it is included in the Integrated SME programme, adopted in 1994. The total financial package to support the SME amounts to more than 2 bln. ECU in 1994 – 1996.

The White Book of the EU stipulates in 1993 that the success of the SME is detrimental for the economic growth of the EU countries.

In 1993 the EU Council resolution underlines the necessity of specific measures by the EC to enhance the SME in the following areas:

- promotion of favourable for the SME environment;
- acceleration of business information exchange;
- promotion of investment support by the European financial institutions for the SME.

There is a necessity of additional measures such as:

- Establishment of a common business environment supporting the SME;

– Support of the financial institutions in the transfer of the European financing to the SME;

- Dismantling the barriers to cooperation between the SME;
- Promotion of the participation of the SME in public tenders;
- Simplification of the administrative procedures for the SME;
- Conducting regular consultations on the SME issues on a national level;
- Supporting the education and training of the SME entrepreneurs.

The issues of the SME were at the heart of the EU Summit meeting in Corfu in 1994. The Summit took a decision to allocate additional 1 bln. ECU on an initiative to support the adaptation of the SME to the requirements of the Single market and to facilitate credits by the EIB to small companies providing new job opportunities.

The EU applies great efforts in its legislative framework to streamline the activities of the SME – harmonization of national legislation in different aspects, protection of consumers, social welfare, protection of the environment, regional development, competition etc.

Additional measures are implemented such as: simplification of administrative services, assistance in transfers of the business from one owner to another, target promotion of craftsmen, cooperative and individual entrepreneurs, securing timely payment of services and goods, support of the SME participation in public tenders etc.

The specifics of the programmes for support of the SME growth at a national and European level consist in creating conditions (no direct financial support) such as information, advice, partnership etc., aimed at promoting and enhancing SME activities.

The EU establishes a wide framework for financing the SME – to promote economic growth, research, constant education, investments in other countries. The Structural funds of the EU facilitate the development of various regions in Europe. A separate fund supports the infrastructure of less developed countries – Greece, Ireland, Spain, Portugal. The EIB and the European Investment Fund play an increasing role in securing preferential credits for the SME. The initial start of small companies is supported by specially designed funds. The results are very encouraging – in 5 years the SME sector has contributed with 10 thousand new patents and has produced 5 thousand new articles in the EU.

The SME sector has a dominant role in the EU economy. It has a leading role in creating new jobs and a substantial contribution in the development of new technologies and fostering the economic growth. The SME sector bears

strategic importance and it will enjoy a special treatment in the beginning of the new century. The new admitted countries are envisaged to benefit from the SME programmes of the EU.

The Maastricht Treaty underlines the importance of the SME and the necessity of intensifying the activities and the programmes for their support and promotion. The common EU policy have an increasing influence on the SME activities through ensuring a comprehensive and substantial financial support, especially in less developed regions. The EU SME business is expanding on an international scale and gradually encompasses the European continent.

At present the main objective of the EU member states policy towards the SME is to ensure competitiveness through:

– **Common economic policy** – aimed at creating favorable business climate. This policy is focused on deregulation, limitation of the administrative barriers, achieving flexibility and regulation of the labour market, reduction of social insurances and taxes, amelioration of the financial environment, improvement of the infrastructure etc.

– **Specific economic policy** – aimed at supporting the SME to overcome the economic growth barriers. This is a complementary policy to the common policy. It is achieved through different types of financial support, granting of free consultancy and information services etc. The specific policy has an objective to promote newly established enterprises, scientific and research activities, strengthening of management skills, market innovation, supporting the access to external financing etc.

The debate and experience of the EU countries clearly outline the main issues of the policy concerning the SME:

– Reduction and discarding of the administrative barriers of the development of the SME;

– Ensuring easy access to new technologies;

– Increasing the funding and the risk capitals to commence SME activities, especially those related to microcompanies;

– Extending the investment opportunities;

– Promoting the small companies export;

– Establishing the adequate SME legislative framework.

All those measures have an extremely valuable effect on the structural reform of the Bulgarian economy and the efforts for European integration.

3.3.2. Development of Small and Medium Enterprises in Bulgaria

The latest research in Bulgaria proves that 98.8 % of all companies are considered to be small and medium in size. Microfirms (less than 10 employees) represent 94 %. SME in Bulgaria engage 45 % of the labour force. SME sector is predominant in the hotel business, food-catering and trade. The SME sector contributes for 25 – 26 % to the total value added (up to 35 – 36 % considering the shadow economy).

At present the share of the SME sector in the export of Bulgaria is below 20 % and in the import around 30 % of the total. The number of high-tech companies is below 0.5 % of the total. The information technologies are still underdeveloped in the Bulgarian SME sector. Around 40 % of the small and medium enterprises lack the necessary information about the opportunities of the EU integration. Only 15 % have applied efforts to enter the EU market.

In recent years a progress was achieved in the institutional support of the SME sector in Bulgaria. An Agency for SME was created. A Promotion Bank for financial support of these enterprises was established. The implementation of the National Strategy for support of the development commenced. The National Assembly adopted a Law on SME. Some of the registration and licensing regimes were canceled.

The 1999 Law on SME provides grounds for the state policy in this regard. The implementation of the Law however caused no significant positive effect until now. A number of laws and other secondary legislation have to be amended to facilitate the development of the SME.

The National strategy for promotion of the SME elaborated in the end of 1998 identified specific measures to improve the SME environment. A special Working plan was elaborated to achieve the goals of the Strategy. The short and medium-term initiatives are implemented in compliance with action plan.

The SME Agency is established in 1997 as a structure within the Ministry of Industry and since the end of 1999 the Agency is directly subordinated to the Council of Ministers. It already conducts some activities for the development of SME but still its role of a national coordinator has to be further strengthened.

Within the Agency exists a Consultative Council as a governmental and public authority which according to the Law has to play a more active role than at present.

The Agency prepared a Draft Plan for the development of the SME sector

as an element of the National Plan for Economic Development in the time-frame 2000 – 2006. A number of measures for promotion of SME development are envisaged in view of the pre-accession strategy and the participation in the Structural funds:

- expanding the potential of the existing information centers and creation of new regional centers for supporting SME through facilitating the information networking with global commercial and other systems;
- establishing a network of specialized incubators dependant on the competence and the services in view of developing high-tech innovative SME based on its own achievements and intellectual property rights;
- establishing permanently functioning centers for education of SME managers and entrepreneurs and professional vocation of unemployed to encourage their initiative to start own business.

The business environment in Bulgaria is easily assessed through identification of the problems in front of SME.

The most substantial problems are closely linked with the insufficiency of financial resources at the start of the business and as well at a later stage when an additional support is required to finance the main activities and to invest in raising company's competitiveness. The lack of financing for SME activities is due to the specifics of the capital sources. The main source for financing for SME in the last 10 years were the individual savings of small entrepreneurs and loans from relatives and friends. Less than 10 % of the firms have an access to banking credits. This is due the traditional caution of the commercial banks to small enterprises and the reduction of their credit potential after the banking crises in 1996. However despite of the severe shortage of financing only a small number of companies is applying for credits. The demand for credits is limited by the complicated bank conditions (on guarantees, deadlines etc.) which are considered heavy and the credit price calculated on the basis of the level of interest which for Bulgaria is rather high.

Two other problems related to the start of business are the unstable and unreliable legislative framework and the heavy bureaucracy. The problem of bureaucracy is related to the numerous permits and licenses that have to be issued and in most cases they really are necessary and is linked also to the corruption. The bureaucracy issue is important to the overall economic performance and is not solely related to the development of SME. The reduction of bureaucratic formalities improves the economic conditions through reduction of transaction costs and facilitates the increase of foreign investments.

Other problems that hamper the development of the business development are the high tax levels and the absence of a solvent demand.

3.3.3. SME and the Integration of Bulgaria in the EU

One of the main conditions for membership in the EU is the ability to cope with competitive pressure of the European market. This requires favourable economic environment, flexible national economy and high quality of the manpower and infrastructure.

The potential of the Bulgarian SME to achieve economic growth is underdeveloped because of the shortages of the market and the obstacles in front of their functioning and development. SME are facing various challenges and more than half of them cease to exist in the first five years of their establishment. Their economic, legislative and financial environment is becoming more complicated. They do not enjoy easy access to science and research activities and find themselves in difficulty to apply new innovations. Quite often they are confronted with management difficulties but only few programmes offer adequate training. The SME are not enjoying an impeded access to credits and the entry of markets of goods and services is rather difficult.

The European Agreement, its implications and the perspectives for the Bulgarian business in the EU are still quite unexplored by the SME. The share of the SME that have taken specific steps to align with requirements of the entry in the European market is still rather insignificant. In most cases the efforts are mainly applied to identify intermediaries or partners or establishing relations with potential customers. At the same time the SME sector is positively inclined to the EU integration while the percentage of the SME that lack the necessary information and are unable to assess the situation is very high.

The trade liberalization with the EU and the increase of the importance of the non-tariff barriers is a real test for the internationalization of the SME. That impose new requirements towards the quality, packaging and marketing of goods. The need for information strategy, marketing programmes and education offered by the state and some NGO's to improve the companies performance is constantly growing.

The EU Summit decisions in 1997 in Luxemburg and in 1999 in Helsinki to open accession negotiations with the CEE candidate countries impose high standards conditional to the membership.

The Copenhagen criteria require overall restructuring of the national econ-

omy, modernization of the infrastructure, introduction of the principles of transparent competition and active social policy.

In the 1999 Regular Report and in the Accession Partnership the EU underlined that no major problems are expected in the process of harmonization of the SME area and that the results whatsoever are encouraging. This chapter is among the first six chapters submitted for negotiations and is already provisionally closed.

3.3.4. Participation of Bulgaria in the EU programmes

Integrated SME Programme

The Integrated EU programme on SME launched in 1994 aims at establishing a comprehensive framework of all EU actions to support the SME sector in the margins of the common policy. The better cooperation in the EU framework assists achieving greater efficiency and compatibility of the measures applied by different member-states.

Three are the main directions of the SME policy within the EU: establishment of a favourable economic environment, strengthening of the competitiveness, assistance of the SME efforts to join the world market.

The adapted 1996 Integrated programme includes new initiatives: facilitating the SME access to the information society, establishment of a Forum for entrepreneurship and trade, a Forum for craftsmanship and small enterprises.

Third Multiannual SME Programme

The Third Multiannual SME Programme of the European Council adopted in on 9 December 1996 aims at establishing favourable conditions for strengthening of the SME. It comprises of specific activities that are not envisaged in other EU policies. Among some of the tasks to be cooped with are – the amelioration of the SME organization and the cooperation between them which is extremely important for their survival within the Common market, support for their internationalization and the creation of new job opportunities.

The SME have to enjoy more favourable access to credits and risk capital and to be supported by system of compensations of losses in case of failure of timely commercial transactions. The access to new financing may be improved through the establishment of specialized financial institutions and through a

proper stimulation of the capital markets.

Bulgaria joined the Third Multiannual Programme in December 1998. The SME Agency is the national coordinator of the Programme.

The development of the Programme demanded a partial renewal of the network of the European Information Centers and their opening towards the CEE countries. These new centers are established under the aegis of the EU in 1997. Today the network comprises of 275 members who disseminate information and assist the SME in the cities of Sofia, Plovdiv, Rousse, Stara Zagora, Yambol, Vratza, Dobrich and Sandanski. They are the main architects of the creation of a network of Euro-Infocenters in Bulgaria.

Two international events called "Europartnership" are held annually in the framework of the Third Multiannual Programme. The objective is to intensify the economic and trade relations, to attract foreign investors, to stimulate the production and to strengthen the competitiveness. The programme assists annually the participation of 84 Bulgarian SME in the "Europartnership".

The Third Multiannual Programme envisages in 2000 as a main priority the promotion of entrepreneurship and the improvement of the business climate. This is expected to be achieved through the BEST Action Plan and through an exchange of best practices in the framework of a coordinated programme.

The second priority aims at ensuring the active participation of the associated to the Programme countries, including the convening of the Fourth table of bankers to discuss the access of the SME in the candidate countries to proper financing.

The third priority is the development of a common strategy on European networks, for example European Information Centers, which provide information, assistance and advice to the SME. Extremely important is the dissemination of the best experience and results in the area of craftsmanship, small business and microfirms. The implementation of the Action plan of the White Book on Commerce is expected to encourage additional efforts in this regard.

The measures included in plan 2000 of the Third Multiannual Programme are aiming at:

- Simplification and improvement of the administrative and legal business environment ;
- Strengthening of the financial climate;
- Internationalization of the SME activities;
- Promotion of the entrepreneurship.

PHARE Programme

Phare programme is supporting the SME in Bulgaria. Under the institutional building aspect of the Phare programme was conducted a research in Bulgaria on the implications of the national legislation on the SME and on the schemes of financing. The business centers in the cities of Varna, Dupnitsa, Sliven, Haskovo and Shoumen enjoyed technical assistance. In the framework of the project was conducted a research on the SME sector.

In 2000 through a new project "Expanding the opportunities for accelerated growth of the Bulgarian SME" will be granted an institutional support in the area of SME policy and legislation. Under construction is the expansion of the network of the agencies and business centers for regional and economic development. Further assistance will be granted to the existing agencies and centers through proliferation of advice, information services and education for the SME and their participation in international events. The number of bulletins, catalogues and other publishing materials will be increased.

EU Fifth Framework Programme.

The EU Fifth Framework Programme on research, technology and demonstration activities include a horizontal programme called "Promotion of innovations and participation of SME". It envisages financing in the framework of research awards for SME and for CRAFT projects on joint scientific researches. Bulgaria is an active participant in these projects. But still more than half of the entrepreneurs have no information about the potential of this programme.

EU Structural Policy

The EU structural policy directly influences the development of SME in three directions: infrastructure, human resources and investments in the production. Around 40 % of the potential of the structural funds is directed to assist the creation of a dynamic business climate and supporting investment schemes for the industry and the sector of services especially concerning the SME. The preparation for the structural funds at the stage of a candidate country is of a great importance as they are the main vehicles to achieve economic and social cohesion.

In view of the enlargement, the EU introduced financial schemes for assisting the process of accession and alignment of the candidate countries to the standards of the EU member-states. The Phare programme is a source of a constant methodological and technical assistance and is a catalyst of joint actions between the EIB, EBRD and the World Bank. The EC prepared a package of directives for management of the pre-accession funds, the "Approximation" fund, ISPA and SAPARD, for 2000 – 2006. Bulgaria started in 2000 benefiting from the three financial funds – Phare, ISPA and SAPARD.

3.5.5 Recommendations

In view of aligning with tendencies of development of SME the Bulgarian executive and legislative policy should be based on several principles:

- Constant improvement of the legislative framework and amelioration of the legislative environment and cancellation of restrictive secondary legislation;
- Ensuring easy access to credits for existing and new SME by means of credit guarantees, microcrediting and capital risk funds;
- Substantial simplification of the administrative procedures for entrepreneurs including swift and decisive reduction of regulatory and licensing regimes;
- Constant assistance to ensure better access to new technologies, markets and investments;
- Support strengthening of the companies capacity and their associations to better participate in the EU structural funds;
- Applying efforts to raise the competitiveness;
- Informational, consultancy and educational support to respond adequately to the new challenges
- Ensuring wider informational background about different international and European programmes supporting SME;
- Elaboration of special programmes for promotion of entrepreneurship and self-employment.

To this end constant organizational, administrative, legislative and financial activities should be carried out by the executive and legislative branch in cooperation with the NGO's and especially with different business associations.

CHAPTER 4. Agriculture

Antoaneta Simova

4.1. Role and Structure of the Bulgarian Agriculture

Bulgaria is considered to be an industrial country though the agriculture has always played a significant role in its economy. In the 90-ies the share of the agricultural sector in the GDP varies between 11 and 26%. After the crises in 1996/97 the agriculture was the only sector in which the value added increased with about 30% compared to 1996.

The agricultural sector is important not only for its contribution in the GDP but also for the employment of the labour force (between 19 and 24% in 1991 - 1999), for the export (between 14 and 22 %) and for the food supply and social security. The revival of the Bulgarian agriculture is considered as one of the priorities in Programme 2001 of the Bulgarian government.

The structural reform affected deeply all sectors of the economy, but the agricultural sector suffered most severely. If in 1990 – 1996 the volume of the national production decreased by 21 %, those in the agricultural sector fell down by 30 %. There are a few reasons for the substantial reduction of the agricultural production among which are the following:

- decrease of the demand on the traditional markets for the Bulgarian agricultural products (the ex-COMECON countries);
- the structural reform in the economy and the subsequent reduction in the domestic consumption and shortage of financial resources for the agriculture (shortage of capitals, bank credits and possibilities for subsidies);
- irrational, slow and ineffective system of restitution of the land;
- hesitant and contradictory customs policy resulting in substantial diversion of the local from the domestic prices aimed at the ensuring of more inexpensive foodstuffs for the urban population;
- crises in the processing industry disturbing the normal functioning of the system producer–end user and disrupting the process production–processing.

In 1997 the tendency to the reduction or stagnation of the agricultural production was interrupted: the volume of the production increased with about 20% in comparison with the previous year. The substantial growth of the production in that year was due to the increase of the cropped area and the higher yields of cereals as a result of the declared by the government high minimum purchase prices. The waiver of this price policy led again to stagnation

in the following years.

Structure of the Agricultural Production

By the middle of the 90-ies there was a balance between plant-growing and stock-breeding with a view of their shares in the agricultural production volume. In 1996 the stock-breeding production accounted for 54 % of the total production compared to 46 % for the plant-growing, while in 1997 the plant-growing production already prevailed over the stock-breeding production (respectively 66 % and 34 %).

The plant-growing production is vulnerable to deep fluctuations. In a situation of limited financial resources and incomplete structural reform the yields fluctuate very much depending on the climatic conditions.

The stock-breeding sector was subject to deeper structural changes and fragmentation in comparison to the plant-growing. The substantial cut in the stock-breeding products was caused also by the change in the proportion of the prices between the stock-breeding and the plant-growing product as the producers were pressed by the constantly increasing expenditures of the raw materials and the weak purchasing power of the population.

At present the private sector produces more than 90% of the total production in the country. The individual farms are specialised in the production of vegetables, fruits, potatoes, maize and tobacco, while the co-operative farms produce mainly cereals and sunflower. Almost 99% of cows, more than 94.5% of swine, 99 % of sheep and 98 % of poultry are concentrated in private farms.

Comparison of the Values of Some Indicators for Bulgaria and EU

Table 4.1 shows the values of some important indicators for Bulgaria, the other associated countries and the EU. The agricultural land in Bulgaria is around 55% of the total, which is about 12 points higher than in the EU, but is slightly less than the average values for the five Central European countries (CEC). The agricultural sector in Bulgaria creates 11 – 26% of the GDP (in the last years the most often values are 12 – 13%), while in the EU this value is significantly lower – only 2.5 %. This data confirms the conclusion that the agricultural sector plays much greater role in Bulgaria in comparison not only with the countries EU but also with the majority of the associated countries. In fact, only the Rumanian agriculture has a greater contribution to the GDP.

Table 4.1 The importance of the agriculture in Bulgaria, the other associated countries and the EU*

	Agr. land		Agr. Production		Employed in Agr.		Expenditures for food
	Mln. ha	% of territory	Mln. \$	% of GDP	000	% from the employed	% of family budget
Poland	18.6	59	4.648	6.3	3661	25.6	30
Hungary	6.1	66	2.048	6.4	392	10.1	31
Czech	4.3	54	0.871	3.3	271	5.6	32
Slovakia	2.4	49	0.512	5.8	178	8.4	38
Slovenia	0.9	43	0.250	4.9	90	10.7	28
5 Central European Countries	32.3	58	8.349	5.5	4592	22.1	
Rumania	14.7	62	4.500	20.2	3537	35.2	60
Bulgaria	6.2	55	1.131	11.26	766	19.24	42.54
Balkan states	20.9	60	5.631	18.0	4231	32.9	
Lithuania	3.5	54	0.259	11	399	22.4	58
Latvia	2.5	39	0.232	10.6	229	18.4	45
Estonia	1.4	31	0.266	10.4	89	8.2	39
Baltic States	7.4	43	0.757	10.7	717	19.4	
CEE-10	60.6	56	14.7	7.8	9840	26.7	
EU-15	138.1	43	208.8	2.5	8190	5.7	22

*The data for Bulgaria are for 1993 – 1998, for the rest of the countries – for 1995. Source – European Agricultural Policy, CEPS, Working Party Report ' 17; Statistical Survey, 1999 National Statistics Institute, Bulgaria.

The share of the employed in the Bulgarian agriculture is much higher than the all employed in comparison with the EU (between 19 – 24% for Bulgaria, compared to only 5.7 % in EU). In this regard Bulgaria ranks among countries like Poland and Lithuania where the agricultural sector employs substantial human resources and differs from the majority of the associated countries (with the exception of Rumania) where the agriculture does not have such an important role from an employment point of view.

The agriculture is the main means of living in the rural areas in the Bulgarian villages: 29% are employed in the sector, but in fact around 90% are

somehow involved in the production of agricultural goods (mainly for self-sustaining). The percentage of the population employed in agriculture in the rural areas of the EU countries is nearly the same (27%), but the rest of the inhabitants of those areas have no direct relations with the agricultural sector.

In spite of the relatively significant role of the Bulgaria agriculture in the national economy it has low productivity compared with the European standards. In table 4.2 are indicated the average production output of some basic agricultural products in the EU, the 10-th associated countries and Bulgaria.

Table 4.2 The level of the average output in Bulgaria, in the associated countries and the EU*

	Grain t/ha	Oleaginous t/ha	Sugar t/ha	Milk kilo/cow
CEE -10	3.0	1.5	34	2960
EU - 15	4.9	2.0	76	5156
Bulgaria	2.6	1.0	15	3100

* The statistics for Bulgaria are for 1998, for the rest of the countries - 1995.

The production in Bulgaria is around 60% of the average output in the EU both in plant-growing and stock-breeding. Bulgaria is performing a little bit better than Rumania and the Baltic states (whose production is about 40-50 % of the EU) in plant-growing, but at the same time Bulgaria lags far behind by the Central European States (whose production is around 80-90 % of the EU). In the stock-breeding sector the productivity per animal in Bulgaria is slightly higher than the average values of the associated countries.

Structure of the Agricultural Farms

There are a number of factors in the 90-ies which impeded the development of a modern farming in Bulgaria and its alignment with the standards of the developed countries.

The agricultural sector, like all other sectors of the economy, was deeply affected by the structural reforms accompanying the transition from a centralised planned economy to a market economy. The arrangements set in place for the restoration of the ownership led to a substantial fragmentation of the production capacities in stock-breeding and plant-growing and imposed a

number of problems which did not exist till 1989 (for example, the incapability of so many small farmers in the stock-breeding sector to meet the necessary veterinary and hygienic requirements). In table 4.3 contains the data about the size of the of the production structures in Bulgaria and in Poland.

Table 4.3 Size of the individual farms in Bulgaria and in Poland (as % of the total number of farms)

Size of farms	Bulgaria	Poland
Up to 2 ha	95.2	13.9
2 - 5 ha	3.9	29.7
5 - 10 ha	0.8	28.1
More than 10 ha	0.2	28.3
Total farms	100	100

The statistics proves that more than 90 % of the size of the farms in Bulgaria is less than one (1) ha and more than half of the total farms (51.5%) are smaller than 0.2 ha. Only 0.8% of the farms are of medium size from the point of view of the size of the European farms and only 0.2 % are considered to be large. At the same time in Poland there is much more proportionate division between middle and large farms and the small farms represent only 13.9% of the total. In case someday the EU direct payments start to be applied to the newly admitted members, less than 10 % of the farmers existing at present should use them provided that the structure of the production units remains almost unchanged.

The distribution of the cultivated land between farms of different sizes is an indicator applied in the analysis on agriculture. In table 4.4 are shown comparative data for this indicator for Bulgaria, Poland and the EU.

Table 4.4 Distribution of cultivated land between large and small farms in Bulgaria, Poland and the EU (as % of the all cultivated land).

Size of farms	Bulgaria	Poland	EU
Under 10 ha	33	72	66
More than 10 ha	67	28	34
Total	100	100	100

Considering this indicator Bulgaria differs substantially from the EU which is not the case with Poland. The major part of the agricultural land – nearly 70 %, is in possession of large farms. They are either the former co-operative farms or leaseholders in some of the regions of the country.

The statistics shown above prove that the *Bulgarian agriculture has quite more different structure from the European*. The family farms which represent the backbone of the European agriculture in Bulgaria are too small and financially weak. Their small size is the reason for their ineffectiveness since they can not do some savings from the size neither in the production nor in the marketing.

The lack of the necessary agricultural machines and the low profitability of the agricultural activities forces the majority of the landowners to lend their land (in case there is a demand) or to lend it to the co-operatives on symbolic prices. The management of these co-operatives as a rule is an ineffective. There is quite often a collision in interests of the management staff, the co-operative and the landowners. *Therefore, the existing structure of the agricultural farms will be one of the main obstacles for the improvement of the efficiency of the agricultural production thus impeding the preparation of the agricultural sector for EU membership.* In case there are no rapid and positive changes in the production structures, the Bulgarian agriculture will not be able to cope with the competitive pressure of the West European with a view of its future EU membership.

4.2 Human Resources and the Development of the Rural Areas

It is a fact that the development of the agricultural production requires the existence of different factors – labour, capital, land. The land is a static factor from the point of view of its quantity and quality. In this respect Bulgaria has comparative advantages in the production of a number of agricultural prod-

ucts.

The availability of capitals at present is very insufficient in the national economy as a whole. The agriculture is the sector experiencing the greatest lack of investments because of its low profitability. Nevertheless in case of an EU membership the Bulgarian agriculture may attract substantial investments due to different reasons (which are not subject of analysis in this chapter).

The third key factor for the development of a modern agriculture are the human resources. They are not so mobile as the capital and as a rule it remains within the national frontiers.

The agriculture all over the world is a traditional sector with not very high remuneration, the work is not very attractive and the working hours are not fixed. Due to this reason in almost all developed countries exists the problem of ageing of the labour force and the state is trying to apply various measures to attract young people to the sector.

If in the EU, the USA and some other countries the problem with the human resources in the agriculture exists, in Bulgaria this problem has become a catastrophe.

The labour force in the agriculture comes mainly from the villages. After 1989 the quality of life of the Bulgarian population sharply decreased but the rural areas were most affected.

According to the National Statistics Institute the unemployment in the villages for 1998 is 20.1 % while in the urban areas it is around 14.6 %. However, the methodology for the calculation of the unemployment percentage does not give a full picture of the situation because it works on the assumption of the registered unemployed people.

If the official statistics of the active population in the rural areas is compared with the total number of the employed it turns out that 45% of the active population in the rural areas do not work. *The percentage of the unemployed remains impressive* even if the students, soldiers and other categories of the population which are temporarily prevented to work are subtracted. The overwhelming majority of these unemployed individuals has organised its own farming which aims at self-sufficiency but does not generate any income.

Almost all demographic factors in the rural areas are below those in the urban areas. The average age of the population in the rural area is 43.8 years compared to 37.3 years in the rural areas. The death rate is almost twice higher than in the urban areas. The birth rate (6.7 per 1000) is by 2 points lower. About 35 % of the rural population is above active against 20 % in the urban

areas.

The aggravated conditions of life prevent the children in the rural areas to acquire the same knowledge and qualification as the children in the urban areas. The demographic crises imposed the closure of many schools in the rural area. The admittance and number of graduates from specialised in agriculture schools decreased only for the last 3 years 10 times and left behind all other sectors of the economy with these values (Table 4.5).

Such values of the indicators which determine the conditions of life in the rural areas and especially those related to education *do not contribute to the creation of optimistic expectations regarding the increase of productivity and efficiency in the agricultural farms.*

Table 4.5 Graduates of specialised professional schools and classes by areas of knowledge

	1995	1996	1997	1998
Total	1118	1032	873	716
Technical	349	291	307	170
Production technologies	373	403	332	329
Construction	146	156	129	159
Agriculture	211	157	85	29
Services	39	25	20	29

In spite of the decreasing role of the agriculture in the development of the EU rural areas there is a close link between the agriculture and the overall development of the regions. This link is even stronger in Bulgaria since the agriculture continues to be the major source of means of living for the rural population.

At present the EU is restructuring its Common Agricultural Policy which leads to the decrease of the subsidies for the agricultural production and the increase of the support for the regional development. Gradually a new meaning is given to the role of the farmer. He is supposed not only to produce but also to preserve the rural landscape and the natural resources and to protect the environment.

The comparison between this tendencies and the situation in the Bulgarian agriculture outlines the existence of several types of agriculture:

- market-oriented, competitive and highly profitable agriculture organised on the best agricultural lands;
- socially-oriented agriculture aiming at employing part of the discharged labour force in a specific area or region;
- self-sustained agriculture, developed mainly on a small pieces of land;
- agriculture in specific areas using unique natural resources which can not be used for other purposes (for example tobacco production);
- extensive agriculture developed in areas with lower quality of land;
- agriculture for protection of the landscape and the environment.

Some of the listed types may overlap – for example the specific type of agriculture based on unique resources might perform social functions as well.

It is impossible to develop an adequate policy on a macroeconomic level without such a differentiation of the types of agriculture since the interests of the farmers engaged in them are quite different.

4.3 Competitiveness of the Bulgarian Agricultural Products

Until 1989 Bulgaria was one of the biggest suppliers of agricultural products for the COMECON countries and mainly for the ex-Soviet republics (more than 80% of the total export). The developing countries were an important market for the Bulgarian export as well. The developed countries with the exception of some agricultural products (tobacco, wines, fruits and vegetables and live stock) did not have a big share in the Bulgarian export. The main export products were tobacco, meat, wines, fresh and processed fruits and vegetables.

In 1989 the export of agricultural products amounted to \$2.1 bln and was 16 % of the total export. The balance was positive and amounted to \$794.4 mln.

After 1989 the trade with agricultural products agriculture was exposed to numerous negative factors as the most important of them are:

- the collapse of COMECON;
- the elimination of the state monopoly over the foreign trade;
- the removal of the state credits and guarantees;
- the restitution of the land and privatisation of the food-processing industry;
- the fragmentation of the production and trade with foodstuffs;
- the sharp decrease of the consumption at the domestic market;

– the moral and physical ageing of the industrial infrastructure and lack of modern facilities adequate to those in the developed countries (not only in transport and communications but in the financial and banking sectors as well).

The above-mentioned factors dramatically affected the export and the trade balance. The volume of the export was reduced in 1998 3-folds compared to the level in 1989 and the positive trade balance fell down twice reaching the level of only \$309.2 mln. In spite of the negative developments in the foreign trade the balance remained positive throughout the transitional period. This fact proves that still exist some potential advantages in the Bulgarian agricultural sector.

The trade with the EU (Table 4.6) both import and export remained almost unchanged in the 90-ies. Since 1992 up to now, the sale of the Bulgarian agricultural products on the EU market amounts annually around \$200 mln, regardless of the Europe Agreement.

Table 4.6 Bulgaria - EU trade in agriculture in mln USD*

Year	Export	Import	Balance
1989	145.6	178.8	- 33.2
1990	170.5	110.6	59.9
1991	120.3	55.3	65.0
1992	221.5	204.1	17.4
1993	165.7	180.6	- 14.9
1994	185.2	200	- 14.8
1995	242.6	127.7	114.9
1996	203.9	66.1	126.8
1997	195.6	129.1	66.5
1998	229.8	146.3	83.5

*Eurostat

The import from the EU is subject to more substantial fluctuations and in the last years is in the margin of 100 and 200 mln USD annually. The increase of the relative share of the agricultural export to the EU is not a sign of a higher competitiveness but is due to the substantial decrease in the total agricultural export and especially the export to the ex-members of COMECON and in particular to Russia.

The tendencies related to the structure of the exported goods are extremely unfavourable (Table 4.7). The export of processed goods continues to decrease in favour to the increase of exports of raw materials.

Table 4.7 Export of agricultural raw materials and processed goods (in mln US)*.

Type of products	1996	1997	1998	1999
Raw materials for food-processing	131.2	99.3	149.2	192.9
Raw tobacco	60	36.7	51.3	64
Foodstuffs	309.7	279.6	235.1	191.9
Beverages	173.1	141.3	141.8	91.9
Processed tobacco products	194.9	121.5	57.2	37.8

Source: Bulgarian National Bank, published on Internet.

The trends in the 90-ies in the export of the majority of the agricultural products are much dependant on the tendencies of the so-called immature markets – Russia, the ex-Soviet republics, the neighbouring Balkan states. The exports of all competitors including even the less competitive is possible in case of a favourable development of the solvent demand on these markets. The immature markets though representing an attractive area in the long-term are very unstable and in case of aggravation of the situation might close completely down.

The mature markets in the developed countries, on the contrary, are solvent and reliable but the Bulgarian foodstuff products have limited chances to enter these markets. In these countries the increase of the market share of a specific producer is possible only at the expenses of a reduction of the share of the competition. Therefore, an extremely aggressive marketing efforts are required to provoke the so-called initial demand in a specific segment of the consumers. As the Bulgarian producers and exporters have no financial potential to provoke such a demand they are compelled to enforce another strategy – the push strategy, to exert pressure on the local distributors to accept their product. It is naturally, that such a strategy does not normally generate high prices as the bulk of the marketing expenses and especially those related to advertising have to be covered by the next link in the chain of the trade.

There are few examples of a successful implementation of the other – pull strategy, i.e. the producer provokes the initial demand among the consumers, but they mainly relate to products (for example the wines) which markets were developed before 1989 by the big Bulgarian state-owned foreign trade companies. As a result of the fragmentation of the industrial and commercial enterprises throughout the transitional period and their limited financial potential, even these limited successful examples are on the way to disappear. The market share of the Bulgarian wines in UK was reduced during the last years from 6 to 4 % and the volume of the sales decreased by 30 %.

Two are the main market segments in the developed countries which still provide market opportunities for the majority of the Bulgarian producers:

- Ethnic shops which meet the demands of ex-citizens of neighbouring Balkan and ex-Soviet states. It is an interesting segment but regrettably limited in potential as the competition in it is severe;

- Industrial markets where the buyers are food-processing factories. These markets are with a large potential but they bear all the deficiencies of trade with raw materials and semi-processed goods. The suppliers do not have an influence on the price, they are just price-takers, and at any time they might be replaced on the market by a new, cheaper competitor.

The Bulgarian agriculture is in a very unfavourable situation since it is under pressure to:

1. the necessity of restructuring because of the transition from centralised planned economy to a market economy, and;

2. constantly raise of the hygienic, veterinary and phyto-sanitary requirements to the suppliers of the markets in the developed countries. *Due to the impossibility for the compliance with the high hygienic standards the list of the products which can not be exported to EU is constantly expanding (sheep and goats, pork, dairy products, fish).* The state should not raise unbearable demands to the Bulgarian producers because some of the measures taken to align the legislation with the European *acquis* might rather exterminate the local producers than improve their competitiveness. The process of transposition of the European *acquis* should not be an end in itself but implemented only if it really improves the access to the EU market.

4.4 Conclusions and Recommendations

1. By the end of the 90-ies the Bulgarian agricultural sector is substantially lagging behind the requirements of the EU and the developed countries. According to expert estimations the revival of the agricultural sector alone (without the food-processing industry) and its modernisation will cost around \$10 bln. It is rather unrealistic to expect to generate such investments internally before the accession to the EU due to which positive developments in the sector can not be envisaged before the full EU membership.

2. The process of accession to the EU imposes two requirements on the agriculture: 1) formal (alignment and transposition of legislation) 2) structural transformation (including the establishment of an institutional framework which will guarantee the implementation of the legislation). The progress achieved in the structural transformation is essential since it secures the successful transition to the market economy regardless of the EU membership. Even if the accession is regarded as a political decision the lack of progress in the transformation of the agriculture and the food-processing industry will impede the process of integration of the Bulgarian agricultural sector into the European economy and will prevent the creation of a competitive industrial infrastructure which to benefit from the expanded market. Therefore, the main efforts in the next years should be focused on the structural transformation of the agricultural sector.

3. The trade with the EU in the 90-ies could not substantially grow regardless of the conclusion of the Europe Agreement. This Agreement provided for the establishment of a free trade area in the industrial sector but not in the agriculture – a sector where the two sides agreed on mutual concessions in gradual reduction of the customs duties. The liberalisation of the world commodity exchange as a result of the arrangements in the framework of the WTO compelled the EU to reduce the tariff barriers to third countries (not only to the associated countries). In the second half of the 90-ies it turned out that the main obstacle for the increase of the sale of the Bulgarian agrarian products in the EU are not the customs duties but the non-tariff (hygienic and veterinary requirements).

4. The process of approximation of the Bulgaria legislation with the EU *acquis* should not be an end in itself but it have to provide better market access opportunities for the Bulgaria producers. Similar to the other associated countries, it is recommendable Bulgaria to introduce for an extended period of time

different legal basis related to the hygienic requirements in the enterprises which are entitled to export to the EU and for the rest of the production structures.

5. Bulgaria is a minor player in the world trade and is not in a position to influence the supply and demand process and the price levels. Due to this the structure of the export will depend on the decision of every single enterprise. The state, however, may concentrate the limited external financial resources (such as SAPARD and PHARE) mainly in industries and structures which produce and offer products with higher level of processing. This will not only provide conditions for creating new jobs opportunities but will diminish the risks of further deepening the specialisation in production of raw materials which the developing countries can not avoid at this stage.

6. The modernisation of the agricultural sector is deeply affected by the current fragmentation of the land and the predominance of small farms. The consolidation of the ownership is the basic task of the agricultural policy. It can be achieved through a focused system of measures based on the advice and recommendations of experts and lawyers and not on political prejudices. The Bulgarian farmers will not benefit from the integration into the European Union even when Bulgaria becomes a full member without the consolidation and stabilisation of the production structures.

7. In the next 10 – 15 years the dual structure of the farming will probably be preserved. The small farms will continue to be targeted at self-sufficiency only and will not be very sensitive to the changes in the markets of the respective products, to the financial markets and to the competition. The market-oriented farms which represent so far a small share of the total number of the farms will continue to be closely linked with the Bulgarian and European markets. They are the main potential beneficiaries of the CAP if some of the instruments of the EU policy are applied to the newly admitted member states.

CHAPTER 5. Internal Market

Pavlina Popova, Veselin Minchev

5.1. Introduction

The European Council in Copenhagen included among other criteria for accession "the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union". In applying for membership on the basis of the Treaty, Bulgaria has accepted without reserve the basic aims of the Union, including its policies and instruments and upon accession Bulgaria will become part of the Internal Market.

The Internal Market is one of the main achievement of the European Union. Article 7a of the Treaty defines the Union's Internal Market as a space without inner frontiers, in which the freedom of movement of goods, people, services and capital is ensured. The basic characteristics of the Internal Market is the guarantee of a free and active competition within its boundary.

The Internal Market is not an end in itself but rather an instrument. By improving the economic performance of the participating economies, it allows for the achievement of a whole series of objectives: balanced and sustainable growth that respects environmental standards, high levels of employment and social protection, improved standards of living

Therefore, the key element of Bulgaria's strategy of attaining membership is its preparation for integration into the Internal Market of the Union and the need for the adaptation of the Bulgarian economy to a higher degree of opening up to competitive pressures. The preparation strategy must take into account that Bulgaria's participation in the Internal Market on one hand will present opportunities for the operation of Bulgarian enterprises in the wider European market. On the other, Bulgaria's economy shall be subjected to increased competition.

Due to the extremely large volume of the mechanisms and the rules regulating the Internal Market, as well as the set by this first study aims, we considered necessary to outline the framework of the problems. It will serve in further studies, examining the preparedness of Bulgaria to become a part of the Internal Market and the manners and roads through which it will be carried out.

5.2. Free Movement of Goods

Free movement of goods is the fundamental principle of the functioning of the Single Market of the EU. It means not only establishment of a customs union by the abolition of all customs duties and quantitative restrictions in trade between Member States, and adoption of a common customs tariff and common commercial policy vis-a-vis third partners, but also elimination of all non tariff barriers. By joining the EU, Bulgaria will be obliged to eliminate all barriers preventing free movement of goods in the enlarged EU and to align its trade policy to that of the EU. Furthermore free movement of goods is also conditional on the harmonisation of legal provisions such as technical norms, rules governing granting of subsidies, competition rules, indirect taxation, etc.

In spite of the evaluation of the EC in its Opinion and the Regular Reports on the implementation of its commitments on free movement of goods under the Europe Agreement is generally good, a considerable effort remains needed before the *acquis* in this area will be fully and effectively implemented by Bulgaria.

The abolition of customs duties for industrial goods is regulated by the Europe Agreement while the agricultural products remain outside the scope of the liberalisation. At the time of Bulgaria's accession, trade in agricultural products will be liberalised as well. In general, liberalisation of the movement of goods may affect the trade balance, in particular as a result of an additional increase of imports.

In this direction the tendencies, which have been observed during the recent years may be outlined. In 1997 and 1998 the Bulgarian export for the EU remains unchanged - \$2130 mln although its relative weight increases from 43,2% to 49,5% and during the first quarter of 1999 and 2000 it is equal to respectively 57,7% and 56,2. However, the Bulgarian import from the EU increases both in absolute and relative figures. In 1998 it reaches \$2260,2 mln or 44,9% towards \$1860,6 mln and 37,7% in 1997 while during the first quarter of 1999 and 2000 the import from the EU is respectively 46,7% and 41,1% of the total import.

Also, the production structure of the Bulgarian trade with the EU countries undergoes significant changes. The share of the chemical and similar products as well as of machinery, equipment and means of transport is declining. In 1998 the export of chemical products amounted to \$184,6 mln and 8,6% out of the total export while 2 years ago, in 1996, it was \$280,0 mln and 14,6%.

Machinery and equipment export has fallen from \$223,1 mln in 1996 to \$199,8 mln in 1998. The export of processed goods (including metallurgy) as well as of other processed goods (including ready-made clothes) is growing. The export of processed goods has increased from \$ 604,7 mln, respectively 31,6%, of the total export to the EU in 1996 to \$766,1 mln and 35,95% in 1998. The export of other processed goods has jumped from \$407 mln and 21,32 to \$584,7 and 27,4%.

There are also changes in the production structure of the Bulgarian trade with the EU regarding import. The import of industrial goods is increasing. In 1998 the highest relative share was held by the import of machinery and equipment — \$698 mln, respectively 30,8% of the Bulgarian import from EU, processed goods - \$631,2 mln and 27,9%. Together both groups represent about 60% out of the total import.

The preliminary data for the first quarter of 1999 and 2000 confirms the tendency of concentration of the Bulgarian export on processed goods (mostly in the export of metals) and other processed goods (mainly ready-made clothes) while the Bulgarian demand is focused on machinery and equipment which includes an import of all type cars, including second hand.

Table 5.1. Export and import by EU countries for 1997 and 1998

	Export - FOB				Import - CIF			
	1997		1998		1997		1998	
	Mln \$	%	Mln \$	%	Mln \$	%	Mln \$	%
EU	2135,9	100	2130,9	100	1860,6	100	2260,2	100
Austria	54,2	2,5	70,9	3,3	119,8	6,4	141,3	6,2
Belgium	76,3	3,5	152,8	7,1	61,9	3,3	88,7	3,9
United Kingdom	131,0	6,1	107,7	5,0	128,7	6,9	122,3	5,4
Germany	469,0	21,9	448,1	21,0	580,0	31,1	690,9	30,5
Greece	407,0	19,0	376,3	17,6	207,6	11,1	295,4	13,0
Denmark	19,0	0,8	22,2	1,0	39,6	2,1	45,1	1,9
Ireland	4,4	0,2	8,4	0,3	5,6	0,3	8,5	0,3
Spain	129,2	6,0	121,6	5,7	25,7	1,3	54,9	2,4
Italy	577,8	27,0	551,7	25,8	353,9	19,0	385,6	17,0
Luxembourg	1,7	0,07	1,4	0,06	2,2	0,1	1,7	0,07
Netherlands	75,7	3,5	79,5	3,7	91,7	4,9	103,0	4,5
Portugal	19,9	0,9	18,1	0,8	11,8	0,6	12,1	0,5
Finland	8,3	0,3	9,3	0,4	32,3	1,7	39,9	1,7
France	133,4	6,2	143,6	6,7	158,1	8,4	223,9	9,9
Sweden	28,3	1,3	18,8	0,8	41,0	2,2	46,2	2,0

Source: Foreign Trade of the Republic of Bulgaria. NSI. 1999. c. 15.

Table 5.2. Export and import by EU countries for the first quarter of 1999 and 2000 *

	Export - FOB				Import - CIF			
	1999		2000		1999		2000	
	Mln \$	%	Mln \$	%	Mln \$	%	Mln \$	%
EU	503,5	100	610,7	100	554,9	100	629,5	100
Austria	15,6	3,0	15,6	2,5	35,2	6,3	37,6	5,9
Belgium	49,0	9,7	88,0	14,4	17,8	3,2	19,9	3,1
United Kingdom	17,0	3,3	24,8	4,0	29,5	5,3	30,3	4,8
Germany	96,6	19,1	107,9	17,6	161,5	29,1	188,6	29,9
Greece	79,8	15,8	87,2	14,2	73,9	13,3	77,4	12,2
Denmark	5,9	1,1	4,7	0,7	9,5	1,7	11,4	1,8
Ireland	1,9	0,3	0,8	0,1	3,0	0,5	5,1	0,8
Spain	19,1	3,7	24,9	4,0	16,3	2,9	19,3	3,0
Italy	140,4	27,8	169,4	27,7	92,2	16,6	114,9	18,2
Luxembourg	0,5	0,09	0,0	0,0	1,1	0,1	0,3	0,04
Netherlands	18,0	3,5	26,5	4,3	24,4	4,3	23,5	3,7
Portugal	4,7	0,9	2,0	0,3	1,8	0,3	3,2	0,5
Finland	1,5	0,2	5,0	0,8	11,1	2,0	12,8	2,0
France	49,0	9,7	48,3	7,9	59,4	10,7	71,4	11,3
Sweden	4,4	0,8	5,6	0,9	18,2	3,2	13,9	2,2

* Preliminary data

Source: National Statistical Institute, June 2000, www.nsi.bg

Table 5.3. Export and Import from EU, according to STIC, rev. 3

	Export (\$ mln.)			Import (\$ mln.)		
	1996	1997	1998	1996	1997	1998
Total	1912,4	2135,9	2130,9	1780,3	1860,6	2260,2
0 Foodstuffs and live stock	104,8	88,2	118,2	66,1	103,9	114,7
1 Drinks and tobacco	95,4	75,5	73,4	21,9	12,1	8,8
2 Raw non foodstuffs materials excluding fuels	125,6	169,6	148,7	68,2	77,1	77,2
3 Mineral fuels, lubricant materials and similar products	60,9	90,8	46,3	13,5	18,3	50,8
4 Animal and vegetable oils, fats and waxes	0,6	1,9	0,9	7,7	9,7	13,9
5 Chemical and similar products unclassified elsewhere	280,0	287,3	184,6	318,7	279,7	353,7
6 Processed products classified by the type of the material	604,7	737,4	766,1	535,8	585,0	631,2
7 Machinery, equipment and transport means	223,1	187,2	199,8	516,1	522,6	698,0
8 Other processed products	407,9	489,3	584,7	220,3	250,8	308,7
9 Goods and deals not included in the other sections	9,4	8,7	8,2	2,0	1,4	3,2

Source: Foreign Trade of the Republic of Bulgaria, NSI, 1999. p. 16.

Table 5.4. for first quarter of 1999 and 2000, according to STIC, rev. 3

	Export (\$ mln.)		Import (\$ mln.)	
	1996	2000	1999	2000
Total	872,0	1086,0	1187,5	1529,4
0 Foodstuffs and live stock	73,1	51,3	68,6	62,1
1 Drinks and tobacco	36,2	36,7	12,4	12,6
2 Raw non foodstuffs materials excluding fuels	39,0	62,7	64,8	77,7
3 Mineral fuels, lubricant materials and similar products	51,9	127,9	267,7	444,6
4 Animal and vegetable oils, fats and waxes	6,0	1,9	6,1	4,3
5 Chemical and similar products unclassified elsewhere	105,1	140,9	123,5	149,4
6 Processed products classified by the type of the material	237,8	237,8	205,5	243,8
7 Machinery, equipment and transport means	101,0	116,0	311,0	337,7
8 Other processed products	192,3	238,8	106,7	106,0
9 Goods and deals not included in the other sections	29,6	14,2	21,2	91,2

* Preliminary data

Source: National Statistics Institute, June 2000, www.nsi.bg

Specific problems could arise in the area of the approximation of technical legislation due to the following reasons: its big volume, lack of strong co-ordination between line ministries and the State Agency for Standardisation and Metrology and setting up the priorities. The accomplished up to now in the area of standardisation, accreditation and metrology, in particular concerning the institutions, is a good start, but further efforts will be required for the establishment of such an infrastructure which will ensure the alignment and the implementation of the adopted legislation in this field.

Although some progress has been achieved by Bulgaria in specific sectors a substantial effort will be needed for the alignment of the Bulgarian legislation in the field of free movement of goods with the *acquis*. Therefore, Bulgaria should:

- continue to adapt its customs tariffs to those in force in the Union so as to allow at the time of accession, the adoption of a common external customs tariffs and common rules of trade policy. It will require a preparation of a programme allowing for the alignment of the level of tariffs to that of the EU;
- solve the problem of mutual recognition and conformity assessment certificates which will require far-reaching harmonisation of standards and adaptation of technical norms to those currently in force in the Union. In this regard it is recommended to draw up and implement a programme for harmonisation of technical standards;
- the improvement and strengthening of administrative structures and capacity will be of crucial importance for the effective implementation of the new legislation;
- a gradual adaptation of the Bulgarian legislation and the institutional framework with respect to Value Added Tax and excises to those in force in the Union is also necessary. In this regard, a programme of harmonisation of indirect taxes.

Based on the above-mentioned the transition periods will concern the implementation of the technical norms, in particular those which are costly, and the liberalisation of the movement of other sensitive goods.

5.3. Free Movement of Services

Another very big part of the secondary legislation refers to the conditions for the supply of services and it means to open markets which have traditionally been dominated by national monopolies like telecommunications, certain

transport sectors, energy, etc. and to open markets traditionally closed to persons or companies established abroad, such as financial services or the liberal professions.

Following Bulgaria's accession to the EU, the freedom to provide services will also include those sectors of the economy which previously have never experienced foreign competition. According to the Europe Agreement, the liberalisation of these services will take place at the end of the transition period. This applies, in particular, to the banking and financial sectors, as well as some sectors treated under specific terms such as air transport and telecommunications.

Liberalisation of the access to the financial market is a condition of the free movement of capital. It is necessary to find such a liberalisation path which will allow the domestic financial sector to provide services effectively while withstanding the competition of foreign institutions with greater experience, knowledge and capital base.

Coping successfully with the competition of the financial services on the Bulgarian market depends on a radical improvement in efficiency and capital strengthening of the financial institutions:

- Banking sector needs changes leading to more efficient involvement of the banks in crediting of the economy.
- Bulgaria should make further efforts to develop the security market through the improvement of the organisation and regulation of the market as well as ensuring transparency in the financial market.
- Insurance sector needs further development aimed at introduction of a stable and transparent insurance system providing security for companies and citizens.

As far as the telecommunication sector is concerned it will be necessary to continue the rapid development of the infrastructure, to start restructuring and demonopolisation of the market and the creation of competition. The failed privatisation of Bulgarian Telecommunication Company indicates a poor sector policy, the absence of clear priorities and aims, as well as for a lack of transparency.

As far as the transport services are concerned, the most urgent tasks should be to undertake investment leading to the elimination of bottlenecks in the system and the improvement of transport services for the public. Projects should be designed to improve the competitiveness of Bulgarian transport services by way of modernisation and restructuring such as the restructuring of Bulgarian

Railways as well as to look for ways of overcoming the problems in Balkan Airlines after its privatisation. The effective and transparent use of the ISPA funds should assist in this direction.

The improvement of the effectiveness of the financial sector and its preparation to meet challenges posed by market competition must take place before accession to the EU. Programmes supporting restructuring and privatisation of the service sector enterprises and, in particular, the enterprises currently occupying a privileged position – market demonopolisation must be drawn up and implemented. Sector programmes concerning specific types of services and designed to adapt them to the standards of service provision used in the EU should also be developed.

Following Bulgaria's accession to the EU, the service sector should fully enjoy the benefits of the inclusion in the Internal Market without derogations and transition periods limiting those opportunities. However, it may turn out that some service sectors will require different transition periods necessary for the complete adaptation of Bulgarian systems and legal provisions to those existing in the EU. Therefore, the above mentioned issues must be defined in a detailed adaptation programme beginning with the defining of the priorities for the implementation of the respective measures and the development of respective policies for their implementation.

5.4. Free Movement of Capital

This freedom is a „late“ achievement of the Community and is a basic condition of EU membership. Bulgaria needs to take advantage of this in order to achieve an acceleration of economic growth. This freedom means the right of companies and persons from the EU to invest in Bulgaria without constraints and the right to free transfer of profits as well as the right for Bulgarians to invest abroad.

According to the information of the Bulgarian Agency for Foreign Investments the country has accumulated foreign investments amounting to \$ 2,778 bln by December 31, 1999. The investments through privatisation deals are \$ 1,141 bln or over 41 per cent. The capital market has attracted only about \$ 147 mln or 5,3 per cent. The combined accounting of the joint companies, investor's credit and „green“ investments under item „Other“ placed them on the top — \$ 1,489 bln or above 54 per cent of the total investments.

Free movement of capital also means the right to unlimited purchasing of

property and financial assets in Bulgaria by foreigners from the EU.

Bulgaria introduced currency convertibility for most current account transactions but limited liberalisation of capital movement. However, full liberalisation of capital movement may pose a risk to the balance of payments. An appropriate monetary, exchange rate and state reserve policy under the currency board arrangement should prevent this.

In accordance with their respective responsibilities, the Government and the National Bank, should improve the systems of monitoring capital movements and should pursue a policy guaranteeing stability in the balance of payments.

5.5. Free Movement of Persons and Companies

The Community legislation based on the principle of free movement and the right to choose a residence is divided into two parts. To the first part refer acts of the Community which liberalise the labour market and provide the right of establishment for persons and companies, and to the second – acts which define the conditions of access of citizens from one Member State to another. The second part regulates such questions as residents' permits and permanent stay, entry rights, conditions and restrictions of extradition, family allowances and assistance, etc. Part of the acts of the Community which refer to the free movement of people are closely connected with the freedom of supply of services.

Free movement of labour may mean different results for Bulgaria and the Member States of the EU. EU Member States may fear a significant influx of job seekers from Bulgaria. For the Bulgarians the possibility of finding employment in the EU will be seen as an undoubted attraction. As far as the Bulgarian labour market is concerned, the outflow of highly skilled professionals, which is already noticeable, could be a problem. Another consequences could be the upward pressure on the wages and salaries, outstripping increases in productivity, problems in the social insurance system, etc.

Important problems in the process of adjustment in this area is the reform of the system of social and health insurance, the cost of the gradual adoption of certain standards in the area of labour and social policy, the mutual recognition of diplomas and qualifications and the right to practice a profession. The unsuccessful start of the health reform demonstrates how the mechanical transposition of foreign experience and practice, without taking into account the

specifics of Bulgaria, may lead to chaos and to the collapse of the whole system without replacing it with something which works. The lack of administrative capacity for the adequate implementation of the developed policies and measures is also obvious.

In the field of free movement of workers the most important task for Bulgaria will be to increase access for Bulgarian workers to the EU labour markets. The few signed agreements, for example with Germany and Greece, do not give the expected results. Further efforts should be made for the speeding up the mutual recognition of diplomas and qualifications and of the right to practice a profession.

An assessment of the current state of the legislation concerning labour law and conditions, as well as social policy should be carried out. It must be the basis for the creation of a programme for gradual unification of these regulations with those in force in the EU and must also take into account budgetary costs and costs which would have to be borne by the Bulgarian enterprises.

The fastest possible implementation of the free movement of labour, and of employees in particular, is in Bulgaria's interest. This means eliminating, or keeping short, transitional periods in achieving full access to the labour markets of the Union. The only area, where Bulgaria may be interested in interim solutions, is certain costly social regulations currently in force in the Union.

The free movement of persons within the meaning of 7a of the EC Treaty, i.e. the abolition of checks on all persons, whatever their nationality, at the internal frontiers has not yet been fully implemented in the Union. However, that objective has been achieved by most of the Member States in accordance with the Schengen Convention. The Treaty of Amsterdam incorporated the Schengen *acquis* into the EU. Bulgaria already has stated its desire and readiness to fulfil the provisions of the Schengen *acquis* and must further continue its efforts for preparation to this end, in particular to the strengthening of border control. These issues also touch upon the Third Pillar issues which need specific study but which are not dealt with in the present paper.

5.6. Competition Policy

Pavlina Popova

5.6.1. Introduction

The provisions on competition policy in the EC Treaty and their application are an essential element of the Internal Market. Article 3g of the EC Treaty provides for "a system ensuring that competition in the Internal Market is not distorted" as one of the main activities to be followed by the Community. In view of the important role that these provisions play, the Europe Agreements oblige the associated countries to apply comparable provisions on their territory. It should be underlined that the EU and its Member States are extremely interested that these obligations are scrupulously observed in the free trade area established by the Europe Agreement to the extent that introducing a competition policy and effectively enforcing it is considered a precondition for the opening of the wider Internal Market or ultimately of accession to the Union.

The Accession Partnership for Bulgaria emphasises this by including the alignment of Bulgarian legislation and its application under both the short-term („legislative framework for state aid, first state aid inventory and adoption of a new competition law") and the medium-term priorities („including alignment of competition policy, state aid...").

There are notable differences between the competition policy concerning enterprises and the control of state aid. The provisions of the former provide rules for enterprises, the provisions on state aid provide rules for the state itself and concern enterprises only indirectly (as recipients of state aid). The national laws to be developed and the institutions (and their powers) to be set up to administer these laws will have to take these differences into account. Therefore, it is advisable to have two distinct laws, one on competition and the other on state aid (for details, see below).

For both areas one has to keep in mind that the legal situations in the pre-accession period and the time after accession are quite different.

5.6.2. Rules Applying to Undertakings

After accession, when the EC Treaty has become directly applicable in Bulgaria the EU Commission will be the competent authority to administer

Art. 81–83 of EC Treaty and the Merger Regulation (Council Regulation 4064/89 – competition rules for enterprises) as well as Art. 87–89 of EC Treaty on state aid. There is no obligation for Member States under the EC Treaty either to have certain national competition rules for enterprises, or to have state aid controlled nationally. Member States just have to ensure that they can fulfil the secondary obligations deriving from these Treaty provisions – i.e. to provide the support which the Commission needs in executing Art. 81 – 83 and to notify all state aid according to Art. 88, not to grant it before the aid has been authorised and to provide all the relevant information.

On the other hand, during the pre-accession period the EC Treaty is not yet applicable in the associated countries. The EU Commission, therefore, cannot exercise any control in the area of competition or state aid in Bulgaria. This is why the implementing rules on undertakings were enforced in 1998, in accordance with Article 64 of EA. They establish a good basis for co-operation between Commission for the Protection of Competition and the EC. These national provisions, in principle, will become obsolete at the time of accession and will be replaced by the relevant articles of the EC Treaty.

Apart from the legal acts necessary, appropriate institutions (including courts) will have to be set up which can administer the law and exert an efficient control over (potentially) restrictive practices by business.

The Bulgarian Law on Protection of Competition (the “Competition Law”), entered into force in May 1998, regulates the Commission for the Protection of Competition (the “CPC”) and confers upon it the powers to establish violations of the Competition Law; to issue permits provided for in the law; to bring actions for repeal by the competent courts of administrative acts; to order the cessation of violations of the Competition Law and the restoration of the original status; and to declare agreements and decisions void.

The Competition Law has attempted to incorporate the main competition provisions of EU legislation. First of all the scope of the Competition Law is similar to the scope of EU competition legislation. It applies to all undertakings regardless of whether they are established within or without the territory of Bulgaria as long as they expressly or tacitly prevent, restrict, or distort competition or might do so within the Bulgarian market.

The Competition Law provides for both individual exemptions and block exemptions. Here again the regulation is quite similar to that of EU legislation. The main difference is that the Competition Law provides for compulsory notification of any agreements or practices, and any such agreement or prac-

tice, if not covered by a block exemption, would be prohibited even if they would comply with the substantial provisions for exemption.

Article 18 of the Competition Law which covers abuse of a dominant position is similar to Article 82 of the EC Treaty as the main difference is that Article 18 does not apply to undertakings holding a collective dominant position.

The Competition Law regulates concentrations in a manner similar to EC Council Regulation 4064/89 but does not seem to take into account the amendments introduced with Regulation 1310/97. The main differences concern joint ventures — the Competition Law does not seem to make a clear distinction between concentrative and co-operative joint ventures.

As a whole the Competition Law serves to bring Bulgarian substantive and procedural law on rules applicable to undertakings much closer to EU legislation, although there still remain some differences. However, the fact that there is no provision for issuing secondary legislation to implement the provisions of the Competition Law (other than the rules on the structure and the activities of the CPC and the enacting of block exemptions) will mean that the law leaves a lot of discretionary power in the hands of the CPC and the courts. The rules on the structure and the activities of the CPC could regulate in general certain procedural issues, but nevertheless there should be detailed secondary legislation on the procedures to be followed in each type of case. The powers of the CPC to actually implement the Competition Law have been strengthened, although not to the extent of the powers of the European Commission.

5.6.3. State Aid

The provisions on state aid should cover all direct and indirect financial aid extended by the state or any other public body (for example: communities, regional authorities etc.). As against the rules on competition, in the case of state aid it is the state itself which has to control its own actions (or those of related public authorities). As pointed out before: with the EC Member States, this problem does not arise. Within the EC system it is the EU Commission which controls the Member States' actions.

A law on state aid should provide for complete information on all direct and indirect financial aid, i.e. both on existing aid schemes and prior information on all new aid/aid schemes, as well as a system of monitoring of all state aid, including an assessment of its compatibility with the rules of the EC-

Treaty prior to its disbursement

The applicable Competition Law includes an Article on state aids. Its wording is similar to that of Article 92 and 93 of the EC Treaty.

The Competition Law for the first time provides a definition of state aids which is very similar to that of the EC Treaty. The Article introduces a requirement for prior notification of any new aid but does not require that the aid be temporarily suspended pending the ruling of the CPC. Also, the Competition Law does not provide for notification of aid schemes or programmes.

One of the main difficulties, which is true for all areas of approximation but seems to present particular problems in the sphere of competition, is obtaining a detailed and precise knowledge of the *acquis* by Bulgarian civil servants, judges, lawyers, and economic operators.

State aids pose a particular difficulty. In their purest form – state subsidies – state aids are distributed pursuant to the Law on the Structure of the State Budget and the Law on the State Budget for the respective year.

A huge amount of state aid was granted and is still being granted through the writing off of bad debt through ZUNK bonds, pursuant to a law enacted by Parliament. The Law on Foreign Investment, for example, introduced a tax concessions scheme for investments in areas with high unemployment, which is also a form of state aid (although in this case the aid would seem to conform *a priori* with one of the exceptions). The question arises – can a state agency have the power to control granting state aids? Does the CPC have the power to stop legislation enacted by Parliament? Should Parliament consult the CPC before passing a law? Could the CPC, for example, block a restructuring of a specific industry sector which will be done by means of a law adopted by Parliament and will involve state aids?

It seems evident that the answer to all of the above questions is negative. Therefore, the powers of the CPC in the sphere of state aids seem to exist only on paper. This is due to the fact that state aids should have been regulated in more detail in a separate instrument, taking into account both the specific nature of a situation where a state has to control itself and the arrangements reached with the EU Commission.

The Bulgarian Government and the EU Commission adopted the implementing rules on state aids. The monitoring authority at the Ministry of Finance, which was established (in 1996) in accordance with them and has already started to work is a positive step in this direction. The passage of the

Competition Law section giving the CPC powers in the field of state aids seems to create confusion with respect to the implementing rules on state aids and the role of the monitoring authority rather than to provide the much needed regulation of this sphere.

5.6.4. Advantages for Bulgaria from Adopting the EU Competition System

The advantages to Bulgaria from introducing a EU compatible competition system are first of all of a general nature, related to the overall Bulgarian aspiration to attain full membership of the Union and all the benefits, economic and other, which would ensue from such membership.

On another plane, if Bulgaria is to develop an effective and properly functioning market economy, it would need to introduce an effective system for the protection of competition anyway, even without the goal of EU membership in mind. As in many other areas, the prospect of EU membership is simply the catalyst to effecting much needed market reforms.

In the area of state aid a monitoring system prevents public money from being wasted and would concentrate such aid on the economically most efficient tasks.

The benefits from a fully-functional EU-compatible system will be best felt at the moment of accession, when the EU system will become fully operable in Bulgaria all at once. The closer the Bulgarian competition system is to the EU one at that moment the smoother the transition will be.

5.6.5. Public Procurement

Public procurement has grown substantially in recent decades and in most EU Member States it accounts for a relatively large share of GNP. Therefore, the associated countries must establish and maintain procurement systems that meet the standards of transparency, and of open, and fair competition. As in the sphere of competition, the state of public procurement legislation and practice will be one of the factors against which the readiness of each associated for EU membership will be judged. And it will also assist the public authorities in getting the economically and financially most beneficial contracts.

The first Bulgarian Law on Public Procurement was passed in January 1997 and in June 1999 it was replaced by a new Law on Public Procurement.

Although it seems *prima facie* to be similar to EU legislation there are some differences which need to be overcome in order to make the system EU-compatible, and also to improve the practical application of the Law on Public Procurement.

The main inadequacies of the Law on Public Procurement seem to be as follows:

Lack of differentiation of the different types of procurement. At present the Law on Public Procurement applies equally to all three areas as defined by the EU Directives.

The need for providing equal access and treatment to tenderers or candidates.

Determining the criteria and system for qualifications and licensing of tenderers or candidates.

Significant decrease of the thresholds for applying the Public Procurement Law and an introduction of such thresholds which do not provide opportunities for law circumvention through splitting the tender into several lower in value contracts.

5.6.6. Conclusions and Policy Recommendations

Priorities in a horizontal sphere such as competition must be elaborated on the basis of the proposals by line ministries and government agencies for the specific vertical sectors. Specific short and mid-term priorities for competition per se should include:

- Clarifying the respective state-aids roles of the CPC (which is defined in the Competition Law) and of the monitoring authority with the Ministry of Finance.
- Strengthening the CPC organisationally, financially and with personnel.
- Broadening the education of lawyers in EC legislation; training of judges.
- The adoption of the *acquis*, and in particular the Internal Market *acquis*, is essential for Bulgaria, which must commit itself permanently to the obligations of membership. The capacity and determination of Bulgaria to adopt and implement the *acquis* will be crucial, since the costs and benefits of doing so may be unevenly spread across time, industries and social groups.

CHAPTER 6. Approximation of Legislation

Pavlina Popova

6.1. Introduction

The approximation of the Bulgarian legislation with the EU legislation is not only a contractual obligation but also an economic imperative. In short term aspect the compatibility of the Bulgarian law with the EU law is an substantial factor for introduction and implementation of market economy principles, attracting investments from EU, mean for improving the access to EU market, etc. In long term aspect the approximation of Bulgarian legislation is a required precondition for Bulgaria's full membership in EU. Obviously, it will be a long and complicated process which should cover not only the effective EU legislation but also its future development. The approximation of the Bulgarian law with the EU law is dictated by the need Bulgaria to be capable of taking on the economic obligations of membership, in such a way that the Internal Market functions smoothly and fairly and to benefit fully from its competitive environment.

Certainly, the approximation of legislation itself is not sufficient for the successful integration of Bulgaria into EU Internal Market. The European Council in Essen underlined that the reasonable macroeconomic policy is of decisive importance for the success of the economic reforms and for the implementation of the accession strategy. Such policy aimed at the gradual alignment with the requirements of EU Internal Market shall improve the competitiveness of the Bulgarian economy and shall shorten the transition period and therefore shall assist for the achievement of macroeconomic stability. However, the immediate requirement for the carrying out of this process is the finding of an appropriate sequence and an appropriate speed for the approximation of the Bulgarian law with the EU law so that this process to assist for the speeding up of the economic reform.

Already started negotiations for Bulgaria's membership to EU pose serious challenges before us and they will require enormous efforts of our side. The EU Commission pointed out in its Opinion on Bulgaria's application for membership that major efforts are required especially in relation to:

- the economic criteria;
- the capacity to take on the obligations of membership; and
- the administrative and legal capacity.

The work to be done refers to different levels:

- orientation of economic policy;
- development of certain policies which would match EU policies in the same areas (agricultural policy, regional policy, social policy etc.);
- harmonisation of law;
- development of an appropriate administrative and judicial structure.

It is clear that the approximation of legislation is one of the basic criteria for Bulgaria's accession to the EU and one of the fundamental tasks of the strategy for Bulgaria's preparation to join the European Union. The successful adoption and implementation of the EU legal and institutional framework will improve and strengthen Bulgaria's capacity to assume the obligations of membership.

6.2. Framework of the Approximation Process

The roads towards accession for Bulgaria are marked by:

- the Copenhagen criteria
- the Europe Agreement between the EU and Bulgaria
- the Commission's White Paper of May 1995 and respective Road Maps for each of the applicant countries
- the EU Commission's Opinion concerning Bulgaria's application for membership in the EU
- the Accession Partnership
- Bulgaria's National Program for the Adoption of the *Acquis*
- the annual reports submitted by the EU Commission on Bulgaria's progress

Based on this framework, which gives both the general and the specific for Bulgaria guidelines, the further road towards membership can be subdivided into two phases:

- the distance to be covered until negotiations can be opened, including the screening process (pre-negotiation phase)
- the final phase in the preparation for accession, with negotiations being conducted parallel to this process

The intention of Bulgaria to join the EU found its legal and institutional confirmation in the Europe Agreement entered into force on February 1, 1995. The approximation of legislation is one of the basic obligations under the EA. According to Articles 69 and 70 of EA Bulgaria has committed to endeavour

to ensure that its legislation will be gradually made compatible with the current and future EU legislation as an important precondition for economic integration. In Article 70 of EA are listed the specific area where the approximation should extend; among them are competition law, customs law, trade law, banking law, protection of workers at the workplace, protection of environment, protection of intellectual property, consumer protection, alignment of technical rules and standards.

It should be stressed that EA provide to a large extent freedom for Bulgaria to define the pace of the approximation of its legislation. Only in certain areas there are deadlines for full adoption.

The adoption of the *acquis* has to be seen under a number of different, if related aspects:

Obligation under the Association Agreement will have to be fulfilled, notably concerning the Single Market, but also concerning competition law and the control of state aid etc.

Early adoption of the *acquis* brings Bulgaria closer to the EU even before accession.

Bulgaria will have to adopt the *acquis* in any case upon accession (notwithstanding transitional periods); in order to achieve this, legislative decisions will have to be taken before accession.

Areas in which the *acquis* were adopted prior to, or during the negotiations do not need to be discussed further in the negotiations.

Adoption of the *acquis* allows Bulgaria to familiarise itself with EU law and EU procedures.

On the other hand, the full *acquis* will not have to be adopted prior to accession. The programming, therefore, can be extended over a number of years, especially in areas where there might be serious difficulties in accepting the *acquis* at an early stage and where even transitional periods after accession might become necessary. In a number of areas the full adoption of the *acquis* will not be possible unless supplementary decisions are taken or additional agreements signed within the framework of the Association Agreement (mutual recognition of certifications or authorisations, freedom of establishment and services including the recognition of diplomas etc.). In areas of interest to Bulgaria, Bulgaria should urge the EU to put such additional measures/agreements into force (v. b) supra).

6. 3. The Bulgarian Constitution and the Europe Agreement

The approximation of legislation should be based on the Community legislation, i. e. on the three basic treaties merged into the Single European Act, Maastricht and Amsterdam Treaties, accession treaties of the Member States and other international agreements to which European Community is a party. It is so called "primary legislation" of EU. However, the approximation includes also the legal instruments of the bodies of the Community, regulations, directives and decisions.

This approach is accepted as a basis for the approximation of the Bulgarian legislation with that of the EU. In principle the Bulgarian Constitution does not present an obstacle for the implementation of EA. On the contrary, according to Article 5, paragraph 4 of the Constitution "International treaties which are ratified pursuant to a Constitutional procedure, are published and have entered into force for the Republic of Bulgaria shall be part of domestic legislation. They shall take precedence over the norms of domestic law which contravene them". Definitely, before accession amendments of the Constitution will be necessary due to the specific legal nature of Community's legislation which on the one hand contain features of international treaties but on the other hand they create norms with domestic nature. But for the performance of Bulgaria's commitments taken under the EA and in particular the approximation of legislation, the Bulgarian Constitution does not create obstacles.

The only exception affects the Association Council Decisions which publishing and entering into force still have not found satisfactory solution. As it was mentioned above the Bulgarian Constitution lists exhaustively the instruments which may be considered "normative acts". Furthermore the Constitution states that a normative act must be officially published.

There is only one category of law-making instruments into which the decisions of the Association Council could ostensibly fall – treaties. If, on the basis of the said Article 5, para. 4 of the Constitution, the decisions of the Association Council could be considered "international treaties" (or simply an amendment to the Europe Agreement which itself is an "international treaty") all would have been solved. Unfortunately this is not the case.

Prior to the approval by the Bulgarian Council of Ministers of the Association Council decision to amend Protocol 4 of the Europe Agreement there was considerable discussion concerning the nature of the Association

Council decisions. The view was advanced that they should be considered amendments to the Europe Agreement based on the provision of Article 85, paragraph 2, of the Constitution that a treaty may be amended pursuant to a procedure included in the treaty itself and on a similar clause in the Vienna Convention on the Law on Treaties. Unfortunately such a view does not seem to conform with the wording of the Europe Agreement.

First of all the Europe Agreement does not provide for its amendment through decisions of the Association Council. The wording of Article 107: "shall ... have the power to take decisions in the cases provided for therein. The decisions taken shall be binding on the Parties which shall take the measures necessary to implement the decisions taken." Article 32 of Protocol 4 seems to be a bit more specific: "The Association Council shall examine ... with a view to making any necessary amendments or adaptations". The Association Council decisions are binding upon the states and require the states to adopt the necessary measures in their own domestic law to implement them, but they are not a source of international law and are not directly enforceable as a "treaty".

Furthermore, to become a part of domestic Bulgarian legislation a treaty must be published in the State Gazette. At present there is no procedure for publishing Association Council decisions in the State Gazette – the Law on the State Gazette exhaustively lists the instruments which may be published. Also, the Association Council decisions are signed by the President of the Bulgarian and the EU representative rotate. There has been no precedent in Bulgarian Constitutional practice where an instrument signed unilaterally by the representative of a foreign state or organisation could be published in the State Gazette and become a law in Bulgaria. The found temporarily solution, the decisions of the Association Council to be adopted by a Decree of the Council of Ministers, does not correspond neither to the spirit nor to the letter of the EA, as the Association Council decisions do not presume additional endorsement by other body.

The reason for dealing so wide with this problem is that the duration of the negotiations is difficult to be defined at present but it seems likely the EA to be in force still a number of years. It means that the Association Council will continue to take decisions which should be implemented during not so short period. Due to this it is necessary other appropriate solutions for the removing of this problem to be looked for.

Upon the accession Bulgaria has to introduce some amendments in its Constitution regarding specifically the possibility the enforcement on the territory of Bulgaria the laws adopted by the bodies of the Community.

Laws and Secondary Legislation

As it was already mentioned the Constitution lists exhaustively the legal instruments adopted by the National Assembly, Council of Ministers and the respective ministers. Typical for the Bulgarian legislation is the huge amount of secondary legislation regulating the economic relations. The laws adopted by the National Assembly usually contain the basic rules for a specific area and assign to the Council of Ministers to adopt a respective secondary legislation which to regulate in detail the respective matters. It is undoubtedly that the new adopted legislation, both laws and secondary legislation, should be compatible with the respective Community acts as far as it is possible at the specific stage.

6.4. Accession Partnership and the National Programme for the Adoption of the *Acquis*

Both documents which are updated regularly on an annual basis, are the basis on which the approximation process should be developed. Accession Partnership is a concrete EU programme outlining short-term and medium-term priorities. The Bulgarian Government responded to this with its National Program on the Adoption of the *Acquis*. The Europe Agreement, however, will remain of considerable importance as a legal framework for the development of relations between the EU and Bulgaria.

The NPAA is envisaged as a basic instrument for the implementation of the Accession Partnership. It should indicate the precise commitments undertaken by Bulgaria to deal with the priorities identified in the Opinion of the EC and its obligations under the Europe Agreement together with a timetable for their implementation. Therefore, the NPAA should reflect precisely the priorities set up in the Accession Partnership and the Road Map for alignment of Bulgaria with specific sectors of the Internal Market. The Road Maps was elaborated by the European Commission with regard to the individual approach undertaken by the EU to each of the applicant countries. Each of them contain concrete actions and timetables for a number of specific Internal Market sectors as well

as for issues of horizontal nature or linked to a direct application of EC primary law.

The analysis of the approach used, the set up objectives (short and mid-term) and the instruments for their realisation allow the identification of some potential problems for Bulgaria regarding the overall process of approximation of legislation and, in particular, to the implementation of these documents:

- sufficient administrative capacity to monitor the process of the implementation of the National Strategy and NPAA. Having in mind Bulgaria's wish to accelerate the process of adapting its legislation the updates of the NPAA, respectively the Harmonogram, should be done quite often, which means very regular examination of their implementation and will require the involvement of each line ministry or government agency (some steps already undertaken are discussed under the next item).
- planning of the financial aid.
- the lack of impact studies on different areas which are of primary importance for Bulgaria
- insufficient knowledge of the Bulgarian administration of the EU mechanisms and in particular the *aquis*.

6.5. Mechanisms, Programming and Ensuring of Compatibility of the New Adopted Legislation

As it was pointed above the approximation of Bulgarian legislation with that of the EU goes further from the carrying out of the reforms necessary for the establishment and functioning of a market economy. The aim of the approximation process is to facilitate the integration of the Bulgarian economy in the developed industrial economies of the EU Member States. Due to this it is necessary not only the adoption of legal norms but also the establishment of institutions and mechanism for their enforcement. Therefore, the process of approximation covers the establishment of the appropriate structures and mechanisms for the implementation of the EU law. The successful implementation of the legal and judiciary reform is also part of this process. Without the adequate institutional changes the adoption of the Internal Market law may remain a process of formal reproduction of legal texts which definitely will not lead to the achievement of the required economic effect.

In this respect Bulgaria has the task first of all to introduce a working co-ordination mechanism in which clearly the functions and the tasks of all actors

in the approximation process to be clearly outlined.

In 1995, after the EA entered into force, with Decree 67/95 was set up a mechanism for co-ordination of the European integration process. It established a Government Committee chaired by the Prime Minister and containing 12 ministers, Secretariat on European Integration at the Council of Ministers and Co-ordination Commission on European Integration at the level of deputy ministers. This mechanism was repealed in 1997 and the overall process of the European integration was entrusted to the Ministry of Foreign Affairs. It reflects negative to a large extent on the process of the approximation of legislation because in practice the Council of Ministers was excluded from the direct management of the process. In a number of ministries the European Integration directorates was closed down which contributed for the slowing down of the pace of the approximation process and, which is more important, to the change to worse of the quality of the adopted acts, many of which was directly contradictory of European legal norms.

The adopted with the Decree No 3 of 20 January 2000 mechanism for co-ordination of the activities on the preparation of Republic of Bulgaria for accession to the EU and for the carrying out the negotiations for accession to a large extent repeats the 1995 mechanism and is a basis for the beginning of the efforts for solving the tasks faced by Bulgaria during its preparation for accession and in particular to the approximation process. The Decree No 3 defines the tasks and the functions of the line ministries and of the Ministry of Foreign Affairs as an operational co-ordinator of the overall process, establishes a Council on European Integration, chaired by a Deputy Minister of Foreign Affairs and Directorate on European Integration with the Council of Ministers. Although it detailed contain it should be mentioned that in our view the newly created mechanism is relatively clumsy concerning the interrelations between the different structures which will hamper the day-to-day business. In addition, although a number of the texts of the Decree contain provisions which concerned directly the approximation process, there is no clearly introduced mechanism about how in practice will be checked the compatibility of the newly adopted legislation with that of the EU and how its compatibility will be ensured at all levels – from the line ministry to the Parliament.

6.6. Priorities and Recommendations

In conclusion might be outlined the directions for the improvement of the process of approximation of legislation, which will contribute during the negotiation period to accelerate the pace of the approximation and to improve significantly the effectiveness of the implementation of the EU legislation. At the end some conclusion might be done

First, Bulgaria has to choose a methodology of adopting EU legal acts. The manner of transposition of the EU norms should be very carefully selected keeping in mind the nature of Bulgarian legislative acts. Obviously, mechanic transposition of whole regulations and directives is not possible due to the different hierarchy of Bulgarian and EU acts.

Second, Bulgaria has to develop further the system for checking compatibility of the newly adopted legislation and, having in mind the huge volume of the Bulgarian secondary legislation, to apply the system to it as well.

Third, taking into account that Bulgaria is in the negotiation phase and has in its disposal the whole EU legislation, the Government should make efforts in the following directions in order to improve the quality of the newly adopted legislation:

- a real assessment of the degree of compatibility at the moment to be done for each negotiation chapter (although it is done by the NPAA some of its parts seem quite unrealistic);

- an integrated approach to be applied towards the new legislation still at the drafting stage. It means that for the respective area of the aquis there should be a prior clarification which part will be adopted by law, which by decree, regulation, etc.; which part of the existing legislation should be repealed, amended or supplemented;

- a correspondence to be achieved between the priorities of the Government legislative programme and those set up by the NPAA;

- avoiding acts which contradict each other when in force at the same time.

Fourth, elaboration on impact studies which should try to identify the general implication in different areas including most sensitive sectors for Bulgaria – agriculture, steel, etc. – as well as to estimate the potential cost and benefits. Unfortunately, these studies were going to be carried out before the screening of the aquis which was going to facilitate the process of formulating Bulgarian negotiating positions.

Fifth, Bulgaria has to continue its efforts to create a very strong mechanism

for monitoring of the integration process, respectively the process of approximation of legislation, which to allow the smooth preparation of each progress report and to give a realistic assessment of the implementation of the NPAA. The good monitoring will allow good programming of the draft legislation and the successful policy planning. In this respect the administrative capacity should be strengthened and further developed.

Sixth, special attention should be paid to the increasing knowledge of the administration – both general and specific – about the way EU works, its internal mechanisms of policy-making and decision-making system, about the necessity of internal co-ordination of the Bulgarian institutions.

CHAPTER 7. The Social Policy Reform: Opportunities and Barriers Before the Social Change

Goran Bankov, Katia Vladimirova

7. 1. The Social Dimension of the Integration and Possible Assessment Criteria

Goran Bankov

The invitation for the starting of the negotiations for EU membership has posed a great challenge for Bulgaria. The country and the Bulgarian citizens must take their dignified place among the European peoples, which have been developing in normal market relations, internal and international competition. In their growth these countries have intertwined the eternal values of civilisation – liberty, justice and solidarity. Realistically, Bulgaria has 7-10 years to achieve what the EU countries have started building almost since the end of World War II. Aside from the economic and social aspects, where we have to change rapidly, we must adopt a new way of thinking. However, this has always depended and will depend on the people and the country's capabilities and resources.

In the ten year transitional period Bulgaria has been swaying between two extreme ideas, which practically pushed the economy and population's living standard towards another bottom. Even the macroeconomic stability reached with the introduction of the currency board after July 1 1997 did not lead to an actual growth of the GDP and the population's income. Internal consumption is critically low for both population and business. The commercial balance is permanently negative. The reforms turned into pure elimination of the industry and the social systems. No viable economic participants and resource guaranteed social structures took their place to ensure the safety of the population at acceptable standards. Almost the entire economic and social life in the country was caught in the webs of the corruption and confrontation.

At the same time the starting of the negotiations for EU membership virtually caught the country without one clear achievable target or programme in the basic policies – economic and social, with all their elements and correlation. In these areas the EU will carry out a permanent and comprehensive monitoring based on a broad range of criteria, indications and standards. This will especially apply to the social criteria, as they reflect a nation's development. The final assessment of the country's ability to cope with the acting forces in

the strong economic and social conglomerate, which the EU is, will depend on the speed of improvement of the living standard.

The *acquis* in the social area is quite extensive and multitargeted. The most common areas in which the respective social criteria and standards exist, can be grouped as follows:

- right of minimum income for existence;
- poverty and social support; social security;
- physically challenged people;
- labour legislation and working conditions;
- health and safety working conditions;
- equal opportunities for men and women;
- social security;
- employment and unemployment;
- labour market;
- healthcare
- education (an educated, qualified and adaptive labour force);
- free movement of people (labour force);
- other, specific.

The economic and social policy strengthen one another. The social protection systems in the EU are also being modernised all the time aimed at strengthening of their activities, so that competitiveness, employment and growth can be achieved and become a solid base for social unity. This approach, together with stable policy ensures the economic basis, founded on the **principals of**:

- common participation;
- solidarity;
- justice;
- sustained environment and an economy which offers benefits to all citizens.

These principals are established in fundamental EU documents and their implementation requires great efforts from the candidate countries. If the first wave of countries - Poland, the Czech Republic and Hungary have achieved significant economic and social growth, Bulgaria's position is quite unenviable. If we accept that part of the social legislation is in some ways compatible to European standards, the practical decisions, concerning the criteria and standards for the population's living standard are in an extremely critical state and are worsening for now. Bulgaria still does not have a concept for the strate-

gies in the social area. This will most likely lead to a continuing postponement of the final EU decisions for our full membership. Of course, we can be admitted sufficiently poor, but the catching up will be prolonged.

In order to outline the framework for analysis and assessments of the compliance with the EU in this situation, it is advisable to begin with indicators for the living standard, then to expand gradually to the compliance with the EU legislation. In this case the changes in the indicators for the living standard must also be compared to the trends of important macroeconomic indicators during the transition period, as correlation exist between them. Comparisons with similar indicators of the Central and East European countries will be helpful.

The following of the GDP changes for the whole 10 year transition period indicates that:

- the 1999 GDP in US Dollars is 56.9 % of the 1989 GDP;
 - the gross added value created in material production has dropped to 42.3 % in the period;
 - the 1989 \$2.454 GDP per capita has dropped to \$1.486 in 1999, or 60%.
- At the same time the gross added value of \$1.888 per capita has fallen to \$872 for 1999, or has reached 46.2 % of its value in 1989 material production:
- if we exclude trade, the actual gross added value in material production in 1999 is 38.3 % of that in 1989, i.e. after ten years a little over one third of our economy remains.

These figures prove that due to various reasons Bulgaria has been deeply affected by large scale processes of crisis and recession. A few years will not be enough for them to be overcome so that the phase of recovery and upsurge can begin. In this case the explanation can not be sought only in the overdue-ness or acceleration of the reforms. It is rather in the fact that from the beginning of the transition until now there are no nationally accepted aims and priorities of the economic policy which to be followed determinedly, in spite of the political pendulum. The international comparisons also indicate that due to the large scale loss of its economic potential, Bulgaria is last among the candidate countries:

- **by speed of economic recovery.** In 2000 Bulgaria will produce only 62.9 % of its 1989 GDP. In the Czech Republic it will be 97.3 %, in Hungary - 104 %, in Poland - 125 %, in Slovenia - 111 %, in Slovakia - 108 %.
- **by remuneration levels.** The hourly wage in Bulgaria for 1999 is around 1.16 DM, while in Germany it is 47.96 DM, in Norway - 43.49 DM, in

Belgium - 40,65 DM, in the USA - 33,37 DM, in Spain - 25,59 DM, in Greece - 15,43 DM, in Portugal - 11,57 DM, in England - 31,09 DM etc. This shows a tens of times difference;

- **by level of the guaranteed minimum for existence.** In Bulgaria it is \$34; the average for the EU is \$120; in the USA - \$300;

- **by level of minimum monthly salary.** In Bulgaria it is around \$50, the EU average is \$550-\$600;

- **by level of average income per capita.** In Bulgaria it is around \$50, it is 15-20 times higher in the EU;

- **by level and scope of impoverishment.** In Bulgaria around 85% of the population is poor and very poor. 40-45 % of the households live in utter misery. The social systems in the EU countries do not allow life in misery. In 1999 every fourth Bulgarian has turned to the social support services;

- **by level of demographic indicators.** Bulgaria is leader in negative demographic growth and ranks third by high death rate, compared to 28 averagely developed countries;

- **by unemployment level.** Bulgaria can not be compared to any other country. The registered unemployed are already over 726 thousand people or around 19%. The hidden unemployment is around 255 thousand people, therefore the actual is around 28,74% and 30,5%. Such an unemployment level is not only critical, but is very dangerous. In the EU this indicator is around 9,4%, in Rumania - around 8%, in the Czech Republic - 6,5%, in Hungary - 7,8%.

The above data indicates whether there was a consensual national economic and social policy in the country, or whether this policy was determined only by the doctrines of the ruling political parties and their interests. The national economic and social interests have been pointlessly sacrificed during the transition to market economy and democracy, because everything is tragically politicised in this period.

The main **brief conclusions** from the data for the economic and social development in Bulgaria during the 10-year transition can be classified in the following order:

First of all, the link between the economic and social policy has been entirely severed. It appears only at the end of the system in the explanations for the extreme decline of the actual income and living standard of the population.

Second, the degree of inadequacy in social policy rises incessantly since

1991. We have all the reasons to state that without an active social policy in the area of employment, income and consumption, the economic policy of actual growth is not possible. The overcoming of this absurd process in the conditions of a currency board is either very hard or is very hard to achieve through the current policies and instruments, or will require a basic change in financial, monetary and credit policies.

Third, the system for social security and safeguarding of the population has been destroyed. Its elements - guaranteed minimum income, minimum salary, minimum and average pension, children allowances, permissible unemployment level and others, are at extremely low and abnormal levels. There are practically no ties between them and they do not guarantee any of the minimum existence standards. There is no officially acknowledged top and bottom poverty level, which to become a foundation for the establishment of the system for the social security of the population and for a new income and employment policy.

Fourth, unlike in most of the countries in transition, a very restrictive incomes policy was applied in Bulgaria, which eventually lead to a double impoverishment of the population and an enormous decline in consumption. It is now a strong factor for the hold-up of the economic growth. Consumption is critically low and the products and service demand is shrinking continuously. The way out should be sought in a different income policy, which even if risky in a year or two will lead to a jump in consumer demand and thus to an increase in production and growth.

Fifth, the reforms launched in the areas of social security and healthcare must start practically. For now there are serious reasons for worry in relation to their financial backing, the organisational technologies for their performance, the scope of the income to be taxed, the size of the security payments, their tie with the taxation of personal income etc. In this case the practical problems, as well as the problems in the security and tax legislation may create insurmountable problems for these reforms if their models and mechanisms are not tuned and balanced carefully according to the capabilities of the state and the population.

Sixth, the possible criteria for the assessment of the social policy dimensions in the initial phase of the monitoring can be examined in two aspects:

- a) levels of very important living standard criteria and their relation to the national economic policy;
- b) social legislation and its compliance with the European legal norms,

social standards and infrastructures.

In conclusion, the social dimensions of the integration are especially important, complicated and difficult to achieve. All this is related to the historical and cultural differences, the nature of the economic relations and policies, the accumulated or not national wealth, the existence of democratic institutions etc. Having in mind that Bulgaria is crucially late with the reforms in almost all areas and that their implementation is becoming increasingly painful for the population, the solving of the social policy problems is also becoming increasingly harder. It is obvious that new reform solutions must be sought in this situation and that above all it should be closely tied with new decisions in the economic, fiscal and monetary policy.

7.2. The Social Differentiation and the Change in the Structure of the Bulgarian Society

Goran Bankov

The economic reform launched in the beginning of 1991 involving only price liberalisation was not tied to the respective compensation in the population's income and savings and it gradually began to lose its purchasing capacity. Until the beginning of 1997 the continuous inflation explosions drastically devalued incomes and the population was critically impoverished. The introduction of the currency board from July 1, 1997 found incomes at an extremely low level and the population began to shrink its consumption, focusing on a miserly existence and the natural economy. The update of the incomes only with the 1997 inflation, not counting the dropping of the Lev towards the US Dollar, very slowly restored their actual purchasing capacity. At the same time the use of privatisation as the only structural reform instrument lead to a rapid and critical increase of unemployment. For 3-4 years nearly the whole population was impoverished. However, in that time a very small part of it managed to become rich through corruption, hidden privatisation and open plundering. The party-state top crust took the country's economic power. All these processes in the recent years pushed Bulgaria to one of the lowest living standard rankings in Europe. No middle class was established, the existing private business is weighed down by the tax and social security burden. It is also important to note that the government is starting to deal with the social policy, incomes, poverty and unemployment problems now, after three years of unconcern as to the population's social state. The people will pay dearly for

this detachment of the economic and structural policy from the social policy and the overcoming of the heavy consequences will be long-lasting.

The changes in the population's actual income and per household member indicate that during the 10-year transition period the trend has been worsening continuously. At the beginning of 2000 we can see one of the most unfavourable social differentiation in the last 70-80 years of Bulgarian history with no equal in the other European states. The poor and very poor are around 85 % of the population, around 10-15 % are satisfying their vital needs in restricted frames and around 3-5 % are rich and very rich. From a sociological point of view the class structure in its pure form has reproduced in Bulgaria - a handful of rich, everyone else poor. Such a social differentiation is not only very dangerous but may reflect in many ways on the process of Bulgaria's integration to the EU. Almost all of the economic and especially the social systems are still latent in the aspect of market relations and their ability to compete with the similar European systems. Many and serious changes in the structure of the Bulgarian society have occurred in ten years. This is mainly due to the extremely restrictive social policy, which destroyed the established standards of life, work and the professional realisation of the Bulgarian citizens. One of the heaviest consequences of the social differentiation is that the misery is reproducing in the new generations. The youth unemployment is extremely high (31-35 %), its standing still and there are almost no near-future prospects for the solving of the employment problem of this group.

Permanent long-term groups of unemployed were formed in the Bulgarian society and such, which for years are included in the social security system, regardless of whether they are Bulgarians or belong to ethnic or minority groups. Due to its serious troubles the state can not guarantee their support and therefore they are threatened by permanent marginalisation. The misery many times leads to a rise in crimes. It will be difficult to solve this problem in the near 7-10 years, since its aspects affect almost all of the social systems - education, healthcare, labour market, low remuneration, pensions and child allowances etc.

From the point of view of the market economic participants it is very hard to differentiate the group of owners and entrepreneurs (as representatives of the so called middle class) from the rest of the population. This refers to real owners in the production sphere, which are very little and are unevenly dispersed in the different sectors. Those that exist are concentrated mainly in trade - wholesale and retail. The above mentioned 3-5% of rich and very rich

can not be included in the big capitalist group yet. The so called national capitalist has still not been identified in Bulgaria neither as an investor, nor as a producer. All this indicates that the small and middle business practically has limited reproduction functions and is aimed mainly at the survival and existence of the employed in it people. And in this relation the problems of the economic policy, the function of which is to create expansion space for the private sector, are yet to be solved. It must be noted that the people who obtained restitution rights over real estate mainly in the cities have for the greater part turned into landlords, but their share in the social structure is very small.

The structural modifications aside from the purely class division of rich-poor have most considerably affected the educated and highly qualified part of the population - the industrial workers, technical staff and all the other higher education specialists, the scientific intelligentsia, the employed in culture and art.

As it is well-known, the problem is that in the developed countries the highly qualified workers and the intelligentsia are the greater share of the middle class, regardless of whether they are in the owners or entrepreneurs group. The situation in Bulgaria shows that the reforms were detached from the problems of the people.

Four criteria must be observed in view of the future monitoring of the social stratification in Bulgaria:

- a) number of people living below the social minimum;
- b) number of people living below the social minimum but over the bottom poverty line;
- c) number of people living below the bottom poverty line;
- d) unemployment level and structure.

For these observations and assessments it is necessary for the respective legislation to determine official top and bottom poverty lines, the factors to be taken into account when they are calculated, their relation to other quantities in the income and employment policy.

In conclusion, the observations of the processes of social differentiation in Bulgarian society carry significant information about the policy of the state - economic and social. The methods currently used by various institutions for the social and existential minimum are first of all not officially acknowledged, and second are not consistent with the situation and the abilities of the country. Therefore, the need for legal regulation of these problems is very pressing. This will make the necessary comparisons with other countries more objective.

7. 3. Priorities and Recommendations on Incomes and Social Insurance

Goran Bankov

Taking into account the parameters of the present impoverishment, unemployment and neediness no other conclusion may be made except that the social policy needs on the one hand, a full reform and on the other it must become a priority of the state policy together with a new economic policy. In this respect the social policy should be aimed at three main targets:

First, short-term (anti-crisis) - the setting up of a System for Social Security of the population by the end of 2001. It should **guarantee the possible minimum standards in the field of remuneration, social assistance, pensions and children allowances as well as in the area of employment.**

It will be of primary importance that the setting up of the system is in accordance to the criteria and the requirements of the EU social legislation. This will allow a permanent monitoring on the levels and the trends of the development of the system's elements and their compatibility with the European standards.

Second, mid-term target. A stabilisation of the system for social security of the population and the decreasing of the scale and deepness of the poverty to be achieved by the end of 2003; a decreasing of the unemployment rate up to 7-8% annual average and a sustainable increasing of the incomes and the consumption.

Third, long-term target. Stabilisation and increasing of the employment to be achieved after 2003 and on this basis - increasing of the standard of living and approaching of the average standards of Central European countries, and later of those of the EU.

The State must become an active factor for the carrying out of the social policy priorities through development of a National Employment Programme and decreasing of the unemployment to 7-8% by 2003; starting of a programme with active measures for a large-scale qualification and pre-qualification of unemployed persons in accordance with the forecast needs for qualified employees in the different directions of the separate priorities and programmes. At the same time programmes for employment of the minorities, youths and handicaps should be developed urgently, as well as laws and programmes creating conditions for a realisation of the EU principle „Education and Qualification - All life“.

In respect of the new incomes policy our specific proposals are:

First, minimum hourly wage: to become 1 lev/per hour for employed without a labour contract and for those employed under labour or official relationship to increase from 0,45 levs to 0,65 levs. The minimum monthly remuneration to jump from 75 levs to 110 levs.

Second, the guaranteed minimum income for social support must rise from 37,3 levs to 63 levs.

Third, the minimum pension for length of service and old age - from 40 levs to 66 levs.

Fourth, an increase of the average pension from 77 levs to 90 levs.

Fifth, the child allowance to rise from 8,55 levs to 27 levs.

Sixth, a decrease of the tax and social security burden on the labour incomes - gradually until 2003, including: income tax to 15 %; the total size of the security payments - to 30 %.

We consider that the reform started in **healthcare and demographic policy** must go further, however a qualitative change in the means of its performance and funding is necessary. Therefore, law amendments must be made in order to guarantee normal access to quality health services to the population, to improve the system's funding, to improve the organisation and technology of the health insurance system, to create conditions for private investor participation in the building, development and operating of the health establishments and services. Some changes are also necessary in the social insurance system. For the stopping of the extremely negative population trends, **an adoption of strategies and laws in the demographic policy area** is definitely necessary in order to: increase the marriage and birth rate; decrease the death rate; improve the conditions for the raising and education of the coming generations.

The investments in human capital are becoming a state priority in the developed countries more and more. **The XXI century is a century of information technologies and highly intellectual productions and services. This requires serious changes in the volume and quality of the knowledge to be acquired by the coming and young generations.** Bulgaria's workforce - industrial workers, engineer-technological staff, experts in different areas of social life are widely losing their work and in most cases their qualification will become inapplicable. This requires not only personal efforts, but also involvement of the state for the pre-qualification of these hundreds of thousands of workers and experts so they can actively participate in public production. This necessity of a quality work force will as early as in the next years

require significant investments in the development of human capital. This means that we must rapidly introduce quality education and qualification standards, which will make us part of the European and global trends.

7. 4. Restructuring of the Labour Force

Katia Vladimirova

7.4.1. Employment, Unemployment and EU Labour Market Policies

The employment level of the productive work population is extremely important factor for the social progress, the quality of the population's life, the security and successful participation in the rapidly flowing processes of globalisation and European integration. The increasing of employment with the development of the economy is the most important factor for the elimination of poverty, the social disintegration and insecurity, for the success of the integration, for the term and social price of the EU membership.

In the recent years the issues related to employment are at the core of the of the debates for the building of the European integration. At the Lisbon European Council in March 2000 the need for a Community policy in support of employment was underlined as one of the main conditions for the establishment of the information society for all. Thus, the Community, following the policy of economic and social cohesion is also interested in employment. The economic development policies and the performed economic reforms must be seen through the prism of employment and social cohesion.

At the Amsterdam meeting in June 1997 the European Council, in accordance with the adopted in Essen „Employment Activities: Pact for Trust” and the Dublin Declaration for Employment (1996) adopted a **“Resolution of the European Council for Growth and Employment”**. It emphasises that the priority target is the setting up of a qualified, educated and adaptive workforce and the formation of a labour market corresponding to the Community's economic changes.

At the end of 1997 at the meeting of the European Council the state and government leaders reached an agreement for the beginning of joint actions at European level in favour of employment. This includes: a co-ordinated employment strategy, national action plans in favour of employment, associating of the social partners at all levels in the employment area. Every year the EU Member States submit to the Commission and the Council their plans for

national actions in favour of employment and a report for their performance.

The aims of the employment policy, determined with the national action plans are mainly in the area of: creating new additional opportunities for earning incomes; lowering the unemployment level; promoting equal opportunities for men and women; adjusting the training and the employment system to the work demand; promoting entrepreneurship, self-employment.

The 1999 Directives of the European Commission are in four major directions:

1. Improving the adaptability as a necessary prerequisite for dealing with youth unemployment and overcoming of long-lasting unemployment. The specific aims in this area are: offering unemployed youths a new start in the form of qualification, internships, work and others; professional orientation and qualification of the old unemployed.

2. Development of entrepreneurship through facilitating the start and expansion of business; development of the opportunities for creating new jobs; facilitating the tax system in order to promote employment.

3. Encouragement of the business adaptability and the employed in it through modernisation of the work organisation and supporting of the enterprises' adaptability.

4. Strengthening of the equal opportunities policy. For this purpose is recommended that the Member States: adopt the gender approach while implementing the employment directives; attempt to lessen the big differences in the unemployment levels between men and women; develop, implement and promote policies, allowing the co-ordination of the work and family life of the two genders; facilitate the reintegration in the labour market of men and women.

The European states expect to achieve a significant decrease of unemployment on this basis. For example, in its National Action Plan Austria has aimed to improve employment permanently and specifically to increase the number of employed with around 100 thousand in five years and the unemployment to reach about 3.5 %.

7.4.2. Change of the Employment Model and Restructuring of the Labour Force in Bulgaria

Major changes in employment have taken place in the last ten years of transition to market economy. The employment model has changed - from a poli-

cy of complete employment of the population capable to work, notwithstanding the economic price, there was a shift to an employment level determined mainly by the nature of the economic development, i.e. for a very short period of time there was a transition from complete employment and workforce deficiency to a high, large-scale and durable unemployment. The employment drop is accompanied by many significant changes in the workforce structure. The institutions and policies related to the establishing of labour market in the country were formed.

The employment of the population is falling and is beginning to reach those limits which are dangerous for the country's social peace and the survival of large population groups. The number of employed is falling and the number of the so called working poor is continuing to grow. During the last 10 years the employed in the branches of our national economy have decreased with over 1 million, which is over 1/4. This is due to many reasons — political, economic and demographic. Above all the significant fall of employment is related to the extreme shrinking of production, to the restructuring and the economic and social reforms, to the ageing of the population and the emigration of a considerable part of the active population. The population's economic activity has dropped, but its employment has dropped more. This processes is continuing and will not stop in the near years due to the need to raise the production effectiveness and employment, the competitiveness of national production.

The unemployment has reached a very high level and scale. The number of officially registered unemployed reached its peak in the beginning of May this year. The unemployment level reached 19% of the active population, i.e. almost every fifth who can and wishes to does not have work and therefore does not have work income or has no income at all. The share of the continuously unemployed in the total number of unemployed (around 730 thousand officially registered by the end of April, 2000) is high (over 1/3) and rising. They are those who have been registered as unemployed for over a year and are unsuccessfully seeking employment. Less than 1/3 of the unemployed receive compensations. Over 30 % of the total number of unemployed are youths up to 29 years of age and over 52% are women. The largest part (over 2/3) are people with low education and no profession. However, around 6 % of the unemployed have high education (around 42 thousand).

The price of labour for a number of entities is high from the positions of the significant disparity between the work demand and the offering, due to the

high and considerably increased in the last years share of security payments and state interference. It can also be said that it is high from the aspect of the work productivity. Together with this the labour price for the working persons is very low, for a considerable share of them — around the officially determined minimum work salary (under \$40). The social aids are very close to this salary, and for a great part of the unemployed the monthly compensations are higher. This situation has been destroying the work motivation for years now, it has not been stimulating towards economic activity and active behaviour on the work market.

The remuneration differentiation between the various sectors is deepening. And it is not a direct consequence of the higher productivity or more qualified labour, but mainly of monopoly position, heavy budget limits and partly labour conditions. Due to this the differentiation in the remuneration for qualified and unqualified work in favour of the latter, which is characteristic for socialism, was kept. The average annual salary is lowest in the healthcare, education, science and scientific services sectors and is highest in production of energy, gas and water and the extraction industry.

Due to the continuous unfavourable labour market situation, which has deepened in the recent two years, the conditions and the discrimination in hiring, remuneration, working conditions, dismissal have worsened. The employment insecurity and instability is rising. The greater part of the working contracts are short-term and are being prolonged all the time without becoming contracts for an indefinite term. Most of the so called civil contracts are practically labour, but their form deprives the working of basic rights: adequate remuneration and security, limited working hours, breaks and vacations, safety and health working conditions, indemnification for firing, protection in work etc. A great part of these contracts are oral and without security.

The employment in the unofficial sector, in the informal economy is high, although this can be assessed only indirectly as there is a lack of official data and trustworthy studies.

Summary

The dropping economic activity of the population and the even greater fall in its employment, the high and continuous unemployment, the mass impoverishing and domestic market shrinking, the existing genuine threat to social safety (even only in relation to social insurance funds) are a seriously enough

danger for the process and terms of Bulgaria's EU integration.

The restructuring of the labour force and the employment changes in the population are **extreme**, large-scale and in many directions. They can generally be divided in two big groups: 1) such, which are aimed at the establishing of the market economy in the country and which expand its integration opportunities and 2) such, which cause difficulties, obstacles for the successful integration and development through market economy and democracy. The latter require the implementation of *an adequate policy for the increase of employment and the decrease of unemployment* in the context of the co-ordinated policy, strategies and plans of the EU Member States.

The first group of changes in employment, creating a *good base and opportunities for the EU integration* and the country's development through market economy and democracy are:

- *the change of the employment model*, from administrative allocation of the employed and their mobility towards market allocation; from full employment on a social basis — towards employment determined from the labour demand, from passive to active behaviour and competitiveness of the labour market;
- the abolition of the administrative restrictions for the movement of the labour force in and outside the country, creating conditions, although limited for now, for greater *mobility of the labour force*;
- a transition from administrative to contractual relations in the paid employment area, mutual determining of the labour price and the other hiring conditions by the direct participants in the labour process (employees and employers);
- radical amendments in the existing in the country *labour and social legislation* in the context of the development of the market economy and the democratic processes and in accordance with international conventions, EU law and others;
- the building and development of *social partnership* at all levels and development of the collective labour contract system;
- the establishment and development of the *labour market and its institutions and policies* through the setting up of a network of employment offices throughout the territory of the country, their equipping and training of their employees;
- the establishment and development of a policy regulating the *labour market, of an active policy* for stimulating the unemployed to return to employ-

ment and the employers for hiring particular groups of unemployed;

- restructuring of the branch and sector employment, a rapid increase of the employed in the area of services and decrease of the employed in industry;

- increasing the number of employed in the private sector, of entrepreneurs and self-employed

- a rapid increase of the employed in non-government organisations as a guarantee for the development of the civil society in the country.

The second group of changes in employment, which create problems and obstacles in the course of the integration, economic growth and the social cohesion include the following:

- 1) *Decreasing the population's participation in the sphere of paid labour*, in employment and the development of the economy. The economic burdening of the working (social security payments, taxes, salary increase limits and others) is growing. At the end of 1999 only 57.4% of the population at an active age is working. In the total employment decrease the drastic fall in the employment of young people, ethnic groups, women, agricultural population stands out. As a result the number of impoverished and becoming impoverished and of the excluded from the labour sphere are increasing. The number of economically active people, which count on and need social aid are growing. One part of them find it difficult to return to work, for others it becomes impossible to ensure their children's' education. Many leave school prematurely for this reason.

- 2) In spite of the significant fall in employment (around 40 % compared to 1989) the hidden unemployment and the ineffective use of the employed remain high. In recent years production dropped rapidly, the wasting of working hours due to various reasons, work conflicts and others was increased. The increasing of effectiveness, competitiveness of the greater part of national production requires a diminishing of the production costs, including labour. This requires the further dismissal of employees. Even at comparatively high economic growth it is possible that the expectations for an employment rise will not be fulfilled.

- 3) A drastic rise of employment in agriculture (from 19 % in the beginning of the 90s to 26 % of the total employed in 1999) and reaching a level abnormal for developed countries and even more for the EU states (5,7 %). The scales of the hidden unemployment and of the natural economy have enlarged. The employed in the sector have the lowest educational level compared to the employed in the other branches and sectors of Bulgarian economy.

- 4) The processes of deindustrialisation and restructuring of the economy naturally led to the considerable fall of employment in industry. However, the fall in production is greater. The employment and production in branches, considered to be prospective and traditional for our country and in sectors, in which it has invested a lot in the last decades, have been destroyed. The first include the light and the food industry, and the second - electronics, computing machinery, electromechanical industry, appliance production, specialised equipment and others. This caused our economy to loose not only foreign markets and opportunities for a more rapid growth and employment, including for higher qualification labour, but also short-term opportunities for the technical and technological production level to change, to keep in the country and effectively use professionally trained and qualified experts.

- 5) With long-term consequences for the economic development and restructuring and employment a significant decrease of the employment in science and scientific applied research has been reached. The expected institutional restructuring of the scientific research from the institutes to the universities was not achieved. Production was deprived of scientific research and innovations, which are very important for increasing the effectiveness and competitiveness of the national production. The quite shrunk in size and scattered in many directions potential is practically ineffective also because of the insignificant funding, which the budget can afford for scientific research and equipment.

- 6) Among the small number of branches, which have increased the number and share of employed is the state administration. This processes is very troubling having in mind the total employment drop and the very reduced state participation in the running of the economy. Only for one year the number of employed in this area has increased with 11 000. This jump is accompanied by a rise in bureaucracy and corruption and the ineffective economic development.

- 7) The share of the employed in the public and especially in the private sector, who receive labour remuneration around the minimum salary is high. The greater part of the employed in the private sector are not ensured against social risks (from nearly 2 million officially employed the ensured are less than 900 thousand). This leads to a rise in the number and share of the so called working poor, increases the insecurity and social differentiation. Part of them prefer the official unemployment to employment (the compensations are higher than the minimum wage) or continue their unemployment as an alternative to

low remuneration and insecurity.

8) The very high, large-scale and continuous unemployment is a very concerning problem. The officially registered unemployed are almost as much as the employed in industry or agriculture. In reality the offering of labour is much higher due to the fact that many graduates do not register in the labour bureaux or many leave them prematurely, desperate unemployed, who have lost faith and abandoned their official registration, pensioners and students seeking work and others. The great number of the released from the army due to its reform should be added here.

The unemployment level in many municipalities is over 30%, and in many is over 40%, even 50%. Many of these areas have mixed or compact roma population. Only around 1/4 of the unemployed receive compensations and around 550 000 of the unemployed have no incomes. Only a relatively small part of them can hope to receive social aids or to be included in the subsidised employment programmes.

Most of the employed have low education, no professional training and/or no working experience. Most of them are romas, youths and women. Around 60% of the unemployed are with low education and no profession, which means that even with favourable economic growth, increase of the foreign investments, greater labour force demand the chance for them to find paid employment is very small. For many of them the paid labour sphere becomes inaccessible and the entering in it - accidental, short-lasting and uncertain. At the same time this leads to social insecurity and in the best case - employment in the unofficial economy, migration and others.

9) *The country's financial servicing of unemployment is in a crisis.* The Professional qualification and unemployment fund (PQU) is exhausted as a result of the short-sighted policy carried out in the recent years and of the ill-founded reallocation of the security payments among the different types of security risks. The monthly payments of the compensations to the relatively small share of the unemployed, who have the right to receive them are difficult. That leaves no possibility for the financing of other labour market activities.

10) The active employment policy is practically threatened to cease to exist due to the lack of financial sources. Until now it was aimed mainly at the unemployed, at financing the very limited activities for professional orientation and qualification, encouragement and stimulation of the unemployed to start work and the employers to hire specific groups of unemployed.

7. 4. 3. Bulgarian Labour Market Policy

During the past transition years the necessary institutions were set up in the country and the respective legislation was adopted for the creation and development of the labour market. For this purpose Bulgaria received significant outside aid, mainly from the EU Member States. Essentially the necessary institutional and legal conditions for the functioning of the labour market were established, including those for the implementation of an active employment policy.

The main problem of the Bulgarian labour market during the transition years and especially in the last two is the low, quite insufficient aggregate labour force demand. The lack of a favourable economic environment and conditions for business growth, especially for small and medium enterprises, as well as the ongoing shrinking of the domestic market demand make the labour demand very limited. The high social security payments and the taxes, the extremely weak application of various forms of flexible employment and the low mobility of the labour force also contribute to this.

The labour offering is much larger than the officially registered in the sections of the National Employment Office. Apart from the registered there persons in economically active age without work and work incomes and actively seeking employment, the labour offering of other groups practically remains uncovered. These groups are pensioners, students, unemployed who have failed to register, employed (by a second and additional labour or other work contract). The low level of pensions and salaries, the respectively high price of education and others make the labour offering much higher than the officially registered. The unemployment growth is related to the conducted reforms (privatisation, elimination of ineffective productions, reforms in the army and social security and others) and the continuous economic crisis and stagnation, the loss of markets and others. A great impact also have the high social security contributions the employers must pay, the ineffective policy for the regulation of the disbalance on the labour market, the passive behaviour of most of the unemployed and the labour agents, the lack of a practice for flexible employment forms. The respectively high unemployment compensations (between 80% and 150% of the minimum monthly salary) compared to the salaries received by the employed on a full day basis (around the minimum) is also not a stimulation for active job seeking.

The high unemployment level, the large-scale disparity between labour

demand and offering in general and particularly in a number of private labour markets, the growing discrimination in the labour sphere and others require the implementation of an active policy in favour of employment, for diminishing the unemployment and its socio-economic and political price, the quicker return of the unemployed to labour, the setting up of conditions for the realisation of the constitutional right of labour of the country's economically active population. There are formally established preconditions for unemployment protection and employment promotion. This is the specific law which entered into force on January 1, 1998, as well as the adopted since the beginning of the transition many legal acts and programmes, the building and development of the respective institutions on the labour market, including on a tripartite basis, the establishing of a specialised fund (Professional Qualification and Unemployment) and others. All this was achieved with the technical assistance of a number of European countries (Germany, Belgium, UK, France) and international organisations.

The timely establishing of the PQU fund as separate and independent from the highly deficient state budget, practically on the basis of the social security payments of the commercial sector employers and, in the recent years, of the personal contributions of the employees, was supposed to create stability and safety in the system, an opportunity the implemented labour market regulation policy to be easily financed. It was thus until the last two years. In spite of the high number of unemployed and the measures implemented to stimulate unemployment diminishing and employment growth the PQU fund had a considerable surplus, which was repeatedly used for interest free loans to social security, mainly for the payment of the monthly pensions.

Until now most of the measures of the implemented policy were the ones forming the so called passive policy (paying of unemployment compensations and aids, development of labour market institutions) and the measures and programmes of the so called active policy held a much smaller share. The active policy is aimed at returning the unemployed to work, stimulating the employers to hire specific groups of unemployed and to open jobs, at encouraging self-employment and entrepreneurship, an active behaviour on the labour market. At the end of 1996 only 17 % of the PQU means were used for the implementation of active policy measures. In the last two years and especially in 2000 due to the sharply reduced means of the PQU fund the carrying out of the active policy was practically suspended, even qualification. Less than 0.5% of the spent funds are for professional qualification. The most (over 12%) were

spent for the setting up of temporary jobs for the unemployed mainly as part of the temporary employment programs. The results of the various active policy measures are more or less symbolic than effective, with impact on the disbalance of the respective private labour markets. A number of widely advertised active policy measures could practically not be started and/or have an actual effect - the youth employment programme, alternative employment programmes in relation to large-scale employee reductions and/or closing down of enterprises in the small cities and towns, the measures for promoting entrepreneurship and self-employment among the dismissed from the closed down enterprises and others. The registering and financial support of part of the unemployed is the main activity of the labour market institutions. Also, there is a complete lack of analysis and assessment of the actual labour demand and offering, i.e. not only their registers. The assessments of the anticipated labour demand changes are insufficient in the aspect of professional training and qualification. Most of the funds (over 3/4) are allocated for unemployment compensations and aids, which are received practically by only 1/3 of the total registered unemployed. There is no social protection, policies and measures aimed at returning to employment and employment incomes for most of the unemployed.

The considerable unemployment rise and the adopted reduction of the unemployment security payment and the very little number of people with social insurance practically led the once rich PQU fund to exhaustion and are now a real threat to the capability of the fund to pay the necessary unemployment compensations monthly. The active employment growth policy carried out in the last years mainly at the expense of the PQU fund is on the verge of collapse due to lack of financial means. The budget resources in this direction are also very low. With this Bulgaria returns to the initial transition years when the state employment offices carried out only the registration of the unemployed and the paying of their compensations and aids. The active employment policy, although limited in scale and share of PQU fund expenses, has practically been eliminated, while in the EU states it is dominating and the aims set out in the recent years are for its expansion.

In spite of the unemployment in Bulgaria, the need to reduce the economic and social pressure which it triggers has not yet been realised. There is somewhat of an engrossment in passive policy - for constant amendments in the legal basis, for a formal increase of the number of proposed measures and programmes (very often modified existing, unfunctional or ineffective).

7. 4. 4. Equal Opportunities for Men and Women

The EU policy has undergone a number of changes in the recent years, in relation to the greater access and opportunities for women on the labour market. According to the Rome Treaty (article 119) each Member State is obligated to: „ensure that the principle of equal pay for male and female workers for equal work or work of equal value is applied“. In the later adopted basic directives for the rights of women, the Member States take upon themselves the duty:

- to review their laws so as to exclude any discrimination on the grounds of gender and in particular in the professional qualification systems;
- to ensure equal treatment in view of the working conditions and work access, as well as professional qualification and promotion opportunity;
- to consider unlawful any discrimination, affecting the legally established social security programmes, covering the risks related to sicknesses, unemployment, family support;
- to abolish the discrimination related to the professional pension schemes;
- to abolish the direct or indirect discrimination of women who independently support themselves;

The directives also contain other provisions concerning motherhood and social security.

The European social fund encourages through various projects and plans the providing of equal opportunities in the areas of employment and professional training.

The European Commission embarked on a number of initiatives for the promotion of gender equality through development of education and vocational training as there is an opinion that the roots of gender discrimination can be found in the educational level and qualification.

The main directions of the employment strategies, programmes, and measures adopted by the European Union at the end of 1997 include the enhancement of the equal opportunities, reaching of a fair partnership and equal responsibilities through: modernisation of society so that men and women can work in equal conditions for the fuller development of the economic possibilities; development of new balances between the professional and family life of men and women; abolishment of the barriers for more considerable woman participation through the means of the social policy.

In the 1999 European Commission Employment directive one of the four

pillars is dedicated to the strengthening of the equal opportunities policy. It aims to diminish the great disparities in the employment level, labour access and professional career of men and women. The need to adopt and implement policies, oriented towards the family and combining the care for it with the professional employment and career of men and women is taken into account for the achievement of actual labour equality.

During the accession negotiations with the new countries the equality of men and women will be taken into account in every separate area. The European Commission opinion for membership preparedness of the candidate countries will to a large extent be based on the created opportunities for gender equality - legal, as well as government measures and its joint actions with the social partners (syndicates and employers) against labour discrimination: in relation with the hiring and dismissal, remuneration and professional career.

In the last years of transition towards market economy the labour world has also undergone many changes for men and women. The level and scale of the economic activity, the employment and unemployment have strongly differentiated according to gender. The different employment and career opportunities stand out more and more. The labour market discrimination according to gender, age and other characteristics has grown considerably in spite of the legislative guarantees. The Bulgarian Constitution, the Labour Code and the Law for unemployment protection and employment promotion and other specialised laws proclaim gender equality in the labour sphere. A specialised law for equal opportunities for men and women is under preparation.

The main source of the discrimination is the imposed in society women status - of mothers, housewives and labour force.

In the last decade labour took great scales in the employed women's' time. This is indicated by the data for: distribution of the employed persons according to the usual weekly working hours (over 88.6% of the employed women at the end of 1999 work over 40 hours a week); the increased share of the production related to household agriculture (where mainly work women); the observations of the dominating participation of women in the raising of children and especially in household work.

Labour in the unofficial sector has grown, were mostly women are employed and where working hours and week by far exceed the law-established limits. This also contributes to the overworking of a great share of women. Also, many women work in unfavourable and unhealthy conditions, with no security and adequate remuneration.

The strongly unbalanced labour market, the much higher offering of labour than the demand, as well as the insufficient state and trade unions control deepens the inequality of men and women in the labour sphere. Above all the discrimination is obvious in the work advertisements, where the age and gender discrimination is proclaimed freely and unpunished. Most of them explicitly require the work candidate to be a man or a woman (although not very often) and at a certain age without this being necessary for the position or according to the law. The National professions classification adopted a few years ago, which is used officially by the statistics and labour authorities contains many prerequisites for gender discrimination. In can be said that in Bulgaria, including Government, legislative bodies and trade unions, the necessary understanding and attitude for change do not exist yet.

The most often dismissed persons due to reduction of staff or activities, structural or other changes are women. As it is indicated by the official statistical data they have a „priority“. Usually the reason is that they are not family „heads“. Very often the motives are related to the incapability of women, due to their other family obligations, to be „available“ for work exceeding the usual duration of the working day and week, or due to upcoming motherhood, the existence of small children, caring for ill family members.

The greatest legislative opportunity for equal opportunities for men and women is established by education and professional qualification. It is these two factors that allowed women in Bulgaria to enter paid employment comparatively fast and to achieve specific conquests in their professional realisation. The high education of a significant part of women in an economically active age allows them to successfully penetrate entrepreneurship, to work independently (self-employment, free lancing). However, we can not say that men and women have equal opportunities for paid labour and professional promotion - before and after 1989, i.e. in the years of the democratisation processes in all areas. There are many reasons for this, many of them disputable, but the problem practically is not publicly discussed, there is a lack of understanding and maybe this is one of the most considerable impediments. It is followed by the social practice and the traditions in division of labour outside of the paid employment, i.e. in family and society, the understanding of the main function of each gender and others.

7.4.5. Conclusions and Recommendations

Up to now the Government employment policy was aimed only at the unemployed persons, i.e. at the „curing“ of the consequences, but not at the creation of employment, the preserving of jobs, the establishment of conditions for a natural employment growth — through economic development. Macroeconomic, social and financial policies are not still tied to the employment policy. The latter is still not accepted as a priority, although the already reached extremely high level of unemployment and impoverishment and marginalisation of large groups of the population practically impose such an attitude.

The adoption of a policy on the employment, oriented towards the creation of an economic environment motivating the employers to create jobs and to hire unemployed persons, to stabilise the employment in their enterprises, to use flexible employment policies and to establish more favourable conditions for work, becomes more than necessary. This means giving up of the existing approach for „curing“ the consequences of the unfavourable economic environment and adopting a policy for the prevention of unemployment, for production development and on this basis a growth in income and budget proceeds. This would create greater opportunities for the success of the measures aimed at supporting the risk groups on the labour market.

The economic situation in Bulgaria still remains complex and difficult, but the capabilities of the macroeconomic and regional policy, of the policy of education investments for unemployment reduction, for growth in employment and opportunities for professional achievement and a better life for the different population groups should not be underestimated. It is necessary for the efforts of the State, in particular of the executive power, and the social partnership institutions to be aimed at:

- a closer tie up of macroeconomic and regional policy with the employment policy;
- promotion of the setting up and development of new productions, sectors and activities;
- creation of a favourable environment for the development of the entrepreneurship, of small and medium enterprises, of family business, as incubators of jobs;
- a more immediate tie up of the education and qualification of all ages with the demand of the employers, with the present and the expected situation

on the labour markets for different professions;

- stimulation of the employers to invest into human resources, to stabilise the employment, to create incentives for more productive labour;
- creation of conditions for equal employment opportunities for different groups of the population, for decreasing of high unemployment among the young people, women, disability persons, romas, etc.;
- broadening the participation and involvement in the employment policy of more State and non-governmental institutions, local authorities and citizens' associations.

For the activities of the institutions at the labour market and mainly of those included in the structure of the National Employment Office to be successful and more effective, it is necessary

- that the implemented labour market policy be restructured in favour of the active policy, i.e. to the preparation and inclusion of the unemployed persons in the employment;
- to improve the role, scale and quality of the information and intermediary services of the labour offices;
- to broaden the activities for the improvement of the adaptability of the unemployed persons to the situation of the labour market and the requirements of the present and future organisations in the country. This can be achieved through the inclusion of all newly registered unemployed persons in short-term courses for adaptation and motivation for active behaviour on the labour market and professional orientation in the new situation in which they are;
- to achieve a quality change in the concept for professional training and adaptability of the unemployed persons, especially regarding the huge number of unemployed persons with low education and without profession as well as of long unemployed persons;
- a development of activities for real achievement of equal opportunities at the labour market;
- an application of the gender approach in the development, realisation and assessment of the legal basis, policies and programmes for social and economic development, for employment and investments in human resources.

REFERENCES

1. Bulgaria On the Road To Europe, "Friedrich Ebert" Foundation, Agency for Economic Development, C., 1996.
2. Le monde du travail, Sous la direction de Jacque Kergoat, J. Boutet, H. Jacot, D. Linhart, Ed. la decouverte, Paris, 1998.
3. Vladimirova, K., La Bulgarie: transition, integration et emploi, In *Integration europeenne et emploi. Le cas des pays semi-peripheriques de l'Europe*, Sous la dir. de Marc Dusautoy, Presses de la Sorbonne Nouvelle, Paris, 1998.
4. Vladimirova, K., Femmes et marche du travail en Bulgarie, In *Un continent noir: le travail feminin*, L'Hrmattan, Paris, 1999.
5. The impact of privatisation on women in the process of economic transition, "Bulgarian Gender Studies" Foundation, C., 1999.
6. Bulletin Europe, 1997 - 1999.
7. Statistics Reference Book, NSI, C., 1999 and 2000.
8. Employment and Unemployment, NSI, 3/99.
9. Social Trends, NSI, C., 1999.
10. Summarized Labour Market Data, HC3, 2000.

7.5. Health and Safety Working Conditions

Katia Vladimirova

The World Health Organisation upholds the principle of good health, determining it as a „state of complete physical, mental and social well being, not just the lack of illnesses and infirmities. The people living in a state of transition towards market economy aim to ensure at least their economic capabilities for treatment.

The total crisis has reflected directly on the work conditions. Constitutional and other rights concerning healthy and favourable conditions of work are being violated. The prices of treatments and prophylactics are most dynamic among the prices of consumer goods. Gradually regulated and non-regulated paid healthcare and treatment is being implemented. And the state is withdrawing from investments and more significant participation in this area.

The people's economic and socio-psychological difficulties in their adaptation to a principally new social model as well as the large-scale impoverishing have increased the illnesses among the population. One of the main indi-

cators for this is the decrease of the average life duration, especially among men. While in most EU countries the average life duration is increasing and reaching high limits (80 and over), in Bulgaria it has been falling in the recent years and is 70,5 years for the population generally, 67,6 for men and 74,3 for women. The disparity with the European countries, which existed up to the beginning of the transition has grown. The infant and mother mortality is also higher, as well as the death rate according to age, especially for men. Among the 30 more developed European countries, Japan, the US and Australia Bulgaria has: the lowest birth rate (7,7 per thousand compared to 14,6 for the USA, 12,4 for France, 12,3 for England in 1997) and the lowest levels of natural population growth (- 7 per thousand in 1997 compared to 8,1 for New Zealand, 5,9 for the US, 4,8 for Canada, 3,5 for the Netherlands and Norway, 3,3 for France); one of the highest levels of infant mortality (17,5 per thousand for 1997) and it is higher only in Rumania - 22 per thousand for the same period while in the developed countries this level is between 3,6 (Sweden) and 6,2 (Ireland, Belgium) and for the Central European countries between 10 per thousand (Hungary) and 5,9 per thousand (Czech Republic) and of general mortality (14,7 per thousand for 1997) compared to around 7 per thousand in Japan and Australia, around 9 per thousand in France, Switzerland, Finland, Austria. The comparison of the levels and especially of the development of these levels illustrates the directions of the changes in relation to the quality of life. For Bulgaria, as well as for the other East European countries the data indicates its worsening. There are many factors, but the main are the impoverishment, undernourishment, the lack of prophylactics, the considerable rise in the prices of drugs and medical services, the eating and life habits.

The improvement of the living and working conditions is one of the main issues in the EU social policy. It is also one of the basic requirements from the countries which are in process of accession to the EU. A foundation for the improvement of the living and working conditions was established in Dublin in 1976. A permanent employment committee has been set up, which creates the opportunity for direct dialogue between employers, trade unions, labour ministry and the Commission. In the Treaty for the establishment of the European Community the prevention of labour accidents, professional illnesses and professional hygiene are among the main issues.

A Law for health and safety working conditions was adopted in 1997. On its basis a number of other secondary legislation (mainly regulations of the of the Ministry of Labour and Social Policy - Chief Labour Inspection), regulat-

ed mainly the obligations and responsibilities of the employers for the establishing of safety and health working conditions. For example according to Regulation N 5 of MLSP from 1999, the assessment of the risk for the health and safety of the workers and employees must be carried out in every enterprise, place and activity on the basis of a previously developed program. The law provides that the control for the working conditions and the observance of the labour and social legislation, as well as the development of a policy in this area is carried out by the MLSP and specifically by its structural unit - CLI with its central office and local divisions. CLI carries out integrated control in relation to the ensuring of health and safety working conditions and a general control for the observance of the labour legislation. It is provided that the activities for safe and healthy working conditions is to be carried out in accordance with the principal of the tripartite co-operation at all government levels. In this relation the National Working Conditions Council was set up at a national level. Other institutions are being established in accordance with the adopted law. Such are for example the committees, which must be set up jointly with the social partners (the trade unions) for control over the working conditions.

Also, in accordance with the law the Working Conditions Fund was set up, which should finance the activities concerning the ensuring the health and safety working conditions.

A law on labour inspection is being prepared and will probably be adopted soon. It is expected to create a legal base for increasing of the effectiveness of the control over the working conditions and the observance of the labour legislation.

Regulation No. 7, adopted in 1999, for the minimum requirements for safety and health working conditions at the place of work and in relation to the usage of equipment concerns the obligations of the employers which are specified in unison with the European legislature and are determined as minimum.

The working conditions in the Bulgarian enterprises are getting worse instead of better. This is due to many reasons, the more significant being: intensive ageing of the machinery and equipment; lack of financial possibilities for investments in the improvement of the working conditions; lack of policy for creation of health and safety working conditions due to the restructuring, change of ownership, insecurity in the development; non-observance of the law due to weak control, poor sanctions, etc. As a result of all this the number and the share of workplace accidents, including those with lethal conse-

quences, invalidation, occupational diseases and especially absences from work due to illness are high. For example only for the first nine months of 1999 the workplace accidents are 4974.

The working conditions and the state of the equipment determine the level of the general illness rate and the occupational disease, the losses of working hours. For example, in 1998, 17 778 807 working days have been lost due to general illness and enormous indemnification sums have been paid.

The control over the observance of the health and safety working conditions are insufficient and the sanctions - practically ineffective. The checks carried out by the CLI and its regional units cover a minor part of the commercial enterprises (for example 1/20).

These checks usually find violations of the rules and norms for the ensuring of health and safety working conditions. The most often established violations are related to overtime work exceeding the maximum length provided by the law; duration of the working day and week far beyond the law-provided, compensation of the overtime work with days off, lack of labour readjustment jobs (including pregnant women and women with small children), etc. Out of the control remains the large-scale usage of children labour, lack of appropriate working conditions for pregnant women, women with small children and young women.

7. 6. Education

Katia Vladimirova

By educational level, population structure and labour force Bulgaria is still in good positions. Bulgaria has human potential with higher educational level compared to the average in the countries from both organisations in which the most developed industrial countries are members (OECD and EU) and higher than the levels in the separate countries from Western and Eastern Europe. Along with this it should be mentioned that Bulgaria lags behind from some of the most developed industrial European countries mainly in the relatively high share of the population with primary and lower education and comparatively low share of those with secondary education.

In 1995, according to share of the population and labour force with high (university) education - respectively 13 and 15% Bulgaria is at the level of Germany, at the average level of these indicators for the OECD and at a little higher level than the average for the EU Member States (respectively 12 and

14%). The share of the population and labour force with higher education in Bulgaria is also higher than the similar indicators for Austria (respectively 6 and 7 %), Portugal (7 and 9 %), the Czech Republic, Poland. Our country is also at a considerably high level according to the other important indicator - share of students in the higher education schools from the total population. According to number of students per ten thousand people for the scholar year 1995/96 - at 294 our country is at the level of Austria (293), close to Sweden (281), Russia (300), the UK and Italy (313), Japan (314) and surpasses the indicators of countries such as (263), Greece (285), Switzerland (281), Poland (196), Turkey (196), Hungary (152) and others. However, it is behind countries such as Canada (698), the US (540), Finland (403), Norway (401), Spain (386), France (362), the Netherlands (348). From this point of view, the widely spread theory in Bulgaria that too many people study in the universities and that they increase the unemployment and the structural unemployment can not be supported. Part of the indicated countries with a high number and share of university students also have comparatively high unemployment (Spain, France, Italy).

The standings of the country are the same by the share of the population and labour force with high school education (respectively 46 and 52 %). The OECD average for 1995 is respectively 40 and 42 % and 36 and 39 % for the EU countries. However, in comparison with a number of countries the share of the population and labour force with high school education is low. For example in the Czech Republic this share is respectively 73 and 76 %, i.e. 3/4 of the population and labour force in this country has high school education or 84 and respectively 88 % - total with high school and high education, while in Bulgaria this share is 64 and 73% (including with college education). In countries such as Austria, Germany and Poland the people with high school education are a little over 60% of the population and labour force.

The main problem of the educational level and the structure of the population in Bulgaria is the comparatively high share of the population and labour force with primary and lower education. In 1997 this share is respectively 35 and 26% (38 and 29% in 1995), while for Germany and the Czech Republic these indicators are around 16 and 12% in 1995, i.e. a minor part of the population and labour force in these countries has an education level below high school and as a principal no professional training. This is extremely important for the level, structure and duration of the unemployment. This share is a little higher in Poland (26 and 31%), Austria (31 and 24%). It is true though, that in

average for the OECD countries (40 and 35 %) and for the EU (46 and 39 %) and especially Portugal (80 and 76%) the share of the population with low education is greater than in Bulgaria.

The keeping even of the reached level and education structure of the population and especially of the economically active population is already a serious problem due to two reasons:

First, the trend of rapid „ageing“ of the population, i.e. the decreasing of the share of young generations, which are the future labour force and are currently and in the next years in the educational system. The share of the population at the so called scholar age, i.e. between 5 and 24 from the total population is falling continuously and especially fast after 1990: it is 27, 4% in 1995, 26,8% in 1998 and is expected to reach respectively 22,8% and 20,3% in 2005 and 2010. The share of the population between 5 and 14 years of age is decreasing very rapidly (from 12,8% in 1995 to 8,2% in 2010 ä). The number of students in all schools is diminishing mainly due to this reason and the fall is most significant at the lower educational levels.

Second, the rise in the number and share of students leaving the educational system prematurely, i.e. without finishing the respective educational level (a few years ago they were about 55,000, for the last year they are about 110,000). This is due to various reasons, but mainly to the economic and social crisis, the drastic impoverishment of many households and especially of those which have more than two children.

Third, the undergoing reallocation of the investments in the education between the State and the population. The state is transferring some of the obligations it had until now to the population and not many can afford to make these investments, although children's education is of top value for Bulgarians.

Another reason is the impact of the emigration, which is very high.

The widening of the scope of the educational systems and the lengthening of the education in the recent years can not compensate the impact of the demographic factors and partly of the socio-economic. The generations exiting the labour sphere due to the age limits of economic activity are nearly twice as much from the people entering the educational system and the ones in an economically active age. The fact that a considerably large share of young people have low education and no profession deserves attention. This makes the labour sphere inaccessible and/or uncertain for them.

Of great importance are also the other aspects of the investments in the human resources: the contents of the training and its compatibility with the

demands of the organisations; „the labour price“ in view of the training level, its quality and others. The opinions in this direction are different. Principally, the syllabuses in Bulgaria are „overloaded“ with general or specific knowledge, but are not well adjusted to the practical needs. The people being trained do not acquire sufficient creative skills, individual thinking, initiatives and drive for practical steps which does not make them very suitable to the employers' demands

The future in relation to the quality characteristics of the population and labour force are concerning, in respect of the needs of the economic development and participation in the integration processes as well as in view of the growing unemployment, which is very high and continuous among the population with low education and no professional training and leads to impoverishment and social isolation of large population groups. What is very alarming is that this to a large extent concerns the young people in Bulgaria. By the end of 1999 over half of the officially registered unemployed have primary and lower education and those with no profession are much more. According to a study of the labour market carried out in November 1999, the employment level of the economically active population is differentiated in relation to the educational level: the employment level for the people with high education is 85,1%, with high professional school education - 69,8 %, high school - 54,4 %, with primary - 38,5 %, elementary and lower - 21,3 %.

The high level of youth unemployment practically indicated the lack of accordance between the economic and educational policy, between the development of the education and the economy. For example, the country's development in the next years in communications, infrastructure, tourism, high technologies would lower unemployment significantly. At the same time the development of these sectors assumes the existence of such specialists in the educational system, as well as among the economically active population.

Recommendations

The investments in education and professional training of young people and adults (employed or unemployed) should be an important priority in national employment as they are in the policies of the EU countries in recent years. Among the main guidelines of the EU employment strategies, policies and measures is the transition from passive to active policy and from social dependence to employment through increasing the chances of the seeking

employment to successfully meet the new employment requirements and perspectives, enhancement of the capabilities for professional employment. Therefore, the EU considers education, prequalification, acquiring of practical experience as important for diminishing youth and continuous unemployment. In Bulgaria this could be promoted through: widening of the training of the unemployed; refinement of the educational system in order to decrease the number of people leaving it prematurely; the development of the work place training, craftsmanship and production internships (following the example of Germany, Austria, France and other countries).

Today the investments in education are considered a significant strategic part of the modern policy of the enterprises and the employment policy at a national level. This should relate to Bulgaria in an even wider extent. This priority should be regarded as a consequence and conditions for the achievement of the other top priority - the Bulgarian integration with the EU. Education is also called upon to ensure the implementation of one of the main EU principles - "free movement of people".

A change in the concept and philosophy of the education is necessary in the educational system and in relation to the employed persons and especially to the unemployed. It is necessary to look at the investments in education as a factor of primary importance for success in a situation of growing competitiveness: for the country — for participation in the integration process, for the companies — for competitiveness and efficiency, for the individuals - for their professional realisation and welfare.

The future of Bulgaria requires investments in education today and a long-term strategy for the quality and professional ability of the labour force. Such a strategy should be developed taking into account the national traditions, interest and identity but also the wide opening of the countries, including free movement of persons. Participation of the employers' organisations is important and necessary, both in the development of the educational policies and strategies at all levels and in the realisation of the specific educational programmes. Motivating mechanisms for the companies to invest in the education of their employees and the hiring of young people for internships and of unemployed persons should be introduced.

REFERENCES

1. Human Resource Management - an Important Factor for European Integration, Cranfield Network On European Human Resource Management - CRANET-E, Varna, 2000.
2. Vladimirova, K., Investments in human capital: employment policy and European integration, In *Human Resource Management*, Varna, 2000.
3. Management and organisation of science and high education, MES, Information bulletin, 3-4 1999.
4. Женщины в переходный период, Проект MONEE, Региональный мониторинговый доклад 6, 1999 год., UNICEF, OOH.
5. Labour and Law, monthly digest, Publishing house "Labour and Law", Sofia.
6. Bulletin Europe, monthly publication.
7. Statistics Reference Book, National Statistics Institute, 1999.
8. Labour Information Bulletin, MLSP, monthly publication.

7.7. Conclusions

In the modern information society investments in human resources are most important for society's progressive development.

More and more, economic development is based on the higher quality of the labour force and the success in competition depends on the incessant training and motivation of the workers.

Bulgaria has a significant potential of educated and professionally qualified human resources. The country's population is highly motivated for education. The latter results from traditions and values as well as from the expectations that the higher education and vocational training create better employment and professional career opportunities, greater mobility, an chance to access and succeed on the European and global labour markets.

In the transition years the state considerably lowered the human resources investments. One of the main reasons for this is the high budget deficit. The other important reasons is the lack of a strategy for economic development and production restructuring, the high underestimation of the role of the human factor and especially of his training for the success of the transition and economic integration. As a result we can see the state withdrawing from education investments and is shifting this responsibility to the population itself, the slowing of the educational system restructuring in the aspect of the present

and future needs of the labour force, lack of stimulation and encouragement for employers to invest in their employed labour force, a large scale scattering and non-using of highly qualified labour force, an increase of the prematurely leaving the educational system and a grow in the share of the population with low education.

In the last years the living conditions, the quality and conditions of work have worsened. This is due both to the population's impoverishment as well as to non-observance of the law. This is resulted in an increase of the death rate, including children's, the average life duration is dropping, the work absence have increased due to illness, the number work accidents and professional illnesses. The amendments made in the labour and social legislation, the adopted and enforced new specialised laws and secondary legislation are still not producing the necessary results.

The European Union attaches top importance to the creation of conditions in the Member States for the qualification and adaptation of the labour force, which correspond to the economic growth requirements at this stage. Moreover, the recommendation is for the enhancement of the practical significance of the training and qualification so that they can contribute to the labour market access. In this relation the adoption and development of the principal of the continuous training is recommended. This requires investments from the state in the training of the young and unemployed, of the population from the various ethnic groups and of the employed threatened by mass reductions. Along with this the employers and the population need to be stimulated to invest in human resources.

Also, it is necessary that Bulgaria makes considerable efforts both in the development and refinement of its national legislation and institutions, as well as for the undertaking and achievement of specific actions for the improvement of the working and living conditions, the enhancement of the suitability of the labour force as a prerequisite for employment and professional fulfilment.

Abbreviations

Abbreviations

GDP	Gross National Product
BNB	Bulgarian National Bank
BSP	Bulgarian Socialist Party
IMRO	Internal Macedonian Revolutionary Organisation
VAT	Value Added Tax
ST	State Securities
EBRD	European Bank for Reconstructing and Development
EC	European Commission
EU	European Union
EA	Europe Agreement
IMF	International Monetary Fund
SME	Small and Medium Enterprises
MLSP	Ministry of Labour and Social Policy
BIR	Basic Interest Rate
MEBC	Management-Employees Buyout Companies
WB	World Bank
AC	Association Council

**Monitoring of Bulgaria's Accession
to the European Union
2000**

First edition
Under the supervision of
Irina Bokova and Dr. Pencho Hubchev

Published by
GRAFIMAX Ltd.
Sofia, Bulgaria