

# **SOCIAL POLICY ASPECTS OF BULGARIA'S EU ACCESSION**

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## INTRODUCTION

With its creation in 1957 the European Community laid the foundations of an integrated social policy. The Treaty of Rome, establishing the European Economic Community was aimed at the creation of a common market and at institutionalisation of the partnership between the West European countries in some specific economic areas. In the course of its realisation the problem of the „social dumping“ and the elimination of the possibility for different countries to compete on the market by means of reducing the price of labour and restricting the expenses for social protection of the workers appeared. That is why the integration in the social sphere acquired a specific, although mediated priority. The European Social Fund was set up in 1961 and it turned into an instrument for the realisation of the common goals and objectives in the social sphere. The social dimensions of economic coherence have been acquiring greater and greater significance, wider and wider range of tools for their realisation are being developed, including legal provisions as well as specific financial structures.

The adoption of the European Social Charter in 1989 was an important milestone. It regulates the freedom of movement, the right to a fair remuneration, the living and working conditions, the right to social protection, the right to organise and bargain collectively, the equal treatment of men and women, the protection of children, elderly and disabled people. The measures that the Commission undertook with regard to the Social Charter application substantially expanded the functions of the Community in the field of social policy – it went beyond the narrow framework of the national policies, carried out by the governments of the member-states. In 1974 the Community adopted the Special Program for Social Activities, where the social aspects of the economic growth were defined. The economic growth was not defined as a goal, but as a means for social development and improvement of the living standard of the member states' population.

The 90-s mark the beginning of a new stage in the cooperation in the social field. It is related to the rights to free movement of people, goods and capitals within the Community, which underlie the Maastricht treaty. The treaty contains special Agreement on social policy of 1993, which guarantees the principles of the social dialogue at the European Union level and the harmonisation of the social policy. In the same year the member-states adopted a Protocol on the application of the European Social Charter, providing for the effective exercise of the basic human rights in the social sphere. A considerable part of the implemented activities was aimed at coordination of the national social security systems so that the persons, taking up a job in another member-state could accumulate their insurance rights and payments.

In 1993 the Commission of the European Union adopted the Green Paper on the future of the European social policy. On the grounds of the proposals for solving the social problems, in 1994 a second strategic document was prepared – White Paper for European social policy. Both documents underlie the implementation of the social policy of the Union, the formulation of the goals, the priorities and the concrete projects in this field.

The articles on employment, included in the Amsterdam treaty, mark a new milestone in the development of the European social policy. It makes concrete commitments in the field of the integrated labour market, which are open to the member- states for ratification.

The social policy of the European Union aims to reduce the most substantial differences in the national schemes and programs, to facilitate the free movement of workers, to create prerequisites for employment growth and improvement of the working conditions, to raise the level of qualification and to promote the retraining and the reintegration of people who lost their job because of structural economic changes or for other reasons with social implications.

The expansion of the European Union and the association of the countries from Central and Eastern Europe<sup>1</sup> led to the adoption of the economic and political criteria for membership, defined in 1993 in Copenhagen: "The membership requires, that the candidate country:

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

The official procedure of negotiations with the applicant-countries, which was opened on March 30, 1998, started with "screening", e.g. an analytical review of all the elements of the membership requirements. The guarantees of the social rights of the people have a substantial role among them. The possibilities for adaptation of the social protection systems are based on the main principles, defining the traditions and the main models of social policy in Europe. These principles are not constant, they have been undergoing a continuous evolution, taking into account the diversity of external factors such as the development of the social security systems of the member states as well as the strategy for territorial expansion of the Community.

The agreement for the association of Bulgaria (Europe Agreement) was signed on March 8, 1993 and has been effective since February 12, 1995. The approximation of the Bulgarian legislation to the European Union law and the affiliation of the country with the recognized European social values are among the basic conditions for its realisation.

Ensuring of the national social security systems' conformity with the criteria for membership in the European Union is of substantial importance for the entire process of democratisation and integration in Europe. At the same time these systems determine the internal potential of the applicant countries for accession. That is where the actuality of the questions, put in this study stems from: What is the scope of the field of action of the economic and social criteria for integration in the social sphere? To what extent does the Bulgarian system for social protection correspond to the European models and values? What are the perspectives for development of the social reform in the light of the strategy for accession to the European Union? These questions do not have a simple answer, but nevertheless the analysis of the social problems of the integration is the main challenge at the current stage of the social reform.

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<sup>1</sup> Hungary, Poland, Romania, Slovakia, Latvia, Estonia, Lithuania, Bulgaria, the Czech Republic, Slovenia, Cyprus and Malta.

# 1. COHERENCE AND CO-ORDINATION OF THE SOCIAL POLICIES: EXPERIENCE AND PRACTICE OF THE EUROPEAN UNION MEMBER-STATES

## 1.1. CO-ORDINATION OF THE SOCIAL SECURITY SCHEMES

### 1.1.1. DEVELOPMENT OF THE IDEA OF CO-ORDINATION

In the mid-eighties the European Commission launched the idea of "European social area". In contrast to the traditional term "social policy", which usually includes activities of governments or international organisations in the social sphere, the new term covers new dimensions of the activities of all actors on the labour market. The national governments, the workers, the employers and their organisations are to one and the same extent interested in preventing unfair competition. It normally takes place in the form of reduction of salaries and social insurances, or the so called "social dumping", which hinders the optimisation of the economic capacity of the different countries.

The **idea of harmonisation of the social policies** aroused a number of discussions and doubts because of the substantial differences in the social protection systems of the twelve member states. In spite of the differences in the institutions, the mechanisms and the criteria for access to these systems, in 1992 the European Council recognized the availability of common goals in the European social model, which were defined in Recommendation 92/144 on the convergence of social protection objectives and policies. Here are some of the common principles of the social development:

- The recognition and the effective exercise of the right to organize and to bargain collectively;
- The existence of strong representative organisations of workers and employers;
- The importance all countries attach to the improvement of the working conditions;
- The trend towards universalisation of the social security and the social protection systems, etc.

The consolidation around these fundamental principles does not mean unification of the social policies. In support of this interpretation the term "**coherence**" has been used in all EU documents on the harmonisation of the social policies. The definition of minimal standards for protection of the social rights of the workers, the consolidation and the further development of the Community's social legislation, the intensification of the European social dialogue are the main tools for realisation of the coherence.

Along with this common social strategy, the intensification of the integration processes generates new social needs. The growing intensity and freedom of the movement of goods, capital and human resources within the Community necessitated the adoption of measures for the solution of concrete cases, related to the change of residence of the insured persons, insuring the family members of migrant workers, protection of labour in the specific mobile professions, etc. In this respect the term "**co-ordination of the social protection**" has established itself within the European Union. It is defined as "...regulation of the relations between the national social security systems through application of principles and techniques, aimed at protection of the rights of the people that change their residence, irrespective of the contents of these national systems."<sup>2</sup>

<sup>2</sup> Chardon M., Principles de Coordination. Report pour le colloque de Riga „Coordination des systemes de securite sociale en relation avec l'accession des pays d'Europe Centrale et de l'Europe de l'Est , 12 – 16 Septembre 1998, page 2.

In contrast to the harmonisation, this term does not limit the autonomy of the national security schemes and presumes the existence of differences between them as far as the level of security, the minimal duration of the insurance periods, the criteria for access, etc. are concerned. For example, the age at which the people acquire the right to pension in Denmark is 67, and in France it is 60. The definition, cited above, reduces the field of application of the rules for co-ordination to construction of “bridges” between the social security systems in the different countries and emphasizes the “national orientation” of the co-ordination. The member states have the priority role in the provision of guarantees for the social protection of their nationals. The co-ordination functions of the Community are restricted to technical actions, only, such as equalisation of the insurance periods, determining the one in charge to guarantee the rights of the migrant workers, etc.

The leading role of the autonomous national social protection policies is balanced through the participation of the authorized international bodies, whose task is to ensure a unified and common direction of the activities in the social sphere. The **Commission** of the European Union ranks first among them. It possesses the monopoly over the legislative initiative and the control mechanisms on the enforcement of the legal acts<sup>3</sup>:

- The **constituent treaties** of the European Communities and the **Treaty on the European Union**, regulating the basic rights of the citizens within the context of the goals of the Community;
- The **regulations**, adopted by the European Council and the Commission of the European Union, which are binding for the member states;
- The **directives** of the Commission and of the Council, containing binding goals, which the states apply to their national legislation by means of freely chosen legal tools;
- The **decisions** of the Commission of the European Union, which are targeted at specific addressees (enterprises, groups of citizens or member-states) and are binding for them;
- **Recommendations and opinions**, which are not binding, but promote the development of the national legislation of the member-states.

The **Court of the European Communities** is another important participant in the process of co-ordination. It decides on concrete cases, related to the labour or security legislation, and its decisions are binding for the countries. Currently its decisions on the disputable cases serve as a reference point for the social security practice. The role of the Court of the European Communities is also connected with the promotion of public participation and the application of democratic principles to the development of the rules for co-ordination.

The **social partners** take active part in the development of the rules for co-ordination, too. The Treaty on the EU establishes an Economic and Social Council, in which workers, employers and farmers are represented. It is a consultative body and it presents its opinions to the Commission to be taken into account in the process of exercising the legislative initiative or development of programs and measures in the field of social security and labour. Another form of three-partite participation is the Advisory Committee on Social Security for Migrant Workers, in which organisations of workers and employers are represented in accordance with article 82 of Regulation No1408/71.

### 1.1.2. PRINCIPLES OF THE CO-ORDINATION

The rules for co-ordination are fixed in Regulation No 1408/71, amended and updated by Regulation No 118/97 on the application of social security schemes to employed persons, self-employed persons and to members of their family,

<sup>3</sup> European Union Instruments in the Area of Social Protection, European Commission, 1998.



moving within the Community. Some basic principles are formulated in these documents, such as:

- Equal treatment of the nationals of all member-states;
- Determination of the applied legislation;
- Preservation of the acquired rights, etc.

The **principle of equality of treatment** underlies the most important legal acts, including Art. 6 of the Treaty on the European Union, which prohibits any discrimination on the grounds of nationality. In respect of the social protection system this principle binds the member-states to grant the workers - nationals of other countries the same social security rights as their own nationals enjoy. Regulation No 1408/71 extends the scope of this principle to the right of other countries' nationals to be elected in and to elect the representative bodies of the social security institutions.

The countries outside the European Union can also make use of the right to equality of treatment, provided they have concluded agreements in the field of social security. Many of the countries in Africa, the Caribbean and the Pacific have such agreements. The cooperation agreements the European Union has made with Russia, Ukraine, Belarus and Moldova contain provisions regarding the social security, but do not envisage sufficiently effective tools for their realisation. Agreements with Switzerland, Egypt, Lebanon and South Africa are being currently negotiated.

The judicial practice of the European Union provides a number of concrete examples of application of the principle of equality of treatment. Under the case "Romero" of 1997 a Spanish citizen, who was the son of a worker, having lived in Germany, got the right of a hereditary pension. It was calculated under the German legislation, according to which the military service in the German army is recognized as a part of the length of service. The court decided that for the purpose of calculation of the pension the length of service had to include the military service of the person in Spain.<sup>4</sup>

The principle of **determination of the applied legislation** means, that only one legislation is applicable in practice. It is applied in cases of conflict between the laws that are in force in the respective field.

Each member-state determines the scope of its national legislation through application of different criteria. Regulation 1408/71, however, uses unified criteria. They are of purely technical nature and do not concern the basic legal norms, providing for the acquirement or the loss of the security rights, which remain completely within the competence of the national legislation. In this respect those criteria are indirect, they do not lead to the solution of existing problems.

The technical provisions of Regulation 1408/71 are the point of support of the rules for co-ordination. They are applied in cases of both lack of social security rights ("negative conflict" between the national laws) and duplication of the social insurance ("positive conflict").

In the first place, the principle of determination of the applied legislation includes the rule for application of the national legislation, under which the insured person works. This rule springs from the fact, that at the time the rules of coordination were created the social security systems in all member-states were oriented towards the so called "Bismark model", based on employment and on the compulsory insurance installments on behalf of both employers and employees. At the following stages of the development of the European Union and especially in the course of the last decade the evolution of the social security systems and the proliferation of systems of universal social benefits, subsidized by the state (such as the family benefits) brings forth more and more contradictions, connected with the application of the national law according to the place

<sup>4</sup> Zaker, K. European Law. Sibi, 1998, p. 129

of work of the insured persons. They are also solved under the technical rules of chapter VII of Regulation No 1408/71.

In each of the above mentioned cases the legislation to be applied was determined on the basis of objective factors and took into account neither the subjective interest of the rightful claimants, nor the one of the country, whose legislation was applied. It was a guarantee for the sequence and the similarity of the applied criteria.

At the same time the Regulation admits the conclusion of agreements between the interested member-states with the aim of solving the cases, involving conflicts between the national legislation. This opportunity is also due to the intensity of the movement of workers between the member-states and it considerably increases the efficiency of the rules for coordination.

The principle of **preservation of the acquired rights** to the greatest extent guarantees the individual interests of the insured persons. In all member-states the access to benefits is connected with a certain length of service, insurance period and residence period, which are the preliminary conditions for the acquisition of security rights. The lack of these pre-conditions can bring about a loss of the security rights of the migrant workers. In order to avoid this, the length of service, insurance and residence are unified on the grounds of specific rules for equalisation. They are applied by the security institution at the place the security rights came into being and the respective national legislation is kept to.

### 1.1.3. SCOPE OF THE RULES FOR CO-ORDINATION

An important characteristic feature of the co-ordination is its scope in terms of the persons, whose rights are protected by the rules for co-ordination of the social security schemes within the Community. Although this scope is different depending on the social security regime (pension insurance, health insurance, etc.) and in spite of the references to the national legislation in a number of cases, the Regulation No 1408/71 gives some explicit definitions, that are of binding nature.

First among them ranks the definition of **a employed person**, which has a central place in the Regulation. According to Art. 1.a) this term includes all employed and self-employed workers, all people insured against at least one of the security risks or within at least one of the social security schemes (compulsory, professional or voluntary insurance). There need not necessarily be labour relations, the availability of established insurance relations is the main criterion.

The rules for co-ordination include the family members and the dependents of the worker. The extension of the scope of the rules to all uninsured persons, regardless of their status, has been discussed by the Commission since 1970. The idea became more concrete in 1992, when the Commission suggested that the rules for co-ordination had to become effective for the students as well, and in 1996, when the right to health care in the country of the training was regulated. These measures to great extent facilitate the mobility and the exchange of activities between the educational institutions.

Some special provisions of Regulation No1408/71 cover the emigrants and the persons with a refugee status. These specific measures contribute to the free movement of workers within the Community. The definition of the scope includes a number of categories of persons with a special regime of work: the people, working in the border regions, the season workers, the sailors, the technical staff of the diplomatic missions, etc.

On November 12, 1997 the Commission approved a proposal for expansion of the scope of Regulation No 1408/71 to cover **third countries' nationals**, residing in the member-states of the European Union. The proposal was in accordance with the strategy, aimed at improving the legal status of third countries' nationals, who are lawfully employed within the Community. This orientation is particularly important for the Central and East European countries, whose na-

tionals, when lawfully employed in the European Union member-states, will be treated on equal footing with the rest of the citizens.

#### 1.1.4. THE CO-ORDINATION IN THE PERSPECTIVE OF THE ENLARGEMENT OF THE EUROPEAN UNION

In principle the dissemination of the rules for co-ordination does not require any legislative changes from the countries, accepting them, as it is not connected with harmonisation in any of the social security fields. The experience with Spain and Portugal supports this conclusion. The White Paper of the European Commission on the preparation of the associated countries from Central and Eastern Europe of 1995 does not envisage any concrete commitments of technical nature, e.g. changes in the texts of legal acts or in certain administrative procedures referring to the social security of the applicant-countries.<sup>5</sup>

On the other hand, the dynamics and the adaptability of the rules for co-ordination spring from the main goal of free movement of workers. This goal determines both the general principles and the scope of Regulation No1408/71. In spite of the autonomy of the national security systems and the great variety of schemes for financing and setting of the compensations, which was pointed out above as a characteristic feature of the current practice within the Community, the future member-states should take into account the framework goal of free movement of workers and make it a reality by means of concrete reforms in the social sphere. This necessity does not contradict to the priority of the national legislation in the current composition of the European Union.

On the grounds of the Treaty on the European Union the states undertake to not only keep to the international legal acts and apply them without any discrimination of their own nationals and the nationals of the other member-states, but to also ensure adequate legal provisions within the national legislation in cases, when it is a prerequisite for the effective exercise of the basic rights (the free movement of workers, in this case). The entering of new states into the treaty and the increase of the differences in the economic and social status of the different countries in the Community will change the balance between the obligations, coming from the international law (respectively the rules for co-ordination) and the autonomy of the national law. Within this context the problem of the gradual preliminary adaptation of the states – applicants for accession has to be posed.

There is a variety of specific social problems in the countries of Central and Eastern Europe, that can hinder the free movement of workers and that have to be taken into account in the course of the pre-accession reforms.

One of the most important problems is the provision of health services of good quality. So far in the practice of the European Court no disputable legal cases have been registered on the application of Art. 22 of the Regulation. It allows the workers, residing in another country to receive health care at the expense of this country's health insurance system. This provision is also effective for the members of the families, this way practically ensuring for all persons of the European Union the possibility to get medical treatment outside their own country. The health security systems in the West European countries include almost all kinds of medical and rehabilitation services, a wide range of prophylactic activities, provision of medicines, etc. In contrast to them, in most of the East European countries the health security covers a limited range of medical services and the additional services have to be paid by the patients themselves. The physiotherapeutic services, the dentists' and the opticians' services are among the paid services. This inequality is increased by the great differences in the quality of the health services, that are offered and the technical achieve-

<sup>5</sup> Preparation of the Associated Countries from Central and Eastern Europe for Integration into the Internal Market of the European Union. White Paper. Brussels, 1995, COM/95/163, Appendix, p. 75-76.

ments, that are used. That is why the adaptation of the health security systems in the applicant-countries is a serious challenge.

The privatisation of the social security and the establishment of private voluntary or professional funds pose another substantial problem. It is a very popular measure in the reforms of the social security systems in the countries from Central and Eastern Europe. The creation of pension funds on the capital principle and the expansion of the private forms of management should be interpreted within the framework of the common European discussion on the choice between the free competition and the compulsory nature of the social security.

Last but not least, we should also consider the fact, that the co-ordination is not only a technical prerequisite for the free movement and the employment within the European Union. It contributes to the achievement of more ambitious goals, declared in Art. 2 of the Treaty on the European Union, such as promotion of employment and improvement of living standards and quality of life.

## **1.2. STRUCTURAL POLICY OF THE EUROPEAN UNION IN THE SOCIAL SPHERE**

### **1.2.1. PRINCIPLES AND INSTRUMENTS OF THE STRUCTURAL POLICY**

The social policy of the European Union is based on the necessity similar living and working conditions to be reached in all member-states. That is why it is aimed primarily at the change and the adaptation of the social protection measures in the countries or regions, lagging behind. The concrete tasks of the structural policy in the social sphere aim at alleviation of the most substantial differences in the national schemes and programs, facilitation of the free movement of workers, creation of prerequisites for increase of the level of employment and improvement of the working conditions, raising of the level of vocational training and promotion of the re-training and the reintegration of persons, who have lost their jobs because of structural economic changes or for other reasons of social importance.

In order to achieve the goals of its social policy, the European Union uses different instruments and mechanisms. These include a direct financial aid as well as consultations and scientific methods for assistance to the organisation and management of the social schemes on local level. The European Social Fund is the main instrument for cooperation in the social policy, which allows the application of a complex and integrated approach to the variety of problems and activities in the social sphere. It is one of the five structural financial instruments of the European Union<sup>6</sup> for completion of the common goals and objectives for approximation of the economic and social development and assisting the underdeveloped regions.

The higher extent of economic and social integration led to the necessity to reform the structural funds, the European Social Fund inclusive, so that a more precise and co-ordinated allocation of resources and their harmonisation with the activities of the European Investment Bank and the other financial instruments can be achieved.

On one hand, the activity of the European Social Fund is aimed at implementing the principles of the reform, which are specified in the five priority goals, defined in Regulation of the Council 2052/88 of 24 June 1988 and confirmed by the end of 1999 in Regulation 2081/93 of 20 July 1993:

- Objective 1: promotion of the development and the structural adaptation of regions, lagging behind;

<sup>6</sup> European Regional Development Fund, European Social Fund, European Agricultural Guidance and Guarantee Fund, Cohesion Fund and European Fishery and Fish Industry Fund.

- Objective 2: adaptation of regions, border areas and parts of regions (including urban areas), which are hit by industrial decline;
- Objective 3: combating the long-term unemployment;
- Objective 4: occupational integration of the young people;
- Objective 5a: adaptation of the agricultural structures;
- Objective 5b: promotion of the development of agricultural regions.

The main priorities, taken into account when allocating resources from the Fund are the fight against long-term unemployment and the occupational integration of the young people. These Objectives do not exhaust the purpose of the European Social Fund. The demand on the labour market is a derivative from the economic situation of the region, from the structural adaptation of the areas whose industry is lagging behind and from the development of the agricultural regions. That is why the European Social Fund practically takes part in the realisation of each of the five Objectives and can be defined as the instrument with the largest scope of the structural policy.

On the other hand, the activity of the European Social Fund depends directly on the aims of the European Union in the social sphere, as defined in Art. 2 of the Maastricht Treaty:

- Maintenance of a high level of employment and social protection;
- Improvement of living standard and quality of life;
- Economic and social cohesion and solidarity.

The concrete texts in the Treaty, that regulate the specific Objectives of the integrated policy, concern all the basic social activities:

- The standard of living and working conditions for workers (Art. 117);
- Employment, social security and occupational health (Art.118);
- Equal pay for equal work (Art. 119);
- Development of the dialogue between the management and labour at European level (Art. 118B);
- European Social Fund (Art. 123-125).

### **1.2.2. EQUALIZING EFFECT OF THE EUROPEAN SOCIAL FUND**

Each of the member-states can be a beneficiary of the European Social Fund. The potential recipients of funds are not specified in advance and the conditions for access do not depend on the economic development or on the level of the gross domestic product of the country compared to the average level for the Community, as it is in the case of the Cohesion Fund, for example. In this respect the European Social Fund is not aimed at horizontal equalisation of the economic risks, only, and that is why its direct re-distribution effect is weaker.

On the other hand, however, the earmarked nature of the projects, funded by the European Social Fund guarantees the precise targeting of the resources towards the regions, that are faced by the most serious difficulties with regards to employment and the income of the population. That is why the summary effect for the social-economic equalisation and integration of the different countries and regions is not weaker than that of the other financial instruments of the European Union.

### **1.2.3. STRUCTURE AND PRIORITIES OF THE EUROPEAN SOCIAL FUND**

A specific feature of the European Social Fund is its priority orientation towards the solution of national, and not infrastructural or other trans-national problems in the Community. The financial flows under this fund have been allocated in the following main directions:

- Facilitation of access to the labour market;
- Ensuring of equal employment opportunities;
- Development of skills, abilities and professional qualification;
- Promotion of job creation;
- Funding of studies and pilot projects on problems, common for all member-states.

On July 20, 1993 the Commission of the EU adopted a new Regulation No 2084/93 on the European Social Fund, adapting the priorities and the financial provisions which regulate its spending to the new social realities and to the dynamics of the labour market.

With a view to the importance of employment in the member-states, the structural policy in this field is aimed primarily at combating the long-term unemployment and integrating the young people in the labour market. This emphasis is reflected by the distribution of funds between Objective 3 and Objective 4.

In connection with this the activities, that can be funded by the European Social Fund increase their scope and are defined in a new way. This is particularly important for the employment benefits, that can take the form of measures for promotion of the mobility of workers, appointment of staff or self-employment.

In regard to *the achievement of Objective 3*, the realisation of the following basic activities is envisaged:

- a) Facilitation of the integration at the labour market of workers, affected by long-term unemployment, by means of:
  - vocational training and re-training, including formation of basic skills, guidance and counseling;
  - temporary employment;
  - development of appropriate structures for training, employment and social assistance, including necessary staff and appropriate forms of services to the dependents.
- b) Facilitation of the young people's search for employment. It includes provision of opportunities for 2-years-long or longer periods of vocational training with the same status as the obligatory educational level, after finishing which the young people will have attained their majority and will be able to join the labour market;
- c) Development of the opportunities for integration of workers, who are faced by the risk of being excluded from the labour market;
- d) Equalisation of the opportunities of women and men on the labour market, especially in fields where women are not sufficiently represented and particularly for women without sufficient professional qualification and women, re-entering labour market after a period of absence.

In regard to Objective 4, the new priorities include a raise of the level of employment and qualification by means of vocational guidance, intermediary and training services on the horizontal principle. It means, that they have to cover all sectors of the economy, without special preferences to separate branches or sectors and to be targeted at all categories of workers and in particular those, affected by unemployment. This principle has to guarantee that the measures will supplement and not replace the responsibility of the firms in the field of labour protection of the workers and that they will not break the rules of competition.

The concrete activities under Objective 4 are connected with development of the production and the services and are not aimed at short-term market operations. The activities have to meet those needs of the workers, which spring from the industry restructuring and not to be directed at a certain kind of in-

dustry or firms. At the same time, however, special attention is paid to the small and middle enterprises with a view to the risky situation of the workers there and the need for vocational training. Taking into account the strategic significance of qualification in the course of the whole professional life of the workers, Objective 4 concentrates on the improvement of the qualification in the field of the new technologies and on the changes, connected with protection of the environment. Taking into account these priorities under Objective 4, the European Social Fund allocates resources for the following operations:

- Forecasts of the trends on the labour market and of the needs for vocational training;
- Vocational training, guidance and counseling of the workers concerned;
- Assistance to the improvement and the development of systems for vocational training, including training of trainers;

The resources from the European Social Fund are also targeted at the regions, lagging behind. **The operations, envisaged for the achievement of Objectives 1, 2 and 5(b)** are the following:

- Development of human resources in the field of scientific research and technologies, primarily through training of management staff and specialists in technical sciences;
- Improvement of the educational and training services, primarily through training of trainers; assistance to the connections between the training centers and the higher education institutions, on one hand, and the enterprises, on the other hand.
- Funding of national educational institutions, that are directly connected with the labour market, the new technologies and the economic development;
- Preparation of civil servants, when it is necessary for the application and development of the policies for structural adaptation.

#### **1.2.4. PERSPECTIVES FOR THE DEVELOPMENT OF THE EUROPEAN SOCIAL FUND AFTER THE YEAR 2000**

The perspectives of the structural funds, the European Social Fund inclusive, are outlined in the Agenda 2000 – a document, defining the goals of the European Union during the next financial period. The Agenda pays special attention to the new trends in the structural policy.

The Commission suggests that in the period 2000–2006 the share of the structural funds in the GDP during the previous financial period (1993-1999) should be preserved. It amounts to 0.46% of the gross domestic product of the European Union. In case this relative share is kept to, the resources of the structural funds will amount to 275 billion levs (at prices of 1997). This amount is 37,5% higher than the expenses from the structural funds for the previous financial period (at comparable prices). The increase will be ensured mainly at the expense of the expected economic growth in the member-states in the period 2000–2006.

About 45 billion ECU of the growth of the expenses are earmarked for meeting the higher needs, resulting from the enlargement of the European Union and the accession of the new member-states from Central and Eastern Europe. 7 billion ECU of them will be granted in the form of pre-accession assistance, the size of the quotas being 1 billion ECU per year. In the beginning this assistance will be provided to all the associated countries, but it will gradually concentrate on countries, that have to join the Union at a later stage. Priority assistance will be provided for improvement of the transportation infrastructure and the environment, e. g. the transfers from the Cohesion Fund will be of main importance. This focus does not have to be interpreted as an underestimation of the European Social Fund for the integration of the countries – applicants for accession to the EU. The allocation of funds for training on the administrative pro-

cedures, connected with the structural operations, is among the priorities, too. This fact is important for the preparation for managing the resources from the European Social Fund by the associated countries from East and Central Europe.

During the next financial period the share of the population of the 15 member-states, currently covered under Objective 1 and Objective 2, will decrease from 51% to 35-40%. Instead of this regions from the newly accepted states are envisaged to be covered.

The increase of the transfers to the associated states will depend on their potential for accession and their economic development, in particular. A restricting condition will be kept to – the joint transfer from the structural funds should not exceed 4% of the gross domestic product of the beneficiary state, regardless whether it is a current or a future member of the European Union.

With a view to the increase of the transparency and the effectiveness, the current five Objectives will be reduced to three:

Objective 1: development of the regions, lagging behind;

Objective 2: economic and social restructuring;

Objective 3: human resources development.

With the new definition of the Objectives the relative significance and role of the European Social Fund will grow even more. On the background of this general perspective a preservation of the priorities within the European Social Fund is envisaged.

The backward regions under Objective 1 will maintain the same high relative share, equal to approximately two thirds of all the expenses of the European Social Fund. The main principles of the reform in the structural funds from 1993 will be preserved, i.e. the granting of more objective, transparent and equalizing financial transfers. Approximately the same criteria for access to resources will be used, only the range of the potential recipients will change. The difference between the regional economic level and the average level for the Community, as well as the national economic level will again be amongst these criteria. Additional aid will be mainly provided to regions with higher unemployment level.

The application of an integrated approach to the regions, structurally lagging behind, will continue. The success of the support and the partnership between the member-states depends on the appropriate co-ordination between all components of the structural assistance, including the European Social Fund, but also the European Regional Development Fund, the European Agricultural Guidance and Guarantee Fund and the Cohesion Fund. Each region will be assessed from the viewpoint of both its specific needs and the priorities of the Community. The concrete programs will be developed with a view to the local priorities. Special attention will be paid to the improvement of the competitiveness, which is a particularly important criterion for the creation of new working places. This emphasis can be realized in practice through the provision of assistance for the development of the infrastructure, the innovations, the small and middle business and the human resources.

The new definition of Objective 2 will unify the measures in respect to the regions in the EU, which are not covered by Objective 1, but have structural problems too. These are areas, where economic reforms (in the industrial production or in the services) are going on, depopulating rural areas, areas in crisis, which are dependant on the fish industry or problematic urban areas. As the main structural problems in these areas are unemployment and depopulation, Objective 2 is also focused on social measures.

Excluding the regions, covered by Objective 1, about 20% of the population of the European Union live in places, where the level of unemployment is above the average level for the Community. In some urban areas it varies between 30 and 50%. The level of youth unemployment in the Community is over 30%.



The structural measures in these regions will be aimed at diversification of the production structure, restoration of the economic dynamics and development of a business culture among the population. They will help make full use of the economic potential, encouraging at the same time the changes, having already started there and their adaptation to the market requirements.

The human resources are a key element for the policy of the European Union, too. The defining of a separate horizontal Objective in this field does not revoke the necessity the rest of the instruments of the structural policy to be used for the development of the human potential. Simultaneously the new Objective 3 emphasizes the modernisation of the labour market in accordance with the provisions of the Amsterdam Resolution on Growth and Employment. This Objective emphasizes the provision of access to the labour market, opportunities for getting training in the course of the whole professional life and development of local initiatives for employment, including territorial agreements for employment.

The new Objective 3 will be applied in regions, which are not covered by Objective 1 and Objective 2. It will help the member-states adapt and modernize their systems for education, vocational training and employment. These priorities are important not only from the viewpoint of the economic competition, but from the viewpoint of the preservation of the European social model, too. In Agenda 2000 the education is defined as the most powerful tool for the achievement of social equalisation and integration in the social life.

### 1.2.5. INCREASED EFFECTIVENESS

The reduction of the number of the Objectives and the initiatives of the EU is only the first step towards reform of the structural policy. The second approach is aimed at simplification of the administrative procedures. In this respect the development of long-term programs for each of the regions, covered under Objective 1 and Objective 2 is envisaged. A national programme or a network of regional programs will be developed for the horizontal Objective 3. This way a considerable reduction of the administrative expenses is envisaged through strengthening of the complex strategic approach.

The increase of the effectiveness of the structural funds in Agenda 2000 is also connected with better distribution of responsibilities, including simplification of the administrative relations, increased flexibility and decentralisation of management.

This trend will be accompanied by the application of modern management principles and by restructuring of the staff. The Commission will be expected to require more selectivity and precision in regard to the priorities, defined in advance. This way the real meaning of the concept of partnership between the Commission and the member-states will be realized. It covers the whole process of subsequent operations of preparation, funding and preliminary evaluation, monitoring and final evaluation of each structural operation. The system of supervision and control over the projects and programs will also be improved; more effective and strict check-ups are recommended.

Ways will be searched for improvement of the effectiveness of the structural resources. On one hand, priority will be given to the financial instruments (low-interest loans, guarantees on loans, participation with some capital) instead of the free grants. On the other hand, it is envisaged to mark off a reserve of at least 10% of the structural funds, including the European Social Fund. The reserve will be distributed to regions, which have effectively made use of the aid, already provided.

### 1.3. PRIORITIES OF THE SOCIAL POLICY

The priorities in the future enlarged European Union will be targeted at the most acute social problems of the newly accepted countries, such as the unemployment, the health care and the problems, resulting from the process of adaptation of both the old and the new member-states. Considerable investments in the human resources will be necessary. The main obstacle to the adaptation of the newly accepted countries to the extent of social protection, already reached in the Union, and to the European social model will be the availability of a great number of people, living under the average living standard in Europe. The limited scope of the vocational training network, the underdeveloped industrial relations, which are still in transition, the ineffective state administration will be some of the other obstacles. Within this context, the enlargement of the Union will increase the significance of the social integration and the role of the social policy.

On the other hand, a number of important factors will counteract this process. In some spheres, such as health protection or the safety of the working places, the accession of the associated countries will require serious and sometimes very expensive efforts. Especially in cases when the adaptation is slow and ineffective, the diversion of big amounts of funds to this end will have a negative impact on the competitiveness and the future economic development of the Community.

The considerable differences in the salaries between the East and the West are a substantial factor, encouraging the migration in spite of the high level of unemployment in Western Europe. This trend can have a positive impact in terms of, for example, an increase of the flexible forms of employment, especially in the border countries such as Germany, Austria, Greece or the Scandinavian countries. On the other hand, however, a growth of the negative impact is possible in terms of an increase of the imbalance on the Western labour market and restriction of the employment opportunities of the free human resources. It is difficult to estimate the intensity of these opposite effects. After the accession of Greece, Spain and Portugal there were expectations for a mass migration, too, but they never came true. It is possible that the migration stream from Central and Eastern Europe will be limited because of the low mobility of workers and the lack of sufficient resources for a change of residence. It is also possible that in the course of the integration the differences in the remuneration, compared to Western Europe will become smaller and this way the basic motive of the migration will disappear.

## 2. STATUS AND CURRENT REFORMS IN THE SOCIAL PROTECTION SYSTEM IN BULGARIA

The legal basis for the social protection system has not been fully renewed since the beginning of the transition. The introduction of a currency board in Bulgaria in 1997 and the necessity to improve the financial discipline and the balance between the budgetary incomes and expenses accelerated the reform in the social sphere. Since 1998 a number of new legal acts have become effective, such as the Protection against Unemployment and Encouragement of Employment Act, the Social Assistance Act, the Health Security Act, etc. The necessary radical reforms in the spheres of the pension security and the assistance to families with children have not been accomplished yet. These spheres combine inherited ineffective schemes from the period before the reform as well as additionally introduced protection measures and compensations as a result of the social risks of the transition.

The scope of the security rights and the levels of protection in our social legislation are, to a great extent, in conformity with the standards, defined in the European Social Charter and the European Social Security Code. However, there are a number of restrictions to the effective exercise of these rights by the citizens. They come primarily from the insufficient financial resources and the additional administrative measures, introduced with the aim of ensuring a better balance between the incomes and the expenses in the social security funds.

### 2.1. SOCIAL PROTECTION AGAINST UNEMPLOYMENT

The quantitative and qualitative characteristics of the unemployment in Bulgaria to the greatest extent reflect the effectiveness of the policy, carried out on the labour market. They define the main goals of the social protection and have to be taken into account for the accession strategy of our country.

The first wave of mass unemployment in 1991-1993 affected a considerable number of people, working primarily in the budgetary sphere and the administration of the state enterprises, as well as low-qualified physical workers. In the course of the next three years a reduction of the unemployment rate from 16% to about 11% of the economically active population was registered. This tendency was, however, a consequence of the slowing down of the privatisation process and the structural reform, rather than a stabilisation of the labour market. The economic bust at the end of the period reflected on the dynamics of the general unemployment and put the end to the period of a relative, although artificially maintained balance between the labour supply and the demand. During the first half of the 1997 only, the level of unemployment grew by about three points and exceeded 14%.

Table 1 shows the position of Bulgaria in regard to the unemployment, compared to the other associated countries. The level of unemployment, registered in 1996, places our country in a relatively unfavourable situation compared to the rest of the applicants, as well as to the average level for the European Union, which is 10,8%. In regard to the other integral criterion – the gross domestic product per person of the population – Bulgaria is also in one of the last places together with Romania. The GDP hardly reaches 24% of the average level for the Community. This position determines the significance of the measures for adaptation of the social protection of the workers concerned.

Unemployment is one of the main factors for the general decline of the living standard and the erosion of the incomes of the population. More than 22% of

the households in the country live under the relative line, used as an indicator of poverty in the European Union.<sup>7</sup>

The critical situation of the labour market in Bulgaria is revealed not only and not so much by the general level of unemployment and poverty, but mainly by its structural characteristics. The fact that the serious social problems of the long-term unemployed people and their specific characteristics appeared just in the period of low general unemployment is indicative. In 1997 these people were about one quart of all the registered unemployed persons.<sup>8</sup> Table 2 illustrated the dynamics and the clearly expressed trend towards an increase of the "chronic" cases of unemployed persons, searching for a job more than 12 months.

In the beginning of the transition the risk of unemployment existed to almost equal extent for everybody capable of working. After 1994, however, lasting structural characteristics and risks for certain social groups appeared, such as low-qualified workers, minorities, people with social problems. The same hypothesis is confirmed by the study *At-Risk groups and social problems in Bulgaria*, carried out in 1994-95 by the Centre for the Study of Democracy.<sup>9</sup> The unemployment is in an opposite correlation dependency on the educational level of the people concerned. More than two thirds of the long-term unemployed persons have primary or lower education. Most of them have never had a constant job. These characteristic features make their reintegration on the labour market particularly difficult.

The young people under 24 belong to the groups at risk, too. Table 2 shows their relatively constant and quite high share in the structure of the unemployed. Bulgaria is one of the countries with the lowest percentage of youth employment. To some extent it is due to the wide scope of the educational services. About 40% of the young people between 16 and 24 go to a regular educational establishment (more exactly 74% of the youngsters under 18 and 27% of the young people between 18 and 24). The greater part of the young people who do not work, however, are affected by the unfavourable structure of the labour market. It is static and does not offer opportunities for flexible employment or innovative occupations. Many of the young specialists, after having received benefits from the labour exchanges for some 3 or 6 months, join the group of the long-term unemployed people.

The integration of the disabled people on the labour market is one of the substantial priorities of the European social policy. Some measures in this respect were taken in the Bulgarian social legislation, too. The Rehabilitation and Social Integration of Disabled Persons Act from 1995 codifies a wide range of direct and indirect measures, including tax concessions for protected employment, subsidies from the "Rehabilitation and Social Integration" Fund, specialized intermediary services, etc. Most of the legal rights have not been realized in practice yet because of the restricted budgetary expenses to this end.

<sup>7</sup> The relative poverty line, which is equal to 50% of the average income of a member of the household, was at the end of 1997 45 000 lv. according to data of the National Statistical Institute. Here the relative poverty is used as an international indicator, which allows the comparison of the levels of poverty in Bulgaria and in the Western European countries. But it is necessary to consider the fact, that the relative measuring of poverty is not an adequate methodology for the countries from Central and Eastern Europe. Because of the low general level of incomes it artificially reduces the income threshold for measuring poverty. The absolute poverty line, calculated by the Ministry of Labour and Social Policy using the consumer basket methodology is considerably higher. In December 1997 it was 97 000 lv. More than 50% of the population live under this threshold.

<sup>8</sup> The maximum period of getting unemployment benefits in Bulgaria is quite long (12 months). That is why the term „long-term unemployed persons“ includes people, who have not worked for more than an year. In great part of the West European countries the long-term unemployment is registered after the sixth month.

<sup>9</sup> Center for the Study of Democracy, „Risk Groups and Social Problems in Bulgaria“, chapter IV, Clients of the labour exchanges and the centers for social welfare (a quantitative study), Sofia, 1995

The regional structure of the unemployment is of greatest importance for the development of adequate social protection measures on the labour market. The data show a great dispersion in the level and the structural characteristics of the unemployment in the different municipalities and clearly differentiated regions on the territory of the country.

The district is the main intermediate unit of the territorial division of the country, to which some power has been delegated by the central executive authorities. In the period 1991 – 1998 the administrative structure included 9 districts, covering about 30 municipalities each, with population over 1 million people. The differences in the levels of unemployment between these differentiated units were much smaller compared to the differences between the municipalities. In the course of the last years they were varying between 12% and 18% (excluding the city of Sofia, where the unemployment is 5%). The data on district level were hiding the real dimensions of the territorial disproportion and did not allow the risk regions to be identified in order programs for promotion of employment to be targeted there. (Figure 1). The changes in the administrative-territorial division of the country of 1999 include 27 districts, uniting about 10 municipalities each. The new division creates considerably better prerequisites for the implementation of the state structural policy on the labour market and for the application of centralized measures in the conditions of autonomous functioning of the municipalities.

The clearly expressed unevenness of the differentiated territorial units in Bulgaria requires an integral evaluation to be used when determining to what extent the situation in the Bulgarian municipalities is critical. And this approach implies a systematized set of different indicators to determine the extent of social-economic development of the municipalities. The integrated approach also underlies the methodology of the interrelations between the state budget and the budgets of the municipalities, which is a part of the State Budget Act for 1999.

The data on the state of the labour market lead to several basic conclusions, that need to be considered when assessing the needs of social protection of the unemployed and their adaptation to the requirements for free movement of the human resources in the European Union:

- The imbalance between the demand and the supply on the labour market generates lasting risks for certain groups of workers (people with low qualification, young people, disabled people, etc.) because of the slow privatisation of the state sector as well as because of the lack of adequate legal provisions, regulating the flexible forms of employment;
- The territorial disproportions in the country are considerable and they are an obstacle to the effective structural policy, as serious as the difference of the aggregated indicators compared to the average level for the Community.

The new Protection against Unemployment and Promotion of Employment Act of 1997 is a wide step towards reforming of the social protection system in the direction of the effective practices of the Western European countries. In the Act the conditions for the exercise of the right to work are specified and a complete set of measures the state institutions are bound to guarantee to the citizens are defined:

- Job information and consultations;
- Support for the beginning of a work or an independent economic activity;
- Professional guidance and vocational training;
- Provision of social compensations and benefits after the loss of a working place.

The "Vocational Training and Unemployment" Fund, which is an independent security fund, raises funds by means of compulsory installments, paid by the employers and the insured workers in a proportion 4:1. The legal provisions guarantee not only the consistent application of the security principles, but the

principle of social partnership too. The fund is managed with the assistance of a Supervisory Board, which consists of an equal number of representatives of the state, the employers and the insured persons.

On the one hand, the principal scheme of the social protection against unemployment is based on a balance between the installments and the compensations, which is an important element of the classical model of social security schemes. The percentage of the income substitution is 60% and exceeds the minimal standard, defined in the European Social Security Code, which is 50% of the salary. On the other hand, however, the financial restrictions impose the application of a "ceiling" of the compensations to the amount of 150% of the minimal salary and this way the income levels of the insured persons go down to the level of absolute poverty. This is a transitory problem, which springs from the structure of the incomes at the current stage of the economic reform and should not be considered as a serious obstacle to the possibility of co-ordination of the security schemes in a long-term perspective.

As one of the positive features of the social protection against unemployment we should also mention the universal nature of the assistance, provided to the long-term unemployed persons. They have the right to a three-months assistance from the security fund, as well as to a guaranteed minimum income for their families, provided by the municipal centres for social care after a check-up of their situation in terms of income and property. With these measures the Bulgarian legislation meets one of the substantial requirements of the European Social Charter.

More serious difficulties can be expected in the course of the application of the active measures and programs on the labour market. The programs for working places' creation in the regions, lagging behind, are a basic pillar of the structural policy of the European Union, whose aims concern the social sphere as well as the economic integration. That is why the applicant-countries have to ensure the necessary legal and administrative basis for the application of targeted, precisely addressed and effective programs for employment. The necessary selective approach to the risk groups on the labour market underlies the new law, but it is implemented mainly by means of programs for temporary employment, which encourage the employers to appoint long-term unemployed people, young people, disabled people, orphans for a period of one year, i.e. they do not invest in working places. The legal basis provides an opportunity to implement investment programs for promotion of employment in the state priority fields, such as stimulation of the development of certain regions or branches, construction of sites of particular importance, recovering of the environment, etc. However, the way of priorities' definition and the funding sources for this kind of programs are not specified. The special legislation makes references to anonymous funds and interest concessions from the state budget, which cannot make such transfers in case they are not specified in a special law. The development of detailed regional and branch programs for development and the creation of a functioning administrative and financial mechanism for their implementation is one of the main challenges in regard to the adaptation of the labour market to the requirements of the future united Europe.

## 2.2. PENSION SECURITY

The system of pension security guarantees the main security risks, envisaged in the European Code, such as old age, disability and hereditary pensions. The fact, that the functions of this system in Bulgaria go beyond the framework of social security is also important. It includes a number of benefits that are not of insurance nature. They are paid regardless the previous income and they ensure universal social protection. These are the social pensions for persons over 70 and disabled people without insurance length of service, etc.

### Conditions for access

The pension age in Bulgaria is at one of the lowest levels in Europe (55 for women and 60 for men). Moreover, about 30% of the working places give the opportunity for retiring under the conditions of the second and the first category of labour, which means that the required age is respectively three or eight years lower. These conditions predetermine the strong influence of the factor "pension burden" on the financial state of the security fund as well as on the possibilities to maintain the individual levels of the pensions. The index of pension dependency, i.e. the number of pensioners, whose living is provided by one employed person grew from 0,56 in 1989 to 0,82 in 1997.

During the last years some concrete steps were taken, aimed at reduction of the pension burden. The persons, having acquired the right to pension may work if they choose so for three years after they have reached the pension age. In 1999 this age limit will be increased with two more years, i.e. 60 years for women and 65 years for men. The minimal age, required for getting pension under the conditions of second and first category of labour was also increased with two years. These steps, however, cannot be treated as a radical measure for change of the pension age. A reform has been discussed for more than 5 years, actuaries' calculations have been made of the effect of the different scenarios. The calculations take into account the additional instalments for the insured persons, working under harmful labour conditions<sup>10</sup>, which grew considerably in 1991. In the conditions of the existing funding system of the pension security, which is based on covering the expenses these instalments compensate the pensions of the people, having worked under the conditions of the first and the second category of labour. On the other hand, however, they regenerate the problem of the lack of incentive for improvement of the working environment and increase of the duration of the active working life, which is among the basic parameters of the long-term insurance.

### Pensions level

The percentage of income replacement, envisaged in the Pension Act, is 55%, i.e. it exceeds with 10 points the minimal standards in the European Social Security Code. However, a great part of the pensioners receive a lower percentage of replacement. The correlation between the average pension and the average salary in 1997 is about 30%. The disproportion is due to the specific mechanism of maintenance of the minimal levels of the pensions by means of compensations and the usage of a "ceiling" for the maximum pension. This mechanism restricts the natural income stratification of the insured persons as a whole and artificially decreases the percentage of income replacement for the pensioners, who have had relatively high income before the occurrence of the insurance risk.

The deformations in the model of the distribution of income to the pensioners are shown on Figure 2. They also reflect on the income stratification of the population as a whole. The common attitude to the pension security as a system that generates equalisation and injustice reflects on the stimuli for taking part in it. This attitude is the main reason for the low level of collection, especially as far as the instalments from the private sector, where the control is more difficult, are concerned. About a half of all the employees in the country work in the private sector, but they hardly provide 5.8% of the instalments in the security fund. In principle, the exercise of an administrative control in a situation of lack of natural economic motivation is absolutely ineffective and cannot provide guarantees against malpractice.

The economic and social-political dimensions of the problem of the low level of the pensions are also connected with the European standards of social protection of the elderly persons. The signature of the European Social Charter obliges our country to guarantee the right to an independent and dignified life

<sup>10</sup> 50% of the expenses for the salary for the second category of labour and 55% for the first category.

to this numerous social group. At the same time, the ensuring of an adequate living standard for the elderly people is interpreted in the European social model as a condition for a more complete inclusion of the young generations on the labour market.

With a view to these aspects of the pension security system, in the last year Bulgarian social legislation focused its reform on the long-term insurance. The Voluntary Insurance bill was one of the most controversial draft laws. Its priority is due to the necessity an opportunity to be provided for increase of the individual amount of the pensions through mobilisation of the resources of the individual citizens and employers. At the same time the voluntary insurance is expected to create motivation for investments in the pension funds and to restore the confidence in the social security system by means of transparency of management.

The experience of other Central and East European countries shows that the voluntary insurance cannot contribute considerably to the increase of the general level of pensions under the circumstances of a limited solvency of the population and a limited profitability of the capitalized resources. For example in the Czech Republic, where the voluntary insurance was introduced in 1993 together with a number of tax preferences on the instalments, these instalments hardly reach 3% of the whole amount of insurance payments in 1997. Also, the participants come mainly from the high-income group and the problem of the low level of the pensions of the most numerous average strata of the population is still existing.

Obviously the deposited problems should be overcome mainly by means of reforming the system of the compulsory pension insurance, including both the general scheme and the additional professional regimes for pension insurance. The possible measures that can stabilize the balance between the instalments and the compensations in the system of the compulsory pension insurance can be summarized in the following main directions:

- *Increase of the minimum age for retirement and the criteria for length of service, connected with it.* Not only the attitudes of the people, who are currently near the pension age, but also the possible unfavourable impacts on the labour market, such as the increase of the supply of human resources and the growth of unemployment should be taken into account. These expectations cannot be quantified. They depend on the flexibility of the labour demand, which will undergo substantial changes in the course of the structural reform. That is why the increase of the minimum required age for receiving the right to pension was preceded by a kind of "experimenting" the behaviour on the labour market through a gradual increase of the age, up to which the people can work of their own choice.
- *Changes in the formula of calculation of the pension.* The acting formula attaches a higher relative weight to the remuneration, on the basis of which the instalments are made and a relatively lower weight to the length of service. Moreover, the base remuneration is calculated on the grounds of 3 of the last 10 years of service. This formula disperses the base income, forms a differentiation in the pensions and compensations. The modern reforms in the European security systems attach a priority to the limited basis income and discard the limitations on the calculated compensations as they provoke equalisation and injustice.
- *Reduction of the expenses for non-insurance payments, financed through the insurance instalments.* The security fund pays children allowances, which are funded from the state budget according to the Act for Social Security Fund. The budgetary transfer covers some other non-insurance payments, too, such as the pensions to disabled people and the social pensions to people without the necessary length of service. By 1998 the security fund used to pay a number of other benefits that are not of insurance nature. They are not calculated in the budgetary subsidy and disturb the balance between the insurance risk and the amount of the installments of the employers and the



insured workers. These are the benefits for caring after a sick family member with a duration of up to 60 days an year, for assistance to pregnant women, who are moved to a lower and not so well paid position but keep the amount of the remuneration they have received before the pregnancy, one-time benefits at the birth of a child, benefits for caring after a child from the end of the maternity leave till the child becomes 2, technical aids for disabled people, etc.

- *Redistribution of the insurance risk between the active generations and the pensioners.* This necessity can be realized in practice by means of a redistribution of the financial system of the social security. At the moment it is fully based on the principle of covering the expenses, i.e. the employees make payments for the pensioners, who receive pensions for the current month. This system requires the active generations to fully take the two main risks of the long-term insurance – the demographic and the inflation ones. They have to support a relatively greater number of economically inactive people and to maintain the purchasing capacity of their pensions. It is only possible through increasing of the insurance installments – something that happened in Bulgaria in 1991. The necessity of further increase of the installments can be temporarily avoided by means of structural reforms in the pension system such as an increase of the pension age, introduction of additional insurance, etc. However, in principle the system of covering the expenses does not have any other mechanisms of redistribution of the risk between the generations. The alternative is the system of capitalisation of the payments, which existed in Bulgaria by 1951. The insurance installments, paid during the active life accumulate and are invested within the framework of certain rules of minimisation and diversification of the risk. The possible unfavorable impacts of the inflation or the low incomes from the capitalized funds remain completely at the expense of the insured persons after the insurance risk comes, which respectively means pension age, disability, etc. The obviously unstable economic situation during the transition period is not favorable for radical reforms in the principles of the social security such as a replacement of the expense covering schemes by capitalisation ones. That is why a great part of the countries in Central and Eastern Europe (Poland, the Czech Republic, Hungary, etc.) envisage a gradual introduction of capitalisation schemes, especially in the additional compulsory and voluntary insurance.
- *Introduction of compulsory additional insurance schemes for branches and professions, connected with higher risks to the health and the ability to work.* This measure started when the professional fund for the teachers was introduced. The establishment of additional professional funds in the branches outside the budgetary sphere will come across more obstacles, including alternative costs such as a reduction of the payroll taxes to the common Social Security Fund, where currently the higher installments for the first and the second categories of labour go.
- *Pluralism in the social security management.* The management of the security funds in Bulgaria is built on the modern principles of three parties' participation and equality of employers and employees. However, concrete activities towards decentralisation and privatisation are needed. In most of the European countries the management of the funds and the making of decisions for investments are left to the private initiative and it is valid not only for the additional regimes, but for the compulsory insurance regimes too.

The demographic problems and the way they reflect on the long term insurance are common for all the European countries. In many of them similar reforms have been carried out with the aim of reduction of the pension burden and financial stabilisation of the security funds. Since 1985 pension reforms have been carried out in almost all countries from the European Union, excluding the Netherlands and Denmark. Currently the reforms in Italy and Germany are among the most topical and simultaneously most controversial points of the adaptation of the social protection systems. They stirred up nega-

tive reactions amongst both the insured persons and the employers' associations. The population as a whole is not inclined to accept changes in the pension system. The same trends can be observed in Bulgaria and that is why the discussion on the pension reform has become a political issue and the legislative changes in this field are very slow.

### 2.3. HEALTH SECURITY

Public health is among the priority social Objectives. None of the European countries have found the optimal balance between the expenses and the effect in the health care system. And it is more difficult to guarantee that a health protection of good quality will be provided within the framework of the limited resources the countries from East and Central Europe have at their disposal.

Bulgaria inherited the direct funding of the health care system from the state and the municipal budgets. This way of funding was in favour of its extensive development by the end of the 80-ies and of the maintenance of a high speed of growth of the expenses. It however proved to be inapplicable in the conditions of a budgetary restriction and inappropriate from the viewpoint of the modern requirements for quality of the health service.

The main quantitative indicators for the scope of the health services are commensurate with those of the developed European countries (three physicians per 1000 people of the population, 10 hospital beds per 1000 people, etc.). However, the basic indicators for the health status of the population remain at one of the lowest levels in Europe, with a lasting trend to getting worse. During the last 10 years the average life expectancy decreased from 71,2 to 70,4 years. The infant mortality rate sharply started to grow at the end of the 80-ies and in 1997 it was 15,7%. According to this indicator Bulgaria is in the second place among the Eastern European countries after Romania, where the infant mortality rate is about 21%. The mortality rate of the active population and the extent of chronic diseases are also high.

It is true that the health care system is not the only factor for the health of the population, but there is a proved correlation between the public expenses for health services and the health status in the different countries.<sup>11</sup> Hence the interest in this field of the social. Bad health limits the opportunities for participation on the labour market, strengthens the dependency on medical services and increases the public expenses. Within this context the health reform has not only human dimension, it is simultaneously a part of the general economic and institutional reform in the country.

The system of health protection in Bulgaria in the period before the transition was characterized by a wide scope and a formal accessibility at the expense of a continuous decline in the quality of the services and the effectiveness of the expenditure. It also inherited the universal principle, treating the citizens as passive recipients of services, funded by the state rather than as active participants in the improvement of the living standard and the limitation of the risks to the environment.

During the last 8 years after the beginning of the reforms the share of the expenses for health protection in the GDP was kept at about 4% in spite of the increased health risks and the inflation growth of the expenses for salaries, medications, equipment, etc. The amount that is spent for the maintenance of the health of a single person from the population hardly reaches 20 USD per year. The limited resources necessitate their distribution according to the most urgent needs, which is not always effective. For this reason the support for the hospitals and the maintenance of their capacity has a priority. In return for it the number of the out-patients' polyclinic establishments as well as the scope of the services they provide were limited (Table 4). From 1990 to 1997 the share of the hospitals in the total amount of the expenses for health protection grew from

<sup>11</sup> Barr.,N. ed., *Labour Market and Social Policy in Central and Eastern Europe: The Transition and Beyond*, New York, 1994, pages 318-319.

50% to 58%, although the hospitals are relatively more expensive and often the out-patients' services are a more efficient alternative from the viewpoint of the clients' needs.

Along with the liberalisation of the market relations in the beginning of the 90-ies the private physicians' practice was restored. This measure proved to be insufficient for the activation of the competition and the improvement of the quality of health services. The additional private market of health services covers a minimal part of the general consumption. After 1994 the trend towards an increase of the number and the share of the practicing privately physicians was discontinued and at the moment some 20% of the physicians and 40% of the dentists provide private services. The main reason for the low share of the private sector in the health protection is the limited solvent demand of the population. In Bulgaria it is a factor with a continuous effect and that is why the health services market cannot play the role of an external stimulus for improvement of the quality and the effectiveness of the health system as a whole.

In this situation the discussion on the introduction of the health insurance started. It was meant as a tool for activating the market mechanisms for redistribution of the resources and their targeting at more effective forms of services, keeping at the same time their accessibility, guaranteed by the principle of the solidarity between the employers and the insured persons. Most of the Eastern European countries adopted the health insurance system as the most adequate way of funding and management of the health protection and introduced it in the beginning of the reforms (Hungary, the Czech Republic, Slovakia, Romania, etc.) In Bulgaria the Health Security Act was adopted in 1998 after a long lasting search of a consensus on basic questions such as the value of the health services, the status of the health establishments, the redistribution of the tax burden, etc.

The law envisages a compulsory health insurance, based on a comparably high extent of equalisation of the incomes of the insured persons and a preservation of a wide range of opportunities for access of uninsured people. The social solidarity is guaranteed by the introduction of an instalment of 3%, which is one and the same for workers and for employers, and a minimum payment for the children in the family as well as through transfers from the other security funds and from the municipal budgets for the uninsured people.

The additional installment for the health security fund is introduced in return for:

- Reduction of the installments of both the employers and the insured persons to the Social Security Fund;
- Reduction of the installment of the employers to the Vocational Training and Unemployment Fund;
- A 2 points lower effective tax rate on the incomes of individuals.

Although the total insurance burden for the employers will not grow as a result of the introduction of the health security, the idea to transform installments from the existing security funds to the new health security fund contradicts the necessity of reduction of the installments, whose total amount in 1999 is 46%. The high stake increases the price of labour and has a negative impact on the stimuli for creation of working places. Taking this problem into account, most of the West European countries aspire to transform the insurance burden into a tax burden, e.g. to reduce the security instalments at the expense of higher tax instalments, which affect the employment and the undertaking activity in a considerably milder way. That is why the scheme of substitution of the budgetary funding (respectively the tax sources) with insurance instalments to the health security fund is to a great extent contradictory to the modern trends.

The basic problem at the start of the social security system is still the disproportion between the security rights and the limited resources available to guarantee them. The total income to the health security fund is envisaged to be about 4% of the GDP in 1999. Even in case all the instalments are collected,

this share cannot ensure considerable increase of the expenses for salaries and material support in the health establishments, which is a necessary prerequisite for improvement of the quality of services.

Some studies show that the health services consumption provokes additional social problems, such as the uneven and unjust distribution of the expenses among the income groups of the population. If we suppose that the expenses of a household for health protection (purchase of medicines, additional services, etc.) are proportional to the consumption of state health services, we will see that the poorest 20% of the population hardly consume 10% of the expenses for hospital care, whilst the one/fifth with the highest income consume 29%.<sup>12</sup> This structure places our country closely to the extent of inequality in the consumption in the countries from the third world. The disproportion can be explained by the fact that the low income groups of the population are not in a position to take the accompanying expenses for treatment, the transportation to the hospital, the alternative expenses, connected with long absence from the working place, etc. The social imbalances have to be overcome by expansion of the so called "minimum package" of medical services, which will be paid by the health security fund. A substantial part of the additional health services, the medicines supply, the payment for the stay in hospitals are still beyond the scope of the health security system.

## 2.4. FAMILY BENEFITS

The basic rights of the insured women are provided for in the Labour Code. These are the compensation for pregnancy and maternity, equal to the full amount of the remuneration and received for a period of 120 – 180 days, the leave for bringing a child up, the special protection of the pregnant women and the mothers, etc. These social rights considerably exceed the requirements of the European directive on maternity protection, which envisages compensation, paid for a period of 14 weeks and a lower percentage of income substitution.

The other forms of social protection of families with children are ensured through universal benefits, including one-time payment at the birth of a child, benefits for bringing a child up for the period, starting 45 days before birth and ending when the child becomes 2 years old, benefits for bringing a child up during his third year and a children's allowance until the child becomes 16 or 18, in case he studies. The ensured parents receive the benefits from the security fund, for which only a week-long length of service is required. The uninsured parents have the right to the same kind and amount of family benefits. They can receive them from the Social Welfare Centers at the expense of the municipal budgets.

In spite of the favourable legal arrangements the system of family benefits is a typical example of a discrepancy between the guaranteed rights and their practical exercise. The universal scheme of family benefits is still regulated by the Decree for promotion of the birth-rate of 1968. It bears the stamp of the pronatality demographic policy, typical for the 60-ies. And is not compatible with the modern forms and principles of social protection of families with children.

The easy criteria for access provoked a sharp increase in the number of uninsured parents in the last years. The relative share of the uninsured mothers in 1996 reached the half of the total number of mothers, using a maternity leave. The share of the uninsured parents who receive allowances from the Social Welfare Centers is 12%.

The child allowances are paid at the expense of tax income, to the insured persons inclusive. The expenses of the security fund to this end have to be compensated through an earmarked subsidy from the state budget. This fact hampers the adaptation of the expenses and of the individual amount of the benefits to the dynamics of the inflation. That is why the average amount of the al-

<sup>12</sup> Budgets of the households, National Statistical Institute, 1997

lowance in a relative expression is 12% of the average salary in 1990 and 4,5% of the average salary in 1998.

In order to be given a child allowance from the social welfare system, both parents have to be registered as unemployed and actively searching for work. This criterion does not have selective functions, it is rather a prevention against misuse, as all families, where at least one of the parents is employed, self-employed or a pensioner have the right to receive children's allowances from the security fund.

The one-time benefit at birth and the benefit for bringing a child up are rendered to the uninsured parents regardless of their employment status at the moment the right arises. The requirement to the mother - to have worked for at least one day during the last six months before the delivery - is of symbolic nature. Practically it does not limit the access of women who are voluntarily unemployed. A great part of the beneficiaries to this kind of assistance are women of Roma or Turkish origin, where the model of the woman, who does not work, is typical.

The dynamics of the benefits to uninsured parents cannot be interpreted synonymously. On one hand, it increases the social impact of the system. On the other hand however the access of voluntarily unemployed people is a prerequisite for a reduction of the stimuli for seeking a job and imprecise "addressing" of the social benefits. The sociological surveys show, that about 20% of all uninsured parents do not belong to the low income groups.<sup>13</sup> This percentage indicates the cases, in which the limited resources are targeted at families, which are not in an extreme need. On the other hand the families, that are really poor, can hardly provide for the minimum needs in the earliest period of bringing the child up with an income, equal to the minimum salary. They need a more active social protection, that has to be ensured by means of special preferences at rendering the monthly allowances. That is why the benefits according to the Decree for promotion of the birth-rate and particularly the benefits for bringing a child up, which are the main part of the expenditure of the Social Welfare Centers cannot be accepted as an effective scheme for poverty alleviation.

Specific administrative problems also appear, when allowances are paid by the social welfare system to uninsured parents. This system is a function of the local authorities. The decentralized funding generates many problems, connected with the provision of resources.

The subsidies the municipalities receive from the state budget are not earmarked, but block subsidies. They are planned on the basis of objective indicators, including the number of unsecured parents from the previous year, but after reception they "dissolve" in the municipal budget and are used in conformity with the priorities of the local authorities. These priorities do not always coincide with the aims and the strategy of the governmental social policy.

After 1993 the so called "granted, but unpaid benefits" appeared in the social welfare system. This is a debt of the municipalities to the citizens, entitled to them. The granted benefits are unpaid, delayed or paid partially because of lack of sufficient funds in the municipal budget. These debts have been progressively growing in the course of the last years and in 1997 their total amount reached 14% of all the allotted funds.

The way out of the accumulated problems in the funding does not have to be searched in a direct intervention and centralisation, but in indirect mechanisms for stimulation of the local initiative. In many of the Western countries there are similar examples. In Belgium there is a specialized social fund, which restores half of the municipalities' expenses for social benefits. In this case the size of the earmarked subsidies for the separate municipalities is not fixed in advance, but it depends on the expenses for social welfare, made by the municipal bud-

<sup>13</sup> Center for the Study of Democracy, „At-Risk Groups and Social Problems in the Bulgarian Society“, report on a sociological survey, 1995.

gets. This double mechanism allows the preservation of the advantages of the decentralisation, such as the flexibility and the adaptability to the needs of the client. At the same time it motivates the municipalities to invest more funds in the social welfare system because it means that they will get more subsidies from the state budget.

The insufficiency of financial resources in Bulgaria is the main obstacle to the effective exercise of the social rights. Simultaneously the ways and the measures for their provision does not have to contradict to the principles of democracy and pluralism of management, to which Bulgaria aspires to keep strictly. The long lasting traditions in the municipal funding of the social benefits and services, dating from the 90-ies of the last century are an expression of this aspiration. During the last years some concrete steps were made towards a renaissance of the civic society in the social policy. The partnership with the non-governmental organisations finds an expression in the functioning of permanent consultative bodies such as the Council on Social and Demographic Problems at the government, the public councils on social welfare at the municipalities, etc.

### **3. THE SOCIAL REFORM WITHIN THE CONTEXT OF THE PRE-ACCESSION STRATEGY**

#### **3.1. NEEDS AND POTENTIAL EFFECTS OF BULGARIA'S PARTICIPATION IN THE PRE-ACCESSION STRUCTURAL POLICY.**

Since the end of 1998, the Commission develops regular reports reviewing the progress of each Central and East European candidate State towards accession, in particular the rate at which it is adopting the Union *acquis*, the ability to meet the economic criteria and fulfil the obligations deriving from accession. The 1999 Report presents the economic and political situation in Bulgaria in the context of the recent economic and social reforms.

The Report includes the most important achievements in the social sphere, which take us closer to the European patterns and standards. These are the signature of the Revised European Social Charter in September 1998 and the preparation for its ratification, as well as the measures undertaken to improve national social legislation.

- As regards the Labour Law, the Unemployment Protection and Employment Promotion Act, covers basic European Union provisions. In parallel, a number of employment programs are being implemented in the public sector; there are programs for example to support job clubs, vocational training and business opportunities for women. Several programs have also been started to support the most vulnerable groups in the labour market (Roma, long-term unemployed).
- Social partners are increasingly involved in drafting legislation in the social sphere. The social dialogue is one of the basic instruments used in the development and implementation of regional employment programs and to this end Regional Employment Councils are being established.
- New legislation is adopted on Health and Safety at Work. It includes provisions on the specialized services in the enterprises engaged with the professional hazards protection and prophylactics, on the training of the representatives on committees on working conditions, on the terms, conditions and regularity of risk assessment and on introduction of physiological regimes of work and rest.
- In respect of the social security scheme, legal and institutional reform is being launched ensuring long-term financial sustainability of insurance, including legislation regulating voluntary and occupational pension funds.

At the same time the Commission's report contains a summary of the main gaps in the field of social protection, whose removal is a condition for membership.

- With regard to labour market policy, administrative capacity remains insufficient, despite the fact that the Unemployment Protection and Employment Promotion Act has provided for additional passive and active labour market measures.
- The social dialogue need to be improved and more active, representative and autonomous employers and employees organisations need to be encouraged in particular in the context of on-going industrial restructuring.
- The principle of equal treatment is enshrined in the Bulgarian Constitution and other legal provisions, but there is only little evidence of measures taken for the practical enforcement of the principle in the employment sector.
- Following the Health Insurance Act of June 1998, the National Health Insurance Fund started to operate in March 1999 but further institutional

<sup>14</sup> Regular Report from the Commission on Progress towards Accession. Bulgaria – 13 October, 1999.

strengthening is necessary. The situation in the health sector requires an injection of resources.

The strategy of the social reform in Bulgaria is seen in a different way and is often interpreted in political terms. There is no consensus on the predominating part of the social legislative program of the government, including the changes in the pension legislation, the arrangement of the family benefits and the financial aspects of the health reform. The contradictions are to a great extent due to the dynamics of the economic development and the lack of stable economic indicators, which are an obligatory condition for conceptual decisions in the field of social protection. In these conditions the Commission's recommendations are even more important, as they not only formulate the main directions of the social development of the countries – applicants for accession, but simultaneously bind them with the conditions for provision of financial and technical support for the reforms.

For the period 2000 –2006 the European Union envisages to provide two forms of financial assistance to the twelve countries from Central and East Europe: pre-accession assistance and assistance after the accession. The second form includes resources from the structural funds, tools of the Common Agricultural Policy, etc. The funds will be granted taking into account the differences in the economic and political development of the applying countries, as well as the different extent of adaptation of the legislation and the social protection system. In 1997 the Union divided the applicants into two groups and started detailed negotiations with the representatives of the first group (Czech Republic, Cyprus, Hungary, Poland, Estonia and Slovenia). After 1999 the Commission recommends to abolish the two-group system and to start negotiations with all applicant countries, based on their individual progress. The strongest candidates will be allowed to overtake countries from the previous leading group. At the same time the Commission stress that the criteria for joining European Union remain unchanged. It is expected that about three fourths of the total amount for assistance, which is 75 billion ECU, will be spent for the first accessions before 2006. The rest of the countries will get about 18 billion ECU, as during the period they will use the pre-accession assistance only, which will be provided through the PHARE program of the EU and through the structural fund.

The expected impact of the programs, funded through the European financial instruments, can be assessed using the following indicators:

- Importance of the covered sectors from the viewpoint of the priorities of the structural reform in the country (transport infrastructure, telecommunications, etc.)
- Improvement of the qualitative characteristics of the human resources;
- Alleviation of poverty and social isolation;
- Compensation of the social cost of the reforms and provision of the necessary public support;
- Effect of integration and getting closer to the characteristics of the labour market in the European Union

Within the context of the requirement for complexity of the regional development, the assessment of the social effect has to be made not only on the basis of the absolute and the relative size of the incomes during the pre-accession period, but also as a complex effect of the cohesion policy, carried out through all possible financial instruments: structural funds, Cohesion fund, the credits from the European Investment Bank, etc.

The biggest projects for Bulgaria are connected with the construction of infrastructural corridors which will cross our territory and are expected to be funded through the above mentioned financial instruments. Although they have no direct social purpose, they will have considerable effect for the creation of new working places, including for workers with a lower qualification who are the



most at risk group on the market. Second, the implementation of these infrastructural projects will create streams of commercial and economic exchange which will contribute to the economic exhilaration and the increase of the income part of the state budget.

### **3.2. PRIORITY MEASURES FOR IMPLEMENTATION OF THE PRE-ACCESSION STRATEGY IN THE SOCIAL PROTECTION SYSTEM**

#### **3.2.1. ADAPTATION OF THE PROGRAMS FOR SOCIAL DEVELOPMENT TO THE REQUIREMENTS FOR PARTICIPATION IN THE EUROPEAN SOCIAL FUND**

The preparation for accession of the country to the European structural policy began with the Special Preparatory Programme (SPP) of the Commission of the European Union. It was aimed at assisting the building of the necessary information, administrative and resource potential of the associated countries with regards to their gradual integration into the Community.

The SPP priorities include three main activities:

- 1) Designing the candidate-countries structural policies, which includes an adequate legal basis, administrative structure and budgetary procedures, as well as preparation of structural development programs;
- 2) Promoting the understanding of European Union structural policy through administrative cooperation;
- 3) Development of projects, applying principles and procedures of Objective 1 at local level, integrated approach to the structural development and multi-annual programming.

The main part of the funds under SPP will be spent on institutional preparation of the countries – applicants for accession. These funds will be included in the national PHARE programs as an additional component.

It is envisaged that 4 million of the total of 60 million ECU will be spent on horizontal preparatory activities, such as development of the national statistics and especially creation of data-bases on regional level, conferences and training for the administrative officers. The horizontal preparatory activities may have direct application in the sphere of social protection and especially for the development of the regional statistics on unemployment and qualification profile of the human resources, for the information of the central and the local authorities on the possibilities to use the resources of the European Social Fund, etc.

The process of receiving grants from the European Social Fund includes the following main stages:

- Defining of the priorities for the respective period;
- Development of a complex multi-annual programme;
- Approval of the programme by the Commission.

These stages do not differ substantially from the procedure of consideration and approval of the national programs of the countries from East and Central Europe, funded under PHARE and other EU grant assistance programs. The main difference is in the requirements and the criteria that have to be met by the programs for structural development.

First of all the countries, applying for funds from the structural funds have to ensure *adequate co-funding* from local sources, which have to be well guaranteed in the course of implementation of each specific project.

In the second place the European Social Fund programs have to be developed within the framework of a longer horizon and on a larger scale, involving more aspects of the economic and social development for the different regions and from the viewpoint of the national Objectives and priorities.

*The distribution of functions* between the Commission of the European Union, the government and the local administration is also one of the basic requirements for utilisation of the resources from the structural funds. Here is the scheme this distribution follows:

- The Commission identifies the priorities for development and assistance in cooperation with the government and the local administration, binding them with Objectives that can be realized and verified.
- The management in the member-states and the regions is decentralized; the double administration by the Commission and the member-state is applied only for the main projects. In the cases of decentralized management the member-state regularly reports on the spent funds to the Commission.
- With the aim to ensure reliability and objectivity of the control over the results of the funded project, the Commission makes sure that the member-state has an appropriate administrative system for management, accountancy and control.

In 1997 the greatest number of programs for combating unemployment were approved within the context of Objective 2 – restructuring of industrial regions, lagging behind. During the first half of the year 32 programs, aimed at the realisation of this Objective, were approved; by the end of the year 20 more programs were approved, either in principle or finally. At the same time, during the second half of 1997 the Commission published a list of 80 projects of the member-states for concluding territorial agreements for employment along with the criteria for their evaluation, such as:

- Accelerated realisation of the project;
- Broad partnership, including all parties concerned;
- Innovative approach towards job creation.

These requirements aim to guarantee optimal targeting of the available resources towards countries, regions and branches with the best possible effect for the recipient country as well as for the cohesion policy in Central and Eastern Europe as a whole. The adaptation of the legal and administrative capacity of the social protection systems to these criteria will to a great extent pre-determine the effective participation of our country in the pre-accession programme of the European Union.

### **3.2.2. STRUCTURAL CHANGES IN THE LEGAL BASIS, THE EXECUTIVE POWER AND THE CAPACITY FOR ADMINISTRATION OF THE SOCIAL PROGRAMS**

The concrete social activities Bulgaria can submit for co-funding and realisation within the framework of the social priorities of the European Union can be grouped in the following more important directions:

- Measures accompanying the structural and the social reform;
- Creation and development of training, re-training and professional development systems;
- Active measures on the labour market;
- Combating social isolation.

The criteria and the formal procedures of the European Union for assisting the accession of the associated countries require certain preliminary adaptation of the legal basis and the administration of activities, which are expected to be co-funded and technically assisted. This requirement is in force for the above mentioned social activities, too. The concrete dimensions of the adaptation are connected with the social legislation, the administrative reform and the information exchange. These tasks are some of the substantial conditions for the development of competitive projects by the countries - applicants for accession.

#### **Legislative measures**

The new social legislation of the end of 1997 and 1998 (including the Protection against Unemployment and Promotion of Employment Act, the Social Assistance Act, The Health Security Act, etc.) as well as the draft laws in the field of pension security and family benefits that are to be adopted create a favourable legal environment for gradual adaptation of the social protection to the European social standards. The specific legislation, however, cannot fully realize this Objective. There are a number of deficits in some general legal acts that are of substantial importance for the national identity of the social policy.

An important measure in regard to the full participation of Bulgaria in the structural funds and in the European Social Fund, in particular, is the territorial division of the country based on economic differences. The new administrative-territorial structure of 1999, which differentiates an optimal number of districts, will make the delegation of rights to the central executive power on local level easier. It will make the control more effective and will allow a better coordination of the planning and implementation of local projects and programs, including the ones, funded by the European Union.

Another substantial prerequisite for the gradual reduction of the regional differences is the development of flexible forms of employment such as encouragement of the demand and the supply of part-time employment, temporary and season employment, etc. The Labour Code, which is in force limits the opportunities for such forms of employment. The main reason is the lack of balanced social security schemes. Although separated from the state budget, the Social Security Fund and the Vocational Training and Unemployment Fund are burdened with fiscal functions and the high general level of the insurance installment influence in a negative way the labour demand and the development of flexible forms of employment.

### **Administrative changes**

The development of the local self-government in Bulgaria went through several consequent stages of liberalisation. The autonomy of the budget formation and the decision making in the main spheres of the social policy, which the municipalities acquired in 1991, was gradually expanded. The methods for the relations between the state budget and the municipal budgets also changed. Since 1993 the municipal councils have been independently determining a substantial part of the economic and social priorities for allocation of the funds from their own incomes and from the state budget subsidies. They fund over 60% of the educational, health, social and infra-structural services in the budgetary sphere. About a half of the investments in these activities are also funded by the municipal budgets. The labour demand in the social services, which are a function of the municipality, is characterized by high flexibility. It is of substantial importance for the solution of the problems of the unemployment, the depopulation and the low living standard of the local population.

Decentralisation lays a stable basis for adaptation of the administrative structure to the requirements of the European structural policy whose main Objectives include a broader participation of the local authorities in the decision making process. On the other hand, however, the municipalities differ substantially in terms of economic capacity. According to the observations of the Ministry of Finance about 30% of the municipalities are near the average level for the country. The rest tend to either full dependency on the state subsidies or, more seldom, a much better financial and economic situation than the average for the country. To a great extent the differences are due to the inherited territorial disproportion, typical for the planned economy of the 80-ies. On the other hand, the unevenness is regenerated by the methods of determining the subsidies from the state to the local budgets, which attaches a high relative share to the expenses reported for the previous year.

One of the unfavourable prerequisites in the field of the administration is also the lack of adequate mechanisms for coordination of the regional priorities. According to the current practice in regard to the European Union PHARE pro-

programme the Council of Ministers is the main body, coordinating the executive power. This administrative structure could not play the same role effectively enough in regard to projects, funded by the structural funds of the European Union. The implementation of structural projects is based on the assumption of much more substantial differences between the interests of the separate territorial units (towns, municipalities or regions). The requirement for co-funding additionally complicates the coordination and requires strong guarantees on national and local level. In this connection the possibilities for building up of a national coordinating body have to be discussed after examining the past experience of the EU member-states. In each of them different administrative solutions exist, which are adapted to the national specifics of the administrative structure and the division of responsibilities between the central and the local executive authorities.

Not only administrative officers and representatives of the central executive power have to be involved in the mastering and the analyzing of this experience, but also the members of the National Association of Municipalities in the Republic of Bulgaria. It has consultative functions at the discussion of draft legal acts and national programs, concerning regional development.

### **Requirements for programme development**

Taking into account the fact that the funding from the EU will be provided on the basis of a complex multi-annual programme for each applicant-country, the representatives of the local authorities in Bulgaria must in due time accept the integrated approach to the development of strategies, programs and legal acts for implementation of the economic and social policy. The 3-years macro-economic framework for the state budget has to be also taken into account for the formation of the local budgets. In most cases, however, there is a lack of sufficient disaggregated data and analyzes, which can help the local authorities outline the local framework of the financial and economic policy and develop a middle- and long-term strategy for regional development.

The procedure of development of the programs of many years has to follow the adopted standards and schemes for their development. Simultaneously these parameters have to be adapted to the needs and the perspectives of the regional development in Bulgaria. In this connection the examination and the exchange of experience with the member-states are especially necessary, as well as the discussions on the possible alternatives. The transfer of know-how with regard to the European pre-accession strategy, including seminars, conferences and local working groups, is a main priority of the Special Preparatory Programme.

## CONCLUSION

The perspectives for accession of Bulgaria to the European Union are an important landmark in the social-economic policy of the country. To a great extent they determine the model of the reforms and the concrete administrative decisions. These perspectives are a specific corrective in the social sphere, too, regardless of the fact that the political choice there is mediated by a number of external factors such as the economic potential of the country, the traditions and the achieved extent of social solidarity, the social attitudes of the population, etc. In this respect the general strategy for integration of Bulgaria into the European Union marks some concrete directions for adaptation of the social protection.

First of all, the adaptation of the systems and mechanisms of social protection is connected with the necessity to prepare them for the realisation of the framework Objective of free movement of workers within the European Union. This aim does not put special requirements to the social reform, but assumes, that at the stage of accession some basic deficits in the national social legislation would have been overcome. These are the low absolute amounts of the compensations, almost reaching the threshold of poverty, the imbalance between the installments and the compensations in the social security funds, etc.

Another important direction of adaptation is the creation of the necessary legal, resource and administrative potential for the effective and competitive participation of the country in the pre-accession financial assistance from the European Union with the aim of consolidation of the labour market and social integration of the vulnerable groups.

The realisation of the necessary measures requires restructuring of the financial resources and the administrative structures, in some cases also investments of own capital. The effect of the adaptation cannot always be clearly identified at the stage of the preparation. In these conditions the public debate, the discussion of the possible alternatives and the search for a consensus on the proposed reforms are the only reliable guarantee for a balance between the national priorities and the dynamics of the integration processes.



## APPENDICES

**TABLE 1: Employment rates and registered unemployment in the associated countries from Central and Eastern Europe (1997)**

	Employment rate (as % of the active population)	Unemployment rate (as % of the active population)
Hungary	64,2	10,4
Poland	66,1	11,5
Romania	75,6	8,8
Slovakia	66,0	12,9
Latvia	83,3	7,4
Estonia	80,6	4,0
Lithuania	79,7	5,9
Bulgaria	69,8	14,1
Czech Republic	77,5	4,3
Slovenia	53,8	14,4

Source: UNICEF, 1999

**TABLE 2: Dynamics and structure of unemployment in Bulgaria**

	1992	1993	1994	1995	1996	1997	1998
Unemployment rate	15 %	16.4 %	12.8 %	11.1 %	10.9 %	14.1 %	12.2 %
Long-term unemployed relative share	—	152121 24.3 %	125258 25.6 %	121428 28.6 %	110868 28 %	120067 22.5 %	150715 32.5 %
Women relative share	302392 52.4 %	331228 52.9 %	265340 54.3 %	235793 55.5 %	269133 55.2 %	308265 52.7 %	249768 53.8 %
Under 24 year-olds relative share	159797 27.7 %	167805 26.8 %	117221 24 %	105531 24.8 %	118672 24.1 %	128702 21.9 %	152807 32.9 %
Without specialization – relative share	283831 49.8 %	314323 50.2 %	258386 52.9 %	240035 56.7 %	262873 53.7 %	340145 58.2 %	271750 58.6 %

Source: National Employment Service at the Ministry of Labour and Social Policy

**TABLE 3: Purchasing capacity of the minimum incomes**

	1991			1998		
	Bread/kg	Meat/kg	Milk/l	Bread/kg	Meat/kg	Milk/l
Minimum salary	259	23	215	83.8	5.9	65.2
Minimum pension	172	15	143	46.1	3.5	38.4
Average pension	168	15	140	84.5	6.4	70.1
Children's allowance	68	6	57	16.3	1.3	13.2

Source: Ministry of Labour and Social Policy

**TABLE 4: Health establishments and beds**

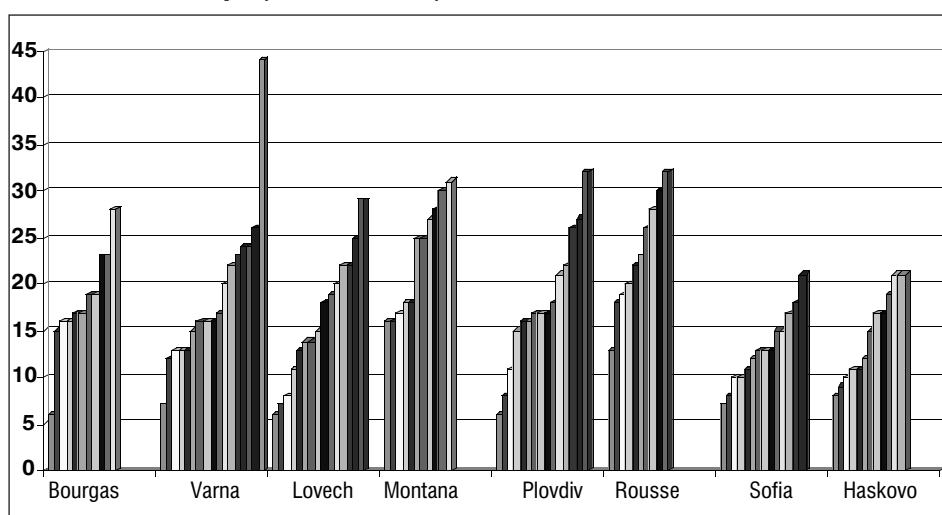
	1993	1994	1995	1996	1997	1998
<b>ESTABLISHMENTS</b>						
1. Hospitals	287	284	289	288	288	197
2. Polyclinics	3723	3726	3742	3737	3618	3579
3. Sanatoria	163	160	156	152	132	95
<b>BEDS</b>						
1. Hospitals	88910	86092	87148	87549	83219	52355
2. Polyclinics	2026	2104	1940	1818	1554	1445
3. Sanatoria	19278	18950	18206	17966	14612	9628

Source: Statistical directory, National Statistical Institute

**TABLE 5: Medical specialists, employed in the health sector (1993-1998)**

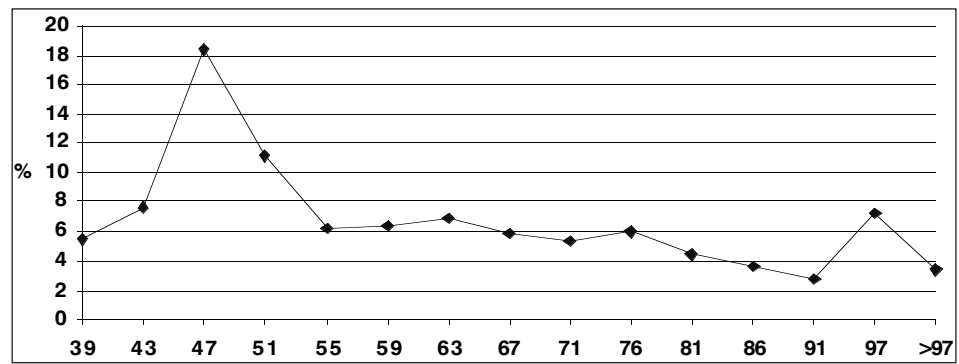
	1993	1994	1995	1996	1997	1998
<b>In the state health network</b>						
Physicians	38457	28094	29069	29592	28605	28823
Dentists	5727	5540	5481	5493	5227	4980
Specialists	83396	81404	81763	81743	73765	70277
<b>In private practice</b>						
Physicians	7423	9424	7385	7885	7583	9942
Dentists	3669	4556	3362	3595	3684	5324
Specialists	952	1265	1169	1313	1270	1430

Source: Statistical directory, National Statistical Institute

**FIGURE 1: Unemployment rates by districts and labour offices (31.12.1998)**

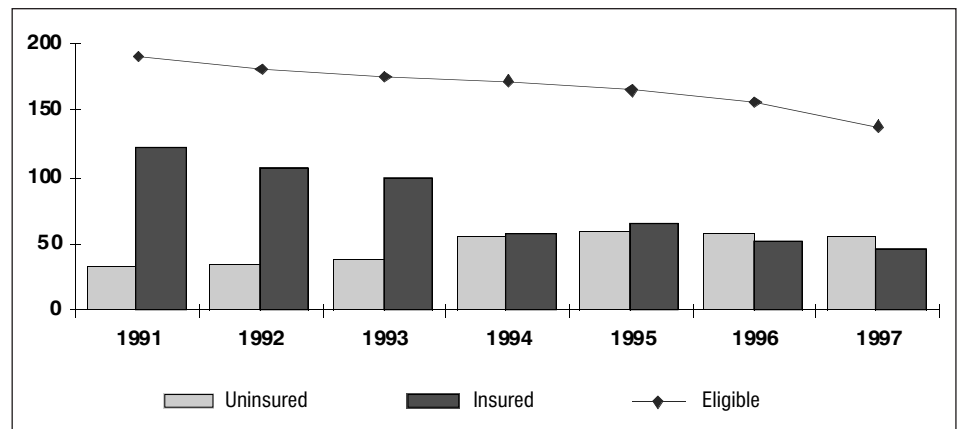


**FIGURE 2: Distribution of pensioners according to the monthly amount of their pensions (as of 31.12.1998, in thousands levs)**

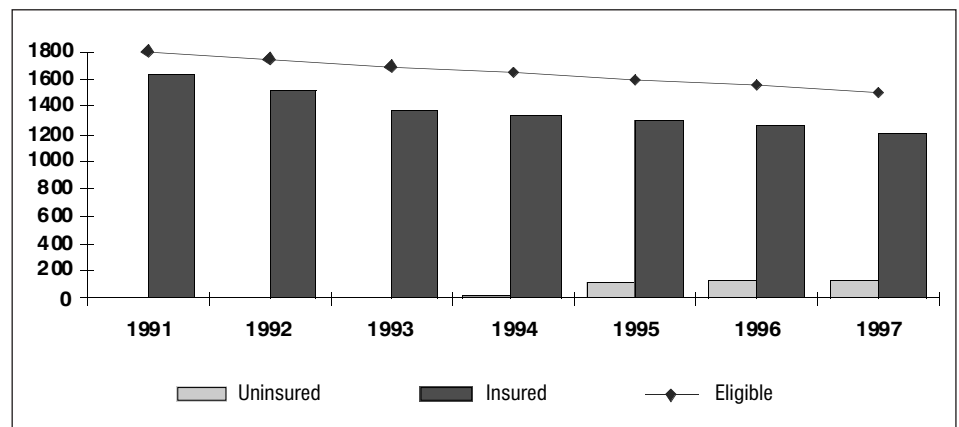


**FIGURE 3: Dynamics of the recipients of family benefits: impact of the benefits for uninsured parents (thousand people)**

**3.1. Child care benefits**



**3.2. Child allowances**





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