

**Position of the Commission Services on
the development of Partnership Agreement and programmes in**

BULGARIA

for the period 2014-2020

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INTRODUCTION

The European Union faces the daunting challenge of emerging from the crisis and putting economies back on a sustainable growth path. The exit strategy entails restoring sound public finances, growth-enhancing structural reforms and targeted investments for growth and jobs. For the latter, the CSF funds¹ can make an important contribution to sustainable growth, employment and competitiveness and increase the convergence of less developed Member States and regions with the rest of the Union.

To ensure that the CSF funds deliver long-lasting economic and social impacts, the Commission has proposed a new approach to the use of the funds in its proposal for the **2014-2020 Multiannual Financial Framework**². Strong alignment with policy priorities of the Europe 2020 agenda, macroeconomic and ex-ante conditionality, thematic concentration and performance incentives are expected to result in more effective spending. It is an approach that underlines the need for strong prioritisation and results and away from a culture of entitlement. The CSF funds will thus provide an important source of public investment and serve as a catalyst for growth and jobs by leveraging physical and human capital investment while they serve as an effective means to support the implementation of the **Country Specific Recommendations** issued in the context of the European Semester. This approach is in line with the European Council's call of 29 June 2012 regarding the use of the Union's budget³.

CSF Funds should aim at jointly fostering **competitiveness and convergence**, by setting the right country-specific investment priorities. A general **refocus of spending** towards research and innovation, support to SMEs, quality education and training, inclusive labour markets fostering quality employment and social cohesion, delivering the highest productivity gains, mainstreaming of climate change objectives and shifting to a resource-efficient low carbon economy is necessary. In order to do so, planning and implementation of CSF funds have to break through artificial bureaucratic boundaries in the next programming period and develop a strong **integrated approach** for mobilizing synergies and achieving optimal impact both within countries and across borders. The Europe 2020 objectives must be mainstreamed across the different CSF Funds, each of them bringing their contribution to smart, sustainable and inclusive growth. Moreover, CSF Funds have a key role to play in supporting financial instruments that can **leverage private investment** and thus multiply the effects of public finance. In short, we need a carefully targeted and results oriented use of CSF funds that maximises their combined impact.

The purpose of this position paper is to set out **the framework for** dialogue between the Commission services and Bulgaria on **the preparation of the Partnership Agreement and Programmes** which will start in autumn 2012. The paper sets out the key country specific challenges and presents the Commission Services' preliminary views on the main funding priorities in Bulgaria for growth enhancing public expenditure. It calls for optimizing the use of CSF Funds by establishing a strong link to productivity and competitiveness enhancing reforms, leveraging private resources and boosting potential high growth sectors, while emphasizing the need to preserve solidarity within the Union and ensuring the sustainable use of natural resources for future generations. There is also a need to concentrate future EU spending on priority areas to maximise the results to be obtained, rather than spreading funding too thinly. EU funding should also be used to fund EU level priorities and to ensure that Bulgaria can draw full benefits from its EU membership. Therefore the Commission proposes to group and limit EU funding to

¹ The EU funds covered by the Common Strategic Framework (CSF), i.e. the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF)

² COM (2011) 500 final, COM (2011) 398 final and COM (2012) 388 final.

³ Conclusions of the European Council of 29th June 2012 (EUCO 76/12),
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf

the key challenges outlined in this position paper. National public spending can not only be used to co-finance but also to finance investments which are complementary and linked to EU funded projects in particular at regional and local level.

The starting point of the Commission's considerations are the assessment of Bulgaria's progress towards its Europe 2020 targets in its Staff Working Document on the 2012 National Reform Programme and Convergence Programme⁴, underpinned by the country-specific recommendations addressed by the Council last 6 July 2012, and country-specific development challenges. The position paper takes account of the lessons learnt during the 2007-2013 programming period and the Commission's legislative proposals for 2014-2020.

In a context of fiscal discipline, this position paper encourages Bulgaria to develop and implement medium-term strategies capable of facing the challenges ahead, notably globalisation, while helping preserve the European social model. Moreover, it provides for a flexible framework for Bulgaria and its regions to react and refocus European, national and local resources on creating growth and employment so that fiscal sustainability and growth-friendly policies go hand-in-hand, also dealing with structural and institutional problems in Bulgaria and its regions and across its national borders in its territorial and geographical context, including as per the EU Strategy for the Danube Region (EUSDR), in order to have maximum impact.

Finally it invites Bulgaria and its regions to exploit to the maximum potential synergies between the CSF Funds and with other sources of EU funding in a strategic and integrated approach.

1. MAIN CHALLENGES

Bulgaria is the least developed EU Member State with a GDP per capita of 45 % of the EU average. Bulgaria's GDP increased by 1.7 % in 2011, largely driven by strong exports of both goods and services, and GDP growth is expected to reach 0.5 % in 2012 and 1.9 % in 2013. Bulgaria has the lowest labour productivity and the highest energy intensity of the EU. Structurally lower budget revenues and inefficiencies in public spending, notably in the education and health sectors, could jeopardise long-term sustainability of public finances.

Bulgaria is divided into six NUTS2 regions, but it is among the most centralised countries in the EU with almost no decision-making competences transferred to the regions. Rural areas⁵ show major disparities with urban areas and are characterised by strong outward migration. In the least developed regions, where marginalised communities (Roma) tend to concentrate, life expectancy is shorter and infant mortality higher, although quality of healthcare remains comparatively similar. While the population of rural areas continues to decline, rapid growth puts pressure on the infrastructure of Sofia and other urban growth poles. With 72.6 % of the EU-27 average (2008), GDP per head is highest in the capital city region of Yugozapaden (South West), with that region also showing the highest growth rate. The Severozapaden (Northwestern) region is the EU's poorest region with a GDP per capita of just 27 % of the EU average (Eurostat 2009). The Severen Tsentralen (North-Central) region has been ranked the EU's second poorest with 29 %, together with Romania's North East. The South-Central and North-eastern regions are the fourth and fifth poorest respectively. The economic underperformance of individual regions also reflects weaknesses in the areas of education, employment, and R&I investment. The poorly educated regional workforce causes low labour productivity and, due to the high share of low value-added sectors, the poorest regions are most vulnerable to competition from emerging economies.

⁴ Relevant documents are available on Europe2020 website: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

⁵ 231 of the 264 municipalities are classified as rural under the national definition, representing 81 % of Bulgarian territory and some 40 % of the population

Structural bottlenecks in several areas – such as skill mismatches in the labour market, particularly in relation to new technologies, and the continuous decline in the working-age population – continue to hamper the prospects for long-term sustainable growth. A sustainable path to economic growth also requires the proper management of natural resources. Public services continue to be marked by low efficiency and quality, due to limited progress in administrative and judicial reform. Ineffective oversight by the regulatory and supervisory authorities risks encouraging non-competitive behaviour. The World Economic Forum considered corruption to be the main obstacle for foreign investors to do business in Bulgaria. To increase tax revenues and address the shadow economy, tax compliance needs to improve and the cost of tax compliance and collection needs to be reduced. Lack of administrative capacity in local authorities in general, and in the road, rail, water, healthcare, and research and innovation (R&I) sectors in particular, affects the ability to establish appropriate strategies, implement programmes and deliver high-quality projects and thus the ability to absorb EU Funds.

This is reflected in the country specific recommendations (CSRs), adopted by the Council on 10 July 2012, which address issues related to the labour market, social inclusion, quality of education, innovation-friendly business environment, energy efficiency, infrastructure investment, and administrative capacity building.

Europe 2020 headline targets	Current situation in Bulgaria	National 2020 target in the NRP
3% of EU's GDP to be invested in research and development	0.6 %	1.5 %
20% greenhouse gas (GHG) emissions reduction compared to 1990 ⁶	-12% (2020 projected emissions ⁷ compared to 2005) +11% (2010 emissions compared to 2005)	+20% (national binding target for non-ETS sectors compared to 2005)
20% of energy from renewables	13.8 % (2010)	16 %
20% increase in energy efficiency	17.4 Mtoe ⁸ (2010) ⁹	- 3.20 Mtoe ¹⁰ = 15.8 Mtoe
75% of the population aged 20-64 employed	63.9 % (2011)	76 %
Reducing early school leaving to less than 10%	12.8 % (2011)	11 %
At least 40% of 30-34 years old completing tertiary or equivalent education	27.3 % (2011)	36 %
Reducing the number of people at risk of poverty or exclusion by at least 20 million in the EU (compared with 2008 levels)	67 000	260 000

Therefore Bulgaria's most pressing challenges are related to the labour market participation, innovation-friendly business environment, infrastructure development, resource efficiency, and capacity of the public administration, which are interrelated.

⁶ 30% if the conditions are right

⁷ Based on existing measures, Commission report *Progress towards achieving the Kyoto Objectives* (2012)

⁸ Million tonnes of oil equivalent

⁹ Gross consumption of primary energy minus non-energy uses

¹⁰ The figure of 3.2 Mtoe was communicated in the most recent Bulgarian NRP. However, the second National Energy Efficiency Action Plan indicates 5.8 Mtoe of expected primary energy savings (bringing the level of primary energy consumption to 15.8 Mtoe).

Low labour market participation

In recent years, Bulgaria has experienced a rapid decrease of its **employment rate**. The crisis has had a particularly strong incidence on low-skilled workers and has raised youth unemployment. Bulgaria has the highest share of young people who are neither in education nor in employment: 22.6 % (EU average 12.9%)¹¹. Since 2009, the increase in long-term unemployment has been significantly faster than in the rest of EU. Public employment services on activation, job search, matching and retraining are still of relatively low quality. To enable and encourage people to work longer, reforms in the pension system need to be underpinned by policies ensuring the effective integration of older workers in the labour market. The labour market situation of Roma is particularly noteworthy – above 50% unemployment rate.

The situation on the labour market will not be improved in the long-term without addressing the bottlenecks of the education system. The proportion of **students leaving the education system early** has stabilised the very high rate of low achievers suggests that there are considerable structural obstacles in the way of ensuring quality education¹². Improvement of technical skills and entrepreneurship education at all stages should support the self-employment capacity of the labour force. The low educational achievements are linked to an education provision that is still poor, lack of incentives for better performance of teachers, curricula in need of modernisation including professional training and prospects for employment chances or enterprise creation option, a poor national assessment system and insufficient accountability. Moreover, university education provides limited research and innovation opportunities with market replication potential even though it aspires to provide higher quality courses that are more relevant to the labour market, with the help of more economically sound financing mechanisms.

The share of population living at risk-of-poverty or exclusion in rural and urban areas is still very high. With 41.6 % Bulgarians are at greater risk of poverty or **social exclusion** than citizens of other EU countries (EU average 23.4 %). Elderly, children, Roma and people with disabilities are the groups most affected. Furthermore, social transfers in Bulgaria do the least in the EU to reduce poverty which remains a continuous challenge.

The Bulgarian health care system is not providing the right combination of services. The financing system of the National Health Insurance Fund also does not create incentives for efficiency in service provision, with no real competition between hospitals existing.

Weak competitiveness of business and unattractive research and innovation system

Bulgarian enterprises are ranked 71 out of 139 countries¹³ when it comes to productivity, 95 with regard to business sophistication and innovation. Labour productivity is especially low in rural areas, being half that of urban areas. Although decreasing, the relative share of agriculture and forestry in the gross value-added (GVA) is at 5.3 %, above the EU average (1.7 %) and agricultural employment in Bulgaria is 19.9 % (EU-27 average 5.3 %, 2011). With some 87 % (2007) of agricultural holdings in Bulgaria less than 2 hectares (c.f. 48 % in the EU-27), despite the significant restructuring currently underway, the sector is characterised by ageing work force, and pressing need to improve competitiveness and entrepreneurial skills. Total employment in the fish catching sector was 1 732 jobs (2009). Micro and small-to-medium enterprises form 99.8 % of all enterprises, providing 61.9% of GVA demonstrating a slight increase compared to 2011¹⁴ (0.2 % large enterprises, representing 38,1 % of the economy), which makes them a major source of job creation with 75.7% of all private sector employment. They are mostly active in low-productivity sectors such as commerce, construction and tourism but have

¹¹ Eurostat, 2011 data

¹² According to PISA 2009 results, Bulgaria has the highest share of low achievers in reading (41%) and in mathematics and science (47.1 %) in the EU.

¹³ 2010-11 Competitiveness Index.

¹⁴ SBA Fact Sheet, BULGARIA, 2012.

difficulties in adapting to changes in the global economic environment and to seize resource- and energy-efficiency challenges to be turned into growth and job creation opportunities.

Important factors hindering innovation and productivity and thus frustrating **competitiveness and growth opportunities of SMEs** in Bulgaria are the excessive energy intensity of production, 'red tape' at local and national level¹⁵, the small size of the Bulgarian and the low level of SME internationalisation¹⁶, and the difficult access to finance as a consequence of the substantial slowdown in bank lending. Whilst the overall situation of access to finance in Bulgaria is better than the EU average¹⁷, investments in seed capital and support for early start-up and innovative companies are one of the lowest in the EU¹⁸.

R&I expenditure in Bulgaria is very low and of poor quality, with private sector participation being very limited. Therefore, Bulgaria is encouraged to continue working towards attaining its national targets. Furthermore, coordination of, and consensus on, the R&I strategy¹⁹ amongst different national and regional institutions, as well as with the private sector and other key R&I actors is absent. The innovation support system in Bulgaria is also characterised by low quality and effectiveness, funding being allocated on a non-competitive, non-transparent way. The Bulgarian participation in the Framework Programmes is rather low.²⁰

Lack of reforms in education and science prevent a move towards an innovation-oriented system. There are many universities, research institutes and institutes of the Bulgarian Academy of Science, but most show low performance in terms of high-quality scientific publications or patents, especially in new technologies. With 0.4 % of total employment, the share of R&D personnel is low (EU average 1 %), as salary levels and outdated research infrastructures fail to attract researchers from abroad²¹, leading to a 'brain drain' and ageing R&D staff.

Underdeveloped infrastructure endowment

National and Trans European Transport Network (TEN-T) infrastructures are not well connected or insufficiently rehabilitated and maintained. International accessibility of the **TEN-T core network** in Bulgaria is low, including rail, road, inland waterways and maritime transport, and connections between growth poles and peripheral regions insufficient. The **railway and urban public transport infrastructures** are in a poor technical condition. Despite the availability of EU Funds, the inefficient organisation of the transport sectors has been primarily to blame for the delays in implementing cohesion policy. With the exception of Sofia Metropolitan, project beneficiaries have displayed a chronic lack of administrative capacity in preparing project tenders and managing projects, exacerbated by frequent staff reshuffles and political influence.

In Bulgaria the fixed and wireless **broadband** penetration and coverage is low and the take-up by households and businesses insufficient, in particular in the rural areas.²² Internet and information and communication technologies (ICT) usage by the population, including by

¹⁵ Commission Staff Working Document (COM(2010) 614).

¹⁶ For example, only 6 % of SMEs had export activities in 2011.

¹⁷ SBA Fact Sheet for Bulgaria (2012), EU Competitiveness report for Bulgaria.

¹⁸ Bulgaria has been recorded as the country with the largest increase in unsuccessful loan applications (from 3 % in 2007 to 36 % in 2010): EUROSTAT n° 144/2011 – 3 October 2011.

¹⁹ Law on Scientific Research Promotion, the draft National Strategy for Scientific Research for the Period 2009-2019, the National Innovation Strategy, the Regional Plans for Development, the Regional Innovation Strategies, the Law on Higher Education, the Law for the Bulgarian Academy of Sciences, and the Strategy for Encouraging Investment in Bulgaria 2005-2010.

²⁰ According to DG Research and Innovation, http://cordis.europa.eu/projects/home_en.html

²¹ ERAWATCH Country reports 2011: Bulgaria, Sofia D. Mineva, R. Stefanov

²² Bulgaria has one of the lowest coverage of broadband (85%, EU average 95.3%) across the EU with rural coverage scoring the lowest in the EU (33%, EU average 82.5%). Bulgaria has also the lowest number of households connected to the internet (33.1%, EU average 70.1%). The number of people with medium/high internet skill (25.7%) is the fourth lowest in the EU.

disadvantaged people, remains far below the EU average; over half of the population (51.2%) has never used internet and the number of regular internet users is the second lowest (41.6%). The digital divide remains a problem: there is little integration of disadvantaged social groups and of the rural population into the digital society. The technical capacity for planning and implementing ICT investments is insufficient.

Inefficient use of energy and resources

The **energy intensity** of the Bulgarian economy is very high, especially in urban areas, not just in residential and public buildings, but also SMEs and large enterprises, which affects its competitiveness. The energy system faces deficiencies at production, transmission and distribution levels e.g. ageing electricity distribution grids and heating networks. Bulgaria needs to implement the EU *acquis* on energy efficiency but also to put in place mechanisms that tackle the challenges specific for the country (e.g. multi-apartment blocks with segmented ownership, budget restricted municipalities, old district heating network, inefficiency industrial processes).

Some of the main challenges for Bulgaria to address, considering the gaps with EU legislation *acquis* and the Accession Treaty, are its obligations concerning urban **waste water treatment**, drinking water quality, waste management, air quality in urban areas, and management and protection of NATURA 2000 sites and High Nature Value farming areas. The persisting deficiencies in the treatment of waste water in Bulgaria, with marked differences between urban and rural areas, have led to the situation where the country is facing a significant delay in the implementation of the Urban Waste Water Treatment Directive (UWWT). The management of waste, including hazardous and non-municipal waste, is inefficient with overuse of landfills and insufficient waste recycling. Bulgaria's rich natural assets need enhanced and more effective protection and maintenance to preserve the resources of water and soil, preserve ecosystems, and prevent irreversible loss of biodiversity, incl. via environmentally friendly and sustainable agricultural models. Bulgaria does not have enough capacity to deal with natural and man-made disaster risks, such as floods, droughts, forest fires, landslides, coastal erosion, earthquakes and the effects on the biodiversity. The sustainable and innovative use of marine resources is important for the further development of the country's blue economy. Prevention of overfishing will support sustainability of the fisheries sector.

Insufficient capacity of public administration and judiciary

The low efficiency and quality of public services is a key bottleneck to growth, while ineffective oversight by the regulatory and supervisory authorities could result in failure to tackle non-competitive behaviour. New legislation introduced in 2011 aims to ensure that the authorities are better able to monitor public procurement processes and address irregularities, but strong doubts remain as to whether the authorities' resources are sufficient to make this legislation effective in practice. There has been limited progress in strengthening the administrative capacity of local authorities. A thorough overhaul of sectors, such as road, rail, water, healthcare and R&D is needed if they are to function in an efficient way. The implementation of *e-government* has been delayed many times, but it has been a key priority for the government since 2011. Integrated and coordinated *e-government* services are not sufficiently available, including *e-health*, *e-procurement* and *e-justice*.²³

Commission reports under the Cooperation and Verification Mechanism continue to emphasise the low efficiency of the judicial system, its shortcomings in quality and independence and the ineffective law enforcement related to high-level corruption, fraud and organised crime.

²³ The use of *e-Government* services is 15.3% about half of the EU average of 31.5%. *E-commerce* turnover as compared to the total sale of enterprises is the second lowest in the EU (1.8%) against a 13.9% for the EU27.

2. PRIORITIES FOR FUNDING

The CSF Funds will be one of the most important instruments to tackle the main development challenges for Bulgaria and to implement the Europe 2020 strategy. Each fund should give priority, when relevant, to policy areas addressed in the Country-Specific Recommendations and in the national reform programmes. For rural development and fisheries, priorities for funding will also contribute to the Common Agricultural and Common Fisheries Policies. Targeted funding should harness growth in Bulgaria's blue economy. To this end the intervention from the CSF Funds needs to be concentrated on a limited number of priorities. Experience shows that thematic concentration allows for an increase in effectiveness of public interventions by reaching a critical mass with a real impact on the socio-economic situation of a country and its regions. Prioritisation is of particular importance in times of fiscal consolidation.

Five complementary and mutually reinforcing funding priorities are proposed hereunder in line with country-specific challenges²⁴. There is no ranking in the presentation of the funding priorities. These priorities reflect the importance of funding needs and potential contribution to sustainable growth and jobs and are the priorities the Commission would like to co-finance in Bulgaria for the next programming period 2014-20. Sufficient flexibility is built into the new programming architecture to respond to new challenges and unexpected events, which allow for reprogramming on justified grounds.

2.1 Increasing labour market participation through improved employment, social inclusion and education policies

Employment, education and social inclusion should remain core concerns for Bulgaria. CSF Funds should contribute to job-rich growth and their impact in terms of employment, improved quality of education and poverty reduction should be maximized. This calls for stepping up efforts to concentrate investments in employment, education, vocational and entrepreneurship training, and social inclusion thematic objectives in line with the 2012 Country Specific Recommendations. The relative share of CSF Funds' investment should at least be equal in comparison to the programming period 2007-2013. Reduction of poverty remains also a very important priority for Bulgaria and a sizeable part of available resources should be dedicated to promote active inclusion.

Increasing employment rates of young and older people, disadvantaged groups, and long-term unemployed

Integration of the most vulnerable groups on the labour market: youth, older persons, disadvantaged groups, such as Roma and people at risk of social exclusion should be the focus of investments in the field of employment.

Young people face particular challenges: a deteriorating situation on the labour market and concerns about quality of jobs. Therefore, a particular priority should be placed on decreasing the very high rate of young people not in employment, education or training. This calls for investments in more individualised active labour market measures, including in increased access to quality apprenticeships and internships, possibly in the framework of a "youth guarantee scheme."²⁵ Increasing attractiveness of workforce and facilitating of localising of KIS (knowledge intensive sectors) and preventing potential leakage of investment from EU should be designed to offer job opportunities for trained workforce.

²⁴ The thematic objectives in the proposed regulations and their link to the funding areas are outlined in Annex I.

²⁵ E.g. by establishing schemes offering further education, training or activation measures to every young person not in employment, education or training, within 4 months of leaving school.

With a view to the increasing retirement age, Bulgaria should allocate adequate funds to support active and healthy aging measures aimed at increasing employment rates of older workers and enhancing their employability, as well as transfer of competences, skills and mentoring and improvement of work place innovation.

The CSF Funds should support diversification into non-agricultural and non-fisheries activities in areas affected by the restructuring of the agricultural and fisheries sectors, creating new sources of employment. CSF Funds should provide for investments in skills required in high technologies and ICT sectors, the green economy, the white sector, and the sector of personal services, processing industry with higher value-added of labour.

Improving the quality of education

Concentration of CSF Funds' investments in education should be enhanced in the next financial perspective in order to increase their impact on employability. Investments should concentrate on reducing early school leaving (with a special focus on Roma), providing technical and business skills, promoting effective access to good-quality and non-segregated early-childhood, primary and secondary education and enhancing the quality, efficiency and openness of tertiary education. CSF funds should help improve quality of education by modernising curricula, training and professional development of teachers and higher education staff, increased use of ICT, entrepreneurship training, and introduction of quality assurance and monitoring systems. Modernisation of education and training will also require significant investments in infrastructure. CSF Funds should also enhance their actions to the benefit of life-long learning (LLL), ensuring especially a greater participation of low-skilled persons and older persons in LLL. Finally, Funds should help improve the attractiveness of vocational education and training and overcome the mismatches between education outcomes and the labour market needs giving a particular attention to the growth-enhancing sectors of the economy.

By promoting effective access to good-quality early-childhood education CSF Funds will not only improve women employment but also improve the chances for children from disadvantaged backgrounds to catch up with social and learning skills necessary for their further education.

Promoting social inclusion

Investments should prioritise active inclusion of individuals who for different reasons face a risk of poverty. Priority should be given to developing targeted and individualised support and reinforcing measures to help them return to employment.

Enhanced continuous CSF support is needed to further develop the transition from institutional to community-based care services for children, people with disabilities and mental health problems and the elderly, including targeted infrastructure investment. To this end, there is a need to support integrated approaches combining childcare, education, health and parental support, with a particular focus on the prevention of children's placement in institutional care.

Bulgaria should allocate adequate funds to promote integrated measures eliminating the segregation of Roma from the labour market, general and vocational education and training, social services, healthcare and housing.

CSF funds should promote and accelerate implementation of health sector reform by increasing efficiency in the system, improving quality of services and access to health and social services in order to reduce inequalities among social groups. Investments should promote reorganisation of the hospital system and developing outpatient and primary care, but also the introduction of the diagnostic related groups principle with improved medical and costing data collection and analyses. They should also contribute to removing and preventing accessibility barriers to enable the integration of people with disabilities in education and the labour market with particular regard to social economy and social innovation. Fostering local development and improving relevant small scale infrastructure in rural areas should where relevant also be used proactively to promote social inclusion and prevent further depopulation of these areas.

2.2 Innovation-friendly business environment

The long-term **competitiveness** of businesses in Bulgaria and their ability to generate sustainable jobs and thus growth prospects depends on the quality of its innovation system. But creating a **high quality research and innovation system** should start with a sound national strategy for R&I. This funding priority should receive much more support, both in absolute and relative financial terms in comparison to the programming period 2007-2013, and in particular significant resources need to be mobilised to achieve the EU2020 target of 1.5% of GDP.

Supporting business development (incl. agro-food, fisheries and aquaculture sectors)

Enhancing competitiveness and sustainability of SMEs, including those operating in rural and border areas and businesses in the agriculture, food, fisheries and aquaculture sectors, should be a priority for CFS Funds. To facilitate productivity growth, investments should target actions that aim to reduce the energy and resource intensity of production and support low-carbon buildings. Public administrations should become more business-friendly, cutting 'red tape' on local and national level²⁶, and further streamlining procedures for requesting licences and permits, paying taxes, etc. At the same time *e*-governance should be developed with respect to dealings between SMEs and the business community at large, on the one hand, and state institutions on the other. Setting up an internationalisation programme will encourage SMEs to expand their business activities abroad. Competitiveness of the agro-food, fisheries and aquaculture sectors should also be strengthened, by providing investments to increase innovation in these sectors, better integration of primary producers into the food chain and generation renewal. Registration of self-employed and sole traders, in particular in rural and remote areas, will allow formalising local economies.

Facilitating access to finance and advanced business services for SMEs and start-ups

Given budgetary constraints and credit restrictions due to the substantial slowdown in bank lending, adequate financial resources should be mobilised targeting SMEs and start-ups, in economic areas of high potential, innovative products and services, spin-offs and internationalisation, including in the agro-food, fisheries and maritime sectors. CSF funds should contribute to further development of financial engineering instruments, complementary to other EU financial instruments, lending from the EIB and the banking sector, including loans, guarantees, equity, seed capital, microcredits, etc., banks, venture capital funds, business angels, etc. In addition to the extensive use of these instruments to support investments in SMEs, they should also be more widely used for investments in projects that have a demonstrated capacity to pay back the whole or part of the resources invested, including for promoting integrated urban development operations and for promoting energy efficiency. Besides financial support to SMEs and start-ups, it is important to develop the business environment in terms of effective and tailor-made support in particular through advanced business advisory services, such as accessing public procurement and new markets, developing new business models, managing intellectual property, improving resource and energy efficiency, raising innovation capacity, etc.

Supporting private R&I investment, infrastructures and capacities

In order for the transition into a more innovation-driven, competitive and knowledge-based economy to succeed, education and science have to be reformed in order to become more innovation-oriented and market driven. Skills for high-quality jobs in R&I need to be raised to meet demand. Adequate public resources will have to be mobilised for Bulgaria to qualify as a 'moderate innovator'²⁷, a competitive EU partner. CSF funds will constitute a major source of financing of **R&I support** but need to cover the whole innovation cycle from research to market

²⁶ Commission Staff Working Document (COM (2010) 614)

²⁷ According to the Innovation Union Scoreboard 2011, Bulgaria is only a "modest innovator": http://ec.europa.eu/enterprise/policies/innovation/facts-figures-analysis/innovation-scoreboard/index_en.htm

take-up. However, a modern innovation support in Bulgaria needs to be geared towards more concentrated, competitive, merit-based and transparent funding system.

The CSF Funds should focus their investments on improving the infrastructure and support tools to enable research centres and businesses to work together, improving the quality and market orientation of public research and facilitating technology and knowledge transfers, public procurement of innovation. Bulgarian authorities should facilitate the creation of centres of competence and excellence, establishing science and technology parks and developing their human resources.

2.3 Modern infrastructure for growth and jobs

Investments need to focus on completing infrastructure networks within the framework of a comprehensive transport master plan. The focus of investments should shift towards more sustainable and environmental friendly modes of transport along TEN-T in order to help Bulgaria to meet its EU2020 targets related to emissions and energy efficiency.

Developing a high quality, interoperable railway system and multi-modal transport connections

Bulgaria should facilitate a transition from car-based mobility to high-quality **urban transport**. Metropolitan transport systems facilitate commuting to work, both in terms of cost and time. Multi-modal transport connections between the various modes of transport should be further developed, notably urban, rail, river and maritime transport.

The **railway sector** should have financial priority to complete the TEN-T Core Railway Network and to develop a smart, high quality, interoperable railway system. Compared to 2007-2013 the balance in investment of CSF Funds in various transport modes should change in favour of railways.

After the failure to improve the navigability of the **Danube River** in the programming period 2007-2013, realisation of this major project has increased in importance, requiring close cooperation with Romania.

Expanding access to, and use of, high quality ICT-networks

ICT offer huge potentials for growth, competitiveness and innovation, provided networks, skills and *e-services* sectors are developed. ICT actions should therefore be mainstreamed across all priorities for funding with CSF Funds assistance targeting areas where there is no or insufficient interest from the private sector e.g. in remote, sparsely populated or rural areas. Investments should stimulate internet and ICT usage by the population, including by disadvantaged people, and businesses; ICT skills and digital and data reading literacy need to increase, and the shortage of highly specialised digital specialists dealt with. Investment in ICT research and ICT-based innovation should increase.

2.4 Environment-friendly and resource-efficient economy

Promoting a low-carbon economy, energy efficiency and renewable energy sources

Reducing the energy intensity of the economy and raising energy efficiency in businesses, is key to improving Bulgarian competitiveness as wasting energy increases costs. Efficient use of energy also in public and private housing will not only reduce energy expenditure but raise the air quality in urban areas as well.

Investment in renewable energy sources (RES)²⁸ and energy efficiency improvements in services, industry, residential renovation sector, agriculture, fisheries and aquaculture should

²⁸ As far as renewable energy support is, concerned this should be in line with the national renewable Energy Action Plan submitted by the National authorities to the European Commission under the renewable energy Directive.

therefore be supported, increasing the share of RES in final energy consumption²⁹. In order to achieve the overall headline target of 16 % of renewable energy, a coherent, stable and predictable national policy should be developed and implemented.

Investing substantially in the water and waste processing sectors

Drinking water quality and the resource management of drinking water (including leakages from water distribution networks amounting to as much as 54 % on average), must be improved with targeted investments. Regarding municipal waste water, the 80 agglomerations above 10 000 p.e.³⁰ that are currently out of compliance with the UWWT Directive must be urgently brought into conformity with the *acquis*, while the significant task of bringing agglomerations to within the 2 000 and 10 000 p.e. limits must be addressed in a strategic and cost-efficient way.

In the waste sector, support should be provided to fulfil obligations in relation to the *acquis* and to reach the 2020 recycling target of 50 % and the objectives in the Resource Efficiency Roadmap.

Protecting the environment, improving management of natural resources, investing in adaptation to climate change, addressing specific natural and man-made risks

Bulgaria should raise resource-efficiency through promotion of sustainable land and water management, including flood prevention, water efficiency, preservation of natural resources (air, water and soil), biodiversity (including Natura 2000), ensuring climate-change resilience, and sustainable management of the Black Sea coastal zone. Bulgaria's capacity to deal with natural and man-made disaster risks needs to be reinforced. It is necessary to be able to adapt to the current and future impacts of climate change i.e. the risk of floods, droughts, extreme seasonal temperatures, forest fires, landslides, coastal erosion, etc. The risks posed by earthquakes must also be addressed.

2.5 Strengthening capacity of public administration, governance and judiciary

Strengthening the capacity of public administration and the judiciary and promoting good governance remain core concerns for Bulgaria. This calls for stepping up efforts to concentrate CSF investments on institutional capacity-building thematic objective in line with the Country Specific Recommendations.

Developing an efficient and business-friendly (national and municipal) public administration, including regulatory agencies and competition authorities

Administrative reform in recent years mainly focused on reducing public-sector staff, eliminating duplication of some functions and initiating a reform of civil servants' remuneration, with limited attempts to remove other sources of inefficiency such as inadequate internal organisation and management practices, insufficient quality of the policy-making process due to a lack of regular impact assessments, monitoring and evaluation of policies, and unclear distribution of functions between the central, regional and local levels of the administration. To this end, CSF Funds should promote reforms to ensure better legislation, effective management, monitoring and evaluation of public policies at all levels and increased accountability in public administration, including regulatory, competition and enforcement authorities. CSF Funds should support improving the professional development and integrity of civil servants. Particular investments are needed to enhance the capacity of municipal administrations as well as in the road and rail transport and water management sectors.

²⁹ Further detailed analysis is recommended in order to choose optimal financing schemes that will support RES technologies development. Taking under account experience from the current programming period, it is important to revise the system of support from the EU funds, including the correct implementation of the EIA procedure and subsequent mitigation measures before founding.

³⁰ Population equivalent

CSF Funds should help reduce administrative burdens and costs to business and citizens, and ensure proper and effective public procurement. Investments are also needed to enhance the capacity of social partners, NGOs and other stakeholders delivering employment, education, health and social policies and sectorial and territorial pacts.

Enhancing the capacity of the judiciary

Bulgaria should allocate adequate funds to improve the functioning of the judicial system, including strengthening the capacity of judicial and law enforcement authorities to efficiently investigate, prosecute and try cases of organised crime and high-level corruption and to combat the shadow economy. To this end, continuous investment is needed to improve professional development and integrity of magistrates, with particular attention to strengthening the capacity of the National Institute for Justice, allowing magistrates to participate in exchange programmes and visits to courts in other EU Member States and by providing dedicated management training to heads of courts and prosecution offices.

Promote e-government

CSF funds should contribute to further development of e-government in Bulgaria, in particular developing integrated electronic administrative services for citizens and business as well as measures providing for interoperability. More e-government services, incl. e-health, e-education, e-procurement and e-justice, one-stop-shops for citizens and businesses, should be developed and become widely available.

3. SUCCESS FACTORS FOR EFFECTIVE DELIVERY

Structural reforms play a key role in enhancing the overall efficiency and thus the growth potential of the Bulgarian economy. They are also key conditions for the successful implementation of the CSF Funds which can only have optimal impact if an appropriate policy, legal and administrative framework is in place.

Therefore the new Common Provisions Regulation will set out **ex-ante conditionalities** which are **preconditions relating to the effective and efficient use of EU Funds**, which should be fulfilled by the time a programme is approved. The Commission will formally examine the information provided by Bulgaria in the framework of its assessment of the Partnership Agreement and programmes.

Based on experience from the current programming period and the CSRs the Commission Services have identified a number of **ex-ante conditionalities critical for successful implementation of the above funding priorities**. The Bulgarian authorities need to take actions to fulfil the pre-conditions for successful spending in each of these areas before the start of the next programming period:

- Existence of an NGA (Next Generation Access) plan and a strategic policy framework for digital growth.
- A strategic plan for aquaculture.
- Actions for effective implementation of the Small Business Act.
- Actions for effective implementation of EU *acquis* on energy efficiency, including development of a comprehensive National Energy Efficiency Action Plan
- Existence of arrangements for the effective application of EU public procurement law in the field of the CSF Funds.
- Existence of a strategic policy framework for reinforcing Bulgaria's administrative efficiency, including public administration reform.
- The existence of a comprehensive national transport plan, including an explicit chapter on railway development, which contains an appropriate prioritisation of investments in the core

TEN-T network, in the comprehensive network (investments other than the core TEN-T) and in secondary connectivity (including public transport at regional and local level).

- Existence of a well-integrated national research and innovation strategy for smart specialisation.
- Existence of a strategic policy framework to reduce early school-leaving.
- Labour market institutions are modernised and strengthened in accordance with the Employment Guidelines.
- Existence of a national strategic policy framework for increasing tertiary education attainment, quality and efficiency.
- Sufficient advisory capacity to ensure guidance on the regulatory requirements and all aspects linked with sustainable management and climate action in agriculture and forestry³¹. The Commission recommends that Bulgaria take early measures to strengthen advisory capacity and ensure wide coverage and accessibility.
- In fisheries, the ex-ante conditionalities refer to administrative capacity for data collection for fisheries management and the implementation of a Union control, inspection and enforcement system. The ex-ante conditionality on fishing control has only partially been met; more efforts need to be made for full compliance. As regards Data Collection, Bulgaria should pursue its efforts to improve data quality and availability so as to ensure a smooth shift from direct to shared management.

Fulfilment of these sector-specific conditionalities **requires significant efforts** in order to **avoid a bottleneck in timely implementation of CSF funds**. Where ex ante conditionalities are not fulfilled by the time of submitting the Partnership Agreement to the Commission, Bulgaria will need to lay down a series of actions to be taken at national and regional level and a timetable for implementing them. All ex ante conditionalities need to be fulfilled by the agreed deadline, at the latest within two years of the adoption of the Partnership Agreement or by 31 December 2016.

Bulgaria should have an appropriate recording system to allow systematic monitoring of state aid expenditure in the form of and shall have an independent body or authority with appropriate, dedicated resources (budget, qualified staff) that coordinates State aid issues, and is consulted on the design of State aid measures and whose opinion is taken into account.

4. PRIORITIES FOR EUROPEAN TERRITORIAL COOPERATION

For the 2014-2020 programming period, European Territorial Cooperation (ETC) programmes need to display coherence with, and reference to, programmes for 'Investment for Growth and Jobs'. Each border should provide a joint strategy, treating it as one functional area, in order to implement joint projects, concentrating on a limited number of priorities. For reasons of efficiency and effectiveness, the number of cross-border and trans-national programmes should be smaller than in the current programming period.

CSF mainstream Operational Programmes must fully incorporate the EU Strategy for the Danube Region (EUSDR) objectives when defining priority areas for cooperation and the priority axes in the Operational Programmes. Investment priorities most relevant for the EUSDR in Bulgaria are:

- TEN-T connections: improving navigation on the Danube, cross-border connections, etc.
- Exchange of experience promoting social inclusion, notably for the Roma community.
- Technology transfer.
- Water quality and flood prevention.
- Energy efficiency and low-carbon economy.

³¹ Specific EAFRD *ex-ante* conditionality

Intervention by the Connecting Europe Facility should be considered for the Bulgarian section of the TEN-T transport corridor Priority Project 22, the railway link that connects Dresden (Germany) to Patras (Greece), given the high estimated cost (reconstruction of the rail link between Vidin and Sofia alone is estimated at EUR 2.6 billion) and the time and cooperation needed with Romania to realise this strategic transport link.

Cooperation on Danube-related investments within the period 2007-13 has been insufficient and, as a consequence, a number of significant projects were delayed or cancelled (Vidin-Calafat Bridge; Danube river navigation projects in Bulgaria and Romania). In order to improve the efficiency of Bulgarian-Romanian cooperation, a forum of close cooperation on cross-border programming of EU Funds' investments should be put in place, along the lines of the Inter-ministerial Committee on the Romanian-Bulgarian section of the Danube.

There is currently no sea-basin strategy for the Black Sea Region. European territorial cooperation should improve coherence, coordination and alignment of those policies and instruments having an impact on the maritime economy. For optimal use of maritime space, maritime spatial planning and integrated coastal zone management should be further developed. Actions should aim in particular at unlocking the potential of the blue economy and generating sustainable growth and new jobs in maritime sectors. Cooperation to improve marine knowledge, protection of marine environment, Maritime Spatial Planning and Integrated Maritime Surveillance should be foreseen.

To facilitate faster, secure and efficient trade and to combat cross-border crime, EU customs infrastructure, equipment and systems at external borders and at customs border crossing points (air, sea, and land) need modernisation, as well as administrative capacity building.

ANNEX

The annex contains the arrangements for effective programming and delivery, assessment of funding needs in relation to thematic objectives and assessment of specific aspects of administrative capacities.

ARRANGEMENTS FOR EFFECTIVE PROGRAMMING AND DELIVERY

Experience from previous programming periods indicates several factors affecting effectiveness of investment, in particular the need for strategic orientation and concentration, the need to avoid fragmentation of investments, projects insufficiently embedded in national systems, weak response to the actual needs, and low European value added.

Support needs to be granted in accordance with EU state aid rules. Financing should address real market failures and be limited to the minimum necessary, so that funds are used efficiently, overcompensation is avoided and distortions of competition are limited.

Failure of certain sectors to function efficiently has been one of the main explanations behind unsatisfactory performance absorbing EU Funds, such as the water, road, rail and fisheries sectors:

- The reform of the water sector decided in 2009 was never implemented, leaving unclear division of responsibilities in planning, ownership and management between the key stakeholders, namely the Bulgarian Government, the municipalities, water companies and the water sector regulator.
- Although the Commission Services have noted some improvements in the procedures and management of the Road Infrastructure Agency, the limited level of commercial contracting and insufficient supervision endanger the timely completion and sustainability of road projects and remain grounds for concern. The reforms of the Road Agency, requested by the Commission in 2010 have so far not been sufficiently implemented and the process needs to be accelerated. The Commission requests the Bulgarian authorities to improve the control and management of the road investments, and to review the position of the Road Agency in the overall institutional structure.

For future investments in the areas listed below, the Commission expects specific justification regarding their usefulness for attaining the Europe 2020 objectives and respect of the following considerations:

- ERDF will only co-finance second-class roads when they provide direct access to the TEN-T, as isolated stretches will not reach the necessary level of transport efficiency. ERDF will not finance third-class roads.
- The existence of a national strategic policy framework for health ensuring economic sustainability. In the absence of implementation of reforms and clear investment strategies, the Structural and Cohesion Funds will not contribute to investments in the health care sector.

Structure of programmes

The structure of the operational programmes should reflect the focus of EU interventions on Europe 2020 objectives. The balance of funding, the number of programmes and the most suitable architecture will be developed in partnership with stakeholders in Bulgaria and in negotiations with the Commission. Cooperation at all levels is key to achieving quality of spending.

The proposed 2014-2020 legislation for the CSF Funds offers additional flexibility to set up programmes in each Member State to best match their institutional set-up. Annex I of the

Commission's amended proposal for the Common Provisions Regulation includes elements of the Common Strategic Framework³² and sets out different options for integrated approaches to programming to achieve coordination and synergies during implementation, which Bulgaria is encouraged to explore.

Although the Bulgarian authorities have indicated that the existing programming structure of the Operational Programmes and the services in charge of them will more or less continue, certain policy areas need to be better accommodated in the new programming period. The Commission wants to emphasise the need to continue EU Funds support for public administration and judicial reforms, with a view to ensuring their sustainability. In the absence of politically administrated regions, the organisation of a new Regional Development OP needs to take better account of municipalities and/or districts.

Complementarity with other EU instruments

In setting up the programmes, clear investment needs and priorities for 2014-20 need to be identified, in order to maximise results and avoid scattering resources, while respecting the subsidiarity principle to plan and implement at the most efficient administrative level). Synergies should be sought not only between the five CSF Funds but also with other EU instruments such as Erasmus for All, Horizon 2020 and Programme for Social Change and Innovation, the LIFE programme and Connecting Europe Facility (CEF). CEF can provide funds to finance projects on the TEN-T core networks - especially along TEN-T Core Network Corridors³³ - as well as horizontal priorities such as traffic management systems or multimodal connections. CEF can also trigger private investments and PPP through financial instruments. Additionally "Project Bonds" can help to increase debt financing availability for large scale infrastructure.

Financial instruments could play an important role in the delivery of EU policy objectives by providing more flexible and sustainable forms of financing and attracting private-sector investors with a significant leverage effect on public resources and improved access to financing for CSF beneficiaries. They contribute to making financing of public policies more effective and sustainable, thus helping Member States face their long-term challenges and increasing the long-term impact of these policies.

Integrated Territorial Investments, urban development, Community-led Local Development

Integrated Territorial Investments (ITI) in cohesion policy allow cross-cutting implementation of parts of programmes and can provide flexibility below the programme level to implement integrated actions e.g. the EU Strategy for the Danube Region. Where this mechanism is selected, Bulgaria should define for each ITI an appropriate governance structure, designate a management body and define allocations in the ITI programmes. To ensure an effective implementation of the EU Strategy for the Danube Region, the Partnership Contract and the CSF Funds programmes should support the Strategy both in terms of content (investment priorities) and in terms of Funding mechanisms. Good coordination with territorial cooperation programmes is required.

Operational programmes should set out their (combined) contribution to sustainable urban development. Comprehensive urban development strategies ideally integrate economic, social, environmental and governance dimensions. Resources should be concentrated to generate a maximum effect and achieve tangible results in the physical and economic regeneration of urban areas, with Structural Funds supporting actions promoting a low-carbon urban economy, urban environment, sustainable urban mobility, and social inclusion. The Partnership Agreement should feature a list of selected eligible urban areas.

³² COM (2012) 496 final, 11.9.2012 2011/0276 (COD); website:

http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part1_en.pdf

³³ In Bulgaria: Hamburg/Rostock – Burgas – Piraeus – Lefkosia Corridor

Community-led Local Development (CLLD) offers an integrated bottom-up approach in response to complex territorial and local challenges through the involvement of local communities. Bulgaria is invited to explain its approach as regards CLLD across the CSF Funds, indicating the main challenges, objectives and priorities, the type of territories, the role of local action groups and of different CSF Funds and coordination mechanisms. Bulgaria should also indicate the way preparatory support will be made available for local actors.

ASSESSMENT OF FUNDING NEEDS IN RELATION TO THEMATIC OBJECTIVES

The following sections present the Commission Services' view on priorities for CSF Funds for Bulgaria. They have been developed on the basis of the Commission services' in-depth country analysis³⁴ and selected from the 11 thematic objectives, which stem from the Commission proposal for the Common Provisions Regulation³⁵ for CSF Funds adopted by the Commission on 6 October 2011. These 11 thematic objectives translate the Europe 2020 strategy into operational objectives to be supported by the CSF Funds.

The 11 thematic objectives are common for cohesion, rural development and the maritime and fisheries policies; they ensure that interventions under these policies are aligned towards the achievement of joint objectives, those of Europe 2020. They provide a menu of possible funding objectives for the whole of the EU. According to each Member State's specific situation a more focussed selection is then made in agreement with the national authorities. The challenges and funding areas for Bulgaria correspond to the following thematic objectives:

Funding priorities	Related thematic objectives
Increasing labour market participation through improved employment, social inclusion and education policies	<ul style="list-style-type: none"> – Promoting employment and supporting labour mobility; – Promoting social inclusion and combating poverty; – Investing in education, skills and lifelong learning.
Innovation-friendly business environment	<ul style="list-style-type: none"> – Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF); – Strengthening research, technological development and innovation; – Promoting employment and supporting labour mobility.
Modern infrastructure for growth and jobs	<ul style="list-style-type: none"> – Promoting sustainable transport and removing bottlenecks in key network infrastructures; – Enhancing access to, and use and quality of, information and communication technologies.
Environment-friendly and resource-efficient economy	<ul style="list-style-type: none"> – Supporting the shift towards a low-carbon economy in all sectors; – Promoting climate change adaptation, risk prevention and management; – Protecting the environment and promoting resource efficiency.
Strengthening capacity of public administration, governance and judiciary	<ul style="list-style-type: none"> – Enhancing access to, and use and quality of, information and communication technologies (partly); – Enhancing institutional capacity and an efficient public administration.

³⁴ Ref to 2012 SWD for Bulgaria

³⁵ COM (2011) 615 final/2; http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1

FUNDING PRIORITY: INCREASING LABOUR MARKET PARTICIPATION THROUGH IMPROVED EMPLOYMENT, SOCIAL INCLUSION AND EDUCATION POLICIES

The objectives of the funding priority 'Increasing labour market participation through improved employment, social inclusion and education policies' will be achieved primarily by thematic objectives 'Promoting employment and supporting labour mobility', 'Investing in education, skills and lifelong learning' and 'Promoting social inclusion and combating poverty'.

Thematic objective: Promoting employment and supporting labour mobility
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Europe 2020 headline target	Current situation	National NRP target 2020
75% of the population aged 20-64 should be employed	63.9% (2011)	76%
<p>From Country Specific Recommendation n. 2 of 2012: 'Take further steps to reduce risks to the sustainability and to improve adequacy of the pension system by making the statutory retirement age the same for men and women with full career contributions.'</p> <p>From Country Specific Recommendation n. 3 of 2012: 'Accelerate the implementation of the national Youth Employment Initiative. Ensure that the minimum thresholds for social security contributions do not discourage declared work. Step up efforts to improve the Public Employment Service's performance.'</p>		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by CSF Funds:

1. Access to employment for jobseekers and inactive people, including local employment initiatives and support for labour mobility:

- Increase employment rates of young and older people, disadvantaged groups, such as Roma, and long-term unemployed.
- Develop targeted and tailored active and preventive labour market measures. Improve effectiveness of the Active Labour Market Policy.
- Promote self-employment and entrepreneurship.
- Support for job creation in particular in areas offering new sources of growth such as the green economy, ICT, personal services and health and social services.
- Develop and promote innovative and elderly friendly work conditions and forms of work organization to maintain older workers longer in employment.
- Promote economic diversification and development of employment opportunities in rural areas and in the maritime and fisheries communities; enhanced mobility outside agriculture, fisheries and maritime sectors.
- Increase the share of more flexible work arrangements (part time work, teleworking etc.).

2. Sustainable integration of young people not in employment, education or training (NEET) into the labour market:

- Introduce a "youth guarantee" by establishing schemes to offer further education, (re)training or activation measures to every young person not in employment or in education or training, within 4 months of leaving school.
- Support for business start-ups.
- Increase the participation of low-skilled young people in apprenticeship-type vocational trainings.
- Further develop tools such as youth work and non-formal learning activities.

- Increase labour mobility.
- Increase the employment rate of youth in rural areas through a shift of employment to other sectors of economy.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- CSF funding should be delivered through efficient programming which includes reforms and systemic measures to support a comprehensive approach and through a strong and dedicated institutional set-up.
- The highest possible job efficiency of measures should be ensured.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objective aimed at R&I, ICT, SMEs, low carbon economy, climate change, social inclusion, education and institutional capacity.³⁶

Thematic objective: Investing in education, skills and lifelong learning

Europe 2020 headline target	Current situation	National NRP target 2020
Reducing early school leaving to less than 10%	12.8% (2011)	11%
At least 40% of 30-34 years old completing tertiary or equivalent education	27.3% (2011)	36%
<p>From Country Specific Recommendation n.1 of 2012: '... strengthen efforts to enhance the quality of public spending, particularly in the education and health sectors.'</p> <p>From Country Specific Recommendation n.4 of 2012: 'Speed up the reform of relevant legal acts on schools and higher education and of accompanying measures by focusing on modernising curricula, improving teacher training, and ensuring effective access to education for disadvantaged groups.'</p>		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by CSF funds:

1. Reducing early school leaving (ESL) and promoting equal access to good-quality early-childhood, primary and secondary education:

- Support the implementation of comprehensive ESL policies encompassing prevention, intervention and compensation, with special focus on the Roma.
- Improve the quality of general education including modernised curricula, improved teacher training, introduction of quality assurance and monitoring systems, enhanced use of ICT; modernised educational infrastructure (renovation, access for people with disabilities, connectivity, digitalisation) at all education levels (general, tertiary, vocational).
- Promote effective access to non-segregated early-childhood, primary and secondary education for disadvantaged groups such as Roma, including in rural areas and supporting second chance education and non-formal learning opportunities.

³⁶ Thematic objectives 1, 2, 3, 4, 5, 9, 10 and 11 according to the draft Regulation

- Increase access to Early Childhood Education and Care (ECEC) for children between birth and compulsory school age with a focus on disadvantaged groups, which should be accompanied by strong measures to monitor and ensure minimum quality standards.
 - Improve learning support for struggling learners and support schools and education authorities in implementing strategies to improve basic skills.
- 2. Improving the quality, efficiency and openness of tertiary and equivalent education with a view to increasing participation and attainment levels:**
- Modernise curricula to better match labour market needs and promote excellence in teaching.
 - Promote the professional development and integrity of higher education staff.
 - Foster strategic cooperation between higher education institutions, business and the research sector. Introduce specific measures such as apprenticeships of researchers in firms with a view of improving partnership between education and businesses.
- 3. Investing in education, skills and lifelong learning by developing education and training infrastructure**
- Invest in non-segregating school infrastructure with a special focus on early childhood education and care, particularly in the most populated municipalities faced with lack of capacity, taking into account the need for sustainable financing.
 - Invest in research infrastructure in excellence and competence centres in higher education institutions.

Furthermore, CSF Funds should contribute to following specific objectives:

- Improve the attractiveness and quality of Vocational Education and Training (European Quality Assurance in VET), including the provision of modern material and technical base in VET institutions, adaptation of curricula to better match labour market needs and foster the relationship between vocational schools and local enterprises.
- Invest in skills required by buoyant sectors of the economy, such as the green economy (including energy efficiency), personal services and health and social services. With regard to the maritime sectors, enhance higher levels of qualifications across sea-related traditional and emerging sectors.
- Increase participation of older and low skilled persons in lifelong learning. Foster non-formal learning as a means to acquire relevant transversal skills.
- Enable education and training through open and easily available on-line learning resources, open on-line educational practices and the use of open networks.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general consideration would improve governance and delivery:

- CSF funding should be delivered through efficient programming which includes reforms in general and tertiary education and systemic measures to support a comprehensive approach and through a strong and dedicated institutional set-up.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under interventions under thematic objectives aimed at R&I, ICT, SMEs, low carbon economy, climate change, labour market, social inclusion and institutional capacity.³⁷

³⁷ Thematic objectives 1, 2, 3, 4, 5, 8, 9 and 11 according to the draft Regulation

Thematic objective: Promoting social inclusion and combating poverty

Europe 2020 headline target	Current situation	National NRP target 2020
Reducing the number of people at risk of poverty or exclusion by at least 20 million in the EU (compared with 2008 levels)	Reduced by 67,000	Reducing by 260,000
<p>From Country Specific Recommendation n.1 of 2012: '... strengthen efforts to enhance the quality of public spending, particularly in the education and health sectors.'</p> <p>Country Specific Recommendation n. 2 of 2012: Take further steps to reduce risks to the sustainability and to improve adequacy of the pension system by making the statutory retirement age the same for men and women with full career contributions. Introduce stricter criteria and controls for the allocation of invalidity pensions.</p> <p>From Country Specific Recommendation n. 3 of 2012: 'To alleviate poverty, improve the effectiveness of social transfers and the access to quality social services for children and the elderly and implement the National Roma Integration Strategy.'</p>		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by CSF funds:

1. Active Inclusion:

- Develop targeted and individualised support and reinforce measures to help people at risk of poverty and social exclusion to return to employment and improve the effectiveness of social transfers in reducing poverty.
- Support integrated approaches combining childcare, education, health and parental support, with a particular focus on the prevention of children's placement in institutional care.
- Support the transition from institutional to community-based care services for children, people with disabilities and mental health problems and the elderly, including targeted infrastructure investment.
- Improve the governance of the social protection and social inclusion system and the quality of social care. Increase access to social services with a view of reducing inequalities linked to social discrepancies.
- Remove and prevent accessibility barriers. Support investment in adaptation of infrastructure to the needs of disabled persons to enable participation in the education and labour market.
- Promote Community-led Local Development (CLLD) and improve local basic services for the rural population, including investments in small-scale infrastructure; preserve rural cultural and historical heritage.
- Enhance the access to quality health services with a view to reducing health inequalities (related to both particular vulnerable groups and territorial discrepancies); support health education and sickness prevention measures.

2. Integration of marginalised communities, such as the Roma:

- Promote integrated pathways and measures to eliminate the segregation of Roma and other marginalised communities from the labour market, general and vocational education and training, social services, healthcare and housing (as set out in the National Roma Integration Strategy and the subsequent Commission communication/recommendations).
- Introduce measures fighting against prejudice, intolerance and discrimination towards Roma and other marginalised groups, as well as prevention measures for trafficking in human beings.

Furthermore, the CSF Funds should contribute to following specific objective:

- Promote social innovations providing for solutions related to the thematic objective.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Reforms should be implemented, not just a strategy in place. Improve the physical health infrastructure with a view to providing high-quality healthcare. However, EU co-financing to health infrastructure measures should be an integrated part of a national health reform strategy. In the event that no such strategy is in place, health infrastructure investments with CSF Funds are not a priority, as sound financial management could be compromised.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at ICT, labour market, education and institutional capacity.³⁸

FUNDING PRIORITY: INNOVATION-FRIENDLY BUSINESS ENVIRONMENT

The objectives of the funding priority '**Innovation-friendly business environment**' will be achieved primarily by thematic objectives 'Strengthening research, technological development and innovation', 'Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector' and 'Enhancing institutional capacity and ensuring an efficient public administration'.

Thematic Objective: Enhancing competitiveness of small and medium-sized enterprises, the agricultural sector, the fisheries and aquaculture sector

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds.

- Facilitate access to finance for SMEs and start-ups – in particular those involved in innovative activities, including in the agro-food, fisheries and maritime sectors – with the aim of funding their own projects, participating in European and international networks/projects/programmes, and in particular developing the use and evolution of financial instruments.
- Cut 'red tape', further streamline procedures for requesting licences and permits, paying taxes, etc., and promote e-governance, particularly in respect to dealings between SMEs and the business community at large, on the one hand, and state institutions on the other.
- Concentrate on sectors, clusters or geographic areas with potential for development and export, businesses with a sound market orientation and high competitive potential, and start-ups or companies with a competitive industrial base. Energy efficiency, green investments and export-orientation are sectors that merit further investment.
- Develop a specific internationalisation programme to better stimulate integration of enterprises in the globalised value chains of technological (high-tech) products.
- Develop effective support in particular in the areas of business advisory services (and coaching), including support for business start-ups, access to new markets, business strategy and monitoring, technology transfer and forecasting, user-oriented and design-driven innovation, raising the innovation potential and interest of SMEs, and strengthening the creation and development of clusters to meet the specific objectives of smart specialisation.
- Facilitate the restructuring of farms to improve their competitiveness and sustainability, whilst promoting generation renewal in the agricultural and fisheries sectors and providing

³⁸ Thematic objectives 2, 8, 10, 11 according to the draft Regulation

investments to increase innovation and value-added in the agro-food, fisheries and aquaculture sectors. Support better integration of primary producers in the food chain, promote producer organisations and the use of risk management tools by farmers, and address the issue of land consolidation/sustainable land use as a pre-condition for EU investment support.

- Diversify economic activity in rural and coastal areas, support business development and entrepreneurship to enhance competitiveness, viability and sustainability in fisheries and aquaculture.
- Enhance the potential of the bio-economy sectors, thus maintaining and creating economic growth and jobs in rural, coastal and industrial areas by using amongst others the potentials of the country for biomass production.

In order to provide a sound basis for the future use of CSF Funds, Bulgaria should:

- carry out a thorough gap analysis to understand the financing needs of SMEs and market failures, and design the appropriate financial instruments for micro, small and medium enterprises, taking into consideration their maturity, growth potential, sector specialisation and risk exposure; facilitate access to capital markets shifting from grant-based interventions to financial engineering instruments; assess the micro-finance environment in regions and design actions to tackle existing bottlenecks
- attune research and development planning documents to business developments, thus creating synergies. Raise the administrative capacity and expertise of the Authorities in order to address shortages of skilled staff and adopt a more business-friendly attitude;
- facilitate regulatory procedures for SMEs to provide a credible, stable, simplified and predictable environment for industrial investments – particularly in the area of public procurement, employment law, social security, taxation and standardisation – through clear organisational setup, streamlined procedures and a reduction of ‘red tape’;
- carry out a gap analysis to better understand the needs of business for advisory services, taking into account networks already existing in the country (e.g. Enterprise Europe Network);
- take into account that EU support so far has been concentrated mainly in certain agricultural (arable) sectors and that some 87 % (2007) of agricultural holdings in Bulgaria dispose of less than 2 hectares (compared with 48 % in the EU-27) and have been undergoing a significant restructuring process, with a view to decreasing their number but increasing their average size. Also confront the major challenge of achieving generational change in the agricultural sector, since only 3.1 % of farm owners are less than 35 years of age (6.3 % in the EU-27) and 45 % are over 65 years (32.7 % in the EU-27). Finally; allow for the fact that unstable land ownership and exploitation in Bulgaria is a constraint to effective use of EU support for longer-term investment aimed at increasing the competitiveness of farm businesses.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at R&I, ICT, low carbon economy, climate change, human capital development and institutional capacity.³⁹

³⁹ Thematic objectives 1, 2, 4, 6, 8, 9, 10 and 11 according to the draft Regulation

Thematic Objective: Strengthening research, technological development and innovation

Europe 2020 headline target	Current situation	National NRP target 2020
3% of expenditure on research and development	0.60% of GDP (2010)	1.5%
From Country Specific Recommendation n°4 of 2012: 'Improve the access to finance for start-ups and SMEs, in particular those involved in innovative activities.'		

This thematic objective should be implemented in line with the priorities identified in the European Research Area Communication adopted by the Commission on 17 July 2012⁴⁰. For this thematic objective the following objectives are identified:

1. Strengthen private research and innovation investments by:
 - Increasing the research and innovation capacities of firms and creating research jobs; support cooperation initiatives where local Bulgarian and foreign R&D are brought together to build a knowledge base in Bulgaria.
 - Creating synergies between research, higher education and businesses focusing on developing joint excellence and competence centres and promoting knowledge transfer and facilitating networking for innovation with researchers, academics and entrepreneurs from other European countries.
2. Support the design and operational implementation of the “Sofia-tech” technology park pilot project as a core R&I hub for the whole country and set the conditions to attract leading international and local scientists, establishing world-class working conditions and human resource development opportunities, in technology parks, centres of excellence, clusters and incubators.
3. Reduce the red tape and timespan for patenting and improve the management of intellectual property rights (IPR) of Bulgarian innovators, including through applying the 2008 Commission recommendation and Code of practice.
4. Promote cooperation in R&I among Danube Member States, States associated to Horizon 2020 and Neighbourhood countries to support a Danube Research Area.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities in advance of 2014. In addition the following general considerations would improve governance and delivery:

- Prepare research and innovation strategies for smart specialisation, prioritising national fields of excellence and comparative advantages taking into account the need for better governance and R&I system modernisation and concentration of innovation activities around the main academic or industrial research centres. This should be followed by a multi-annual plan for budgeting and the prioritisation of investments. Avoid institutional fragmentation; both Ministries of Economy and Science formulate research and innovation policies, managing the National Innovation Fund and National Science Fund respectively.
- Set up an evaluation and monitoring system on innovation and research policy implementation.
- Establish regional or national partner facilities for European Strategy Forum on Research Infrastructure Roadmap Projects and other equivalent world class research infrastructures.
- Align the research and innovation strategy on energy with the Strategic Energy Technology Plan (Strategic Energy Technologies Plan).

⁴⁰ COM(2012) 392 final

- Review the existing framework conditions for the development of bio-based products and technologies.
- Support joint innovative activities in the food and agriculture industries.
- Take action to harness the innovation potential of the sea and coasts in line with the Blue Growth Initiative, in particular in areas such as blue energy, aquaculture, maritime and coastal tourism, marine mineral resources, and blue biotechnology.

This thematic objective will lay the groundwork for preparing innovative projects under thematic objectives aimed at ICT, SMEs, low carbon economy and climate change, as well. Actions under this thematic objective should also be supported by interventions under thematic objectives human capital development and institutional capacity.⁴¹

FUNDING PRIORITY: MODERN INFRASTRUCTURE FOR GROWTH AND JOBS

The objectives of this funding priority will be achieved primarily by thematic objective 'Promoting sustainable transport and removing bottlenecks in key network infrastructures' as well as thematic objectives 'Enhancing access to, and use and quality of, information and communication technologies' and 'Supporting the shift towards a low-carbon economy in all sectors'.

Thematic Objective: Promoting sustainable transport and removing bottlenecks in key network infrastructures

From Country Specific Recommendation n. 5 of 2012: ... enhance administrative capacity and reforms [...] and further improve the absorption of EU Funds, in particular in road and rail transport [...]. Strengthen public administrative capacity in key transport sectors.

For this thematic objective the funding priority translates into the following priorities and specific objectives concerning network infrastructure:

1. Developing comprehensive, high quality and interoperable railway systems in particular through investing in the railway TEN-T:
 - Develop a more efficient and competitive rail sector. Modernise existing corridors in order to complete significant gaps in the TEN-T rail core network in the country, with appropriate design speeds and standards and with a special focus on cross-border sections and interoperability (European Rail Traffic Management System, Technical Specifications for Interoperability).⁴²
 - Establish multimodal infrastructure between rail and other transport modes.
 - Continue rail-sector reforms in order to reach the necessary operational efficiency.
2. Enhance competitiveness of the economy by completing TEN-T core network corridors, giving priority to:
 - The rail sections from the port of Burgas and the border with Turkey at Svilengrad, via the Sofia node to the Serbian border near Dragoman and the rail line Vidin-Sofia-Kulata (Hamburg-Lefkosia-Corridor). Some projects on these rail lines could be considered for financing under the Connecting Europe Facility.

⁴¹ Thematic objectives 2, 3, 4, 8, 10 and 11 according to the draft Regulation

⁴² Improving governance is also an important aspect of transnational and cross-border programmes, in particular those addressing cross-border crime and security, including the financing of capacity-building in customs systems.

- Improvement of the navigability of, and multimodal connections to, the Danube River (Strasbourg-Danube Corridor), incl. intermodal port terminals (ship-to-rail).
 - The Hamburg-Lefkosia corridor (actual Priority Project 7) i.e. the Struma Motorway, including the tunnel in the Kresna and the section between Vratsa en Vidin.
 - Connecting finished infrastructure sections of transport corridors unlikely to be completed by the end of the 2014-2020 programming period to the larger urban centres, e.g. the Vidin-Sofia-Kulata rail link and the Hemus Motorway Sofia - Ruse.
3. Developing environment-friendly transport systems and promoting sustainable urban mobility.
- Develop efficient urban transport systems in the six largest urban agglomerations (Sofia, Plovdiv, Burgas, Varna, Ruse and Pleven);
 - Implement integrated urban transport master plans as a prerequisite for the financing of rolling stock.
4. Ensure better connectivity between regional ports and a policy framework for upgrading fishing ports infrastructure. Investments are essential in berthing infrastructure, port facilities and transport connections with the hinterland, in order to support maritime connectivity and maritime and coastal tourism.

Assure performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- A **comprehensive national transport strategy** that reflects the principles of the European Transport Policy as led down in the White Paper 2011 including an inventory of available financial means and administrative capacity and an action plan showing the various steps and the timing to meet Bulgaria's transport goals. The CEF also foresees financial instruments to attract private funds for transport infrastructure construction.
- A clear **framework for to provide sufficient funding for maintenance** to ensure sustainability of transport infrastructure investments with self-financing arrangements, such as track user fees for railway operators. Respect of the 'polluter pays' principle is required for EU support of road projects.
- A mature and realistic project pipeline is needed with attention paid to operation and maintenance. Notwithstanding the much needed and appreciated JASPERS assistance, Bulgaria has to find structural solutions to **expand the administrative capacity of (major) project beneficiaries. Road- and rail-sector reforms need to continue** in order to reach the necessary operational efficiency, as laid down in the 2012 Country-specific Recommendations. There has to be progress in reforming the National Railway Infrastructure Company and the Road Infrastructure Agency, generating sufficient administrative capacity to prepare and manage all (planned) EU-financed infrastructure projects. The national company for Strategic Infrastructure Projects has to be equipped with sufficient resources to assume its responsibilities. The purchase of train rolling stock will not be eligible until the state railway operator BDZ has been proven to be financially sound and viable. Memoranda of Understanding between the Bulgarian government and the EIB and the World Bank for assistance in expanding administrative capacity and sector reform need to be put into effect.

Actions under this thematic objective should be coordinated with interventions under the thematic objectives aimed at low carbon economy, climate change and administrative capacity.⁴³

⁴³ Thematic objectives 4, 5 and 11 according to the draft Regulation

Thematic Objective: Enhancing access to and, use and quality of information and communication technologies

For this thematic objective the funding priority translates into the following priorities and specific objectives concerning network infrastructure:

1. Extending both basic broadband deployment and the roll-out of high-speed next generation access (NGA) networks in areas suffering from market failure (in particular rural areas).
2. Enhancing penetration and supporting demand for ICT, including to disadvantaged groups, and developing different levels of digital competence.
3. Strengthening ICT applications for *e*-government and on-line public services.
4. Strengthening the technical capacity for planning and implementing ICT investments.
5. Ensuring seamless interconnections and interoperability between all types of infrastructures and services, closing the gap between urban and rural areas and ensuring both backhaul and last mile connections to high speed and very high speed networks.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities in advance of 2014. In addition, the following considerations would improve governance and delivery.

- Develop and implement an integrated and operational broadband plan designed to advance basic broadband as well as NGA coverage and take-up based on a clear set of measures, implementation deadlines and budget lines (including Structural Funds, Rural Development and Connecting Europe Facility).
- Develop an integrated Digital Growth chapter within a Smart Specialisation Strategy.
- Put in place appropriate coordination mechanisms enabling synergy, complementarity and good planning of ICT measures across the different domains using the EU funding instruments (CSF Funds, 'Erasmus for All' programme, Connecting Europe Facility, and Horizon2020);
- Measures supporting demand for ICT in social sectors at risk of exclusion combining PC/device ownership, ICT training, etc. The adoption and implementation of the relevant international and European harmonised standards, particularly regarding accessibility, would facilitate this process.
- Digitalisation of schools and universities and the development of e-Education should be stimulated.
- Allocate the necessary national budget for maintenance and operation of the ICT infrastructure in order to guarantee the sustainability of EU co-financed investments;
- Establishing adequate administrative, technical structures, such as ICT competence centres, coordinating ICT investments and the preparation and implementation of ICT projects;

Actions under this thematic objective should be supported by interventions under thematic objectives aimed at R&I, SMEs, human capital development and institutional capacity⁴⁴, in the framework of an innovation strategy for smart specialisation.

⁴⁴ Thematic objectives 1, 3, 8, 9, 10 and 11 according to the draft Regulation

FUNDING PRIORITY: ENVIRONMENT-FRIENDLY AND RESOURCE-EFFICIENT ECONOMY

The objectives of the funding priority '**Environment-friendly and resource-efficient economy**' will be achieved primarily by thematic objectives 'Supporting the shift towards a low-carbon economy in all sectors', 'Protecting the environment and promoting resource efficiency' and 'Promoting climate change adaptation and risk prevention and management'.

Thematic Objective: Supporting the shift towards a low-carbon economy in all sectors

Europe 2020 headline target	Current situation	National NRP target 2020
20% greenhouse gas (GHG) emissions reduction compared to 1990 ⁴⁵	-12% (2020 projected emissions ⁴⁶ compared to 2005) +11% (2010 emissions compared to 2005) ⁴⁵	+20 % (national binding target for non-ETS sectors compared to 2005)
20 % of energy from renewables, incl. 10 % use of renewables in transport	13.8% (2010) 1% in transport (2010)	16 % 10 %
20 % increase in energy efficiency ⁴⁷	-17.4 Mtoe (2010) ⁴⁸	Reduction by 3.2 Mtoe
Country-Specific Recommendation n° 7: Improve electricity and gas connections, boost energy efficiency and enhance the capacity to cope with disruptions.		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by CSF Funds:

1. Promoting energy efficiency

- Support energy efficiency in public and private housing, commercial buildings as well as on-farm facilities. Financing energy efficiency projects in existing buildings should always be based on independent energy audits. Focus should be on buildings that could lead by example. Promote innovative financing mechanisms such as Energy Performance Contracting.
- Achieve energy savings in production and local distribution of energy (including modernization of district heating/cooling incl. conversion to high efficiency CHP, smart grids and meters).
- Strengthen energy efficiency measures in services, industry and agriculture, including promotion and introduction of energy savings measures and enhancing eco-innovative technologies, services and processes (especially in SMEs).

2. Supporting and facilitating investment in renewable energy sources (RES)⁴⁹

- Increase the share of renewable energy sources in final energy consumption⁵⁰ in the three sectors: electricity, heating & cooling and transport.

⁴⁵ 30% if the conditions are right

⁴⁶ Based on existing measures, Commission report *Progress towards achieving the Kyoto Objectives* (2012)

⁴⁷ Monitoring the 20% energy efficiency target in a harmonised format will follow the implementation of the Energy efficiency Directive in April 2013.

⁴⁸ Gross consumption of primary energy minus non-energy uses

⁴⁹ As far as renewable energy support is, concerned this should be in line with the national renewable Energy Action Plan submitted by the National authorities to the European Commission under the renewable energy Directive.

- Development of energy production should be environmentally friendly and reflect the cost-efficient technology opportunities in Bulgaria.
- Develop RES technologies and industries by targeted support schemes for SMEs.
- Diversify RES investments in financially sustainable power generation through, for example, solar energy, wind energy, forestry and agriculture by-products (including biogas), biomass and relevant sea energy⁵¹.
- Develop ecosystem-based approaches to conserve and enhance natural carbon sequestration (forests, soils, peat lands, grasslands) including rural and urban green infrastructure.

3. Reduction of greenhouse gas emissions in the agricultural and fishery sectors

Investments and operations are needed to reduce air pollutants, in particular

- Nitrous oxide, methane and ammonia emissions from agriculture which cause soil acidification and eutrophication and degrade production potential,
- Support for lower use of nitrogen fertilisers and pesticides, improved livestock management practices for the treatment of animal wastes, and support for more climate friendly crop rotation.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities in advance of 2014. In addition the following general considerations would improve governance and delivery:

- Address the high risk for the allocation of substantial public funding to energy efficiency in housing posed by the existing governance model and the lack of clearly defined actors responsible for the maintenance of multi-family residential buildings, despite recent legislative changes concerning the functioning of house owners associations;
- As regards district heating, carefully assess the economic and financial viability of the utility providers before allocating any public financing;

Actions under this thematic objective should be coordinated and, in order to obtain synergy effects, combined as much as possible with interventions under all other thematic objectives.

Thematic Objective: Protecting the environment and promoting resource efficiency

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by CSF Funds:

1. Water and waste

Important investments are still needed in these sectors to fulfil the requirements of EU legislation.

- Improve the treatment of wastewater (extension of the wastewater collection system, construction or modernisation of wastewater treatment plants, sludge treatment and disposal) and quality and the resource management of drinking water (continuing investments in drinking water infrastructure and treatment processes and increased water efficiency through leakage reduction) in a strategic and cost-efficient way.

⁵⁰ Further detailed analysis is recommended in order to choose optimal financing schemes that will support RES technologies development. Taking under account experience from the current programming period, it is important to revise the system of support from the EU funds, including the correct implementation of the EIA procedure and subsequent mitigation measures before founding.

⁵¹ In line with the technology capacity estimations in Tables 10 to 12 of the National Renewable Energy Action Plan

- In the waste sector, support should be provided to Bulgaria to fulfil its obligations in relation to the *acquis* and to reach the 2020 recycling target of 50 % and the objectives in the Resource Efficiency Roadmap. Priority should be given to waste prevention, re-use and recycling, while waste landfilling needs to be reduced. Support should be provided also for improving waste management systems and, if appropriate, development of 'waste and biomass to energy' projects in line with the waste hierarchy and the RES directive.

2. Improvement of the urban environment

- Improve air quality by implementing adequate long-term programmes and short-term action plans, depending on the pollution sources (urban transport, industrial emissions, traffic, domestic and district heating etc.).
- Support sustainable integrated urban development, including drainage, soil de-sealing measures, and rehabilitation of contaminated sites. Support the restoration of degraded areas and the establishment of urban green infrastructure. Improve the urban environment by preserving and valorising cultural and historical heritage.

3. Protecting the environment, improving management of natural resources

- Support sustainable management and restoration of the NATURA 2000 network (in particular via the Prioritized Action Framework) as well as High Nature Value farming areas, extensive management of agricultural and forest areas, restoration and conservation of wetlands and rivers, preparation of management plans, capacity-building for the authorities responsible for NATURA 2000, and awareness-raising among different stakeholders.
- Halt biodiversity loss and promote sustainable farming practices, including organic farming, water efficiency, water quality (in surface, ground and marine waters, and including manure storage) and soil quality and collective approaches to the provision of environmental public goods.
- Promote fishing at maximum sustainable yield (MSY) and eliminate discard, encourage eco-innovation (selective fishing gear and innovation reducing the impact on the environment) and aquaculture with high-level environmental protection. Foster better compliance with CFP rules and improve fisheries control and scientific data collection. Support measures against pollution of the marine environment and intensify efforts on monitoring of quality of marine environment. Evaluate and identify any remaining overcapacity in Bulgaria's fleet in order to phase it out.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities in advance of 2014. In addition the following general considerations would improve governance and delivery:

- Ensure effective implementation of the environmental *acquis* for the water sector, including completion of all work related to river basin management plans. The timely preparation and implementation of master plans for water infrastructure, currently under elaboration, is of the utmost importance. These plans will serve as compulsory bases for the prioritisation of investments. Also the overall finalisation of the water reform, notably the establishment of efficient and effective municipal associations and the enforcement of the necessary regulatory framework, is crucial. A substantial planning element will be the water utility master-plans currently under elaboration with support from the World Bank;
- Draw up new or update waste management plans for municipal, hazardous and other waste under the 2008 Waste Framework Directive in order to implement the waste hierarchy, foreseeing the appropriate infrastructure projects and actions. Waste prevention programmes including action plans should be drawn up by 2013. Regional waste management plans should provide a clear overview of all needs;

- Address the problems related to unstable land ownership and land use that hamper the realisation of sustainable environmental commitments by farmers and the delivery of related EAFRD support;
- Strengthen the administrative capacity of environmental bodies responsible for monitoring and project implementation in the fields of biodiversity, waste management, water (including river basin management) and environmental assessments e.g. SEA, EIA and Appropriate Assessments according to the Habitats Directive;
- Support the sustainable exploitation of marine waters and coastal zones by implementing the Marine Strategy Framework Directive, Integrated Coastal Zone Management (ICZM) and Maritime Spatial Planning (MSP), including related capacity-building activities.

Actions under this thematic objective should be coordinated and, in order to obtain synergy effects, combined as much as possible with interventions under all other thematic objectives.

<p>Thematic Objective: Promoting climate change adaptation, risk prevention and management</p>

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by CSF Funds:

1. Adaptation to climate change in the field of water management and flood prevention

- Upgrade of poorly maintained infrastructure: riverbeds, dams and bridges. In 2012 a major settlement was flooded when a dam broke. This seems to be part of a systematic problem that needs to be tackled through the elaboration of a specific action plan, including the targeted use of EU Funds. Improve flood prevention by flood risk assessment and mapping and development of monitoring tools. Support flood prevention projects at river basin level and in coordination with neighbouring countries.
- Improve flood prevention performing flood risk assessments and mapping, and development of monitoring tools. Support flood prevention projects at river basin level and in coordination with neighbouring countries.
- Reduction of pressures affecting water: further efforts to ensure sustainable water management and improved water efficiency (including efficient irrigation systems and decreased leakage).

2. Risk prevention and management

- The handling of natural disasters including early intervention measures related to forest fires, earthquakes and extreme weather events. These measures should also include the development of tools related to early warning and alert systems, risk mapping and assessment, and also measures to support crisis communication, education and awareness-raising in risk management and climate adaptation.
- Investments need to foster international cooperation between EU neighbouring countries on risk prevention and mutual assistance, especially under the EU Strategy for the Danube Region (EUSDR).

3. Adaptation to climate change in other areas (forest management, land use, management of coastal zones)

- Reduction of pressures affecting soil: land take and soil sealing (hot spot areas such as the urban agglomeration of Sofia, the southern coastline, and mountain resorts in the towns of Bansko and Pamporovo), water erosion, wind erosion, landslides, deforestation and soil acidification. Brownfield decontamination should continue.
- Support for the elaboration of measures and projects to protect, restore and regenerate coastal and marine zones, e.g. restoration of natural, socio-economic and cultural resources,

better management of urban sprawl, defence/protection from, and mitigation of, climate change (e.g. fighting desertification, coastal flooding and erosion).

- Forest management: support the establishment and management of forest protection belts against erosion and fire.
- Land use: counteract unsustainable land use by in-field afforestation (without short rotation species) and planting of forest belts along watercourses, protection of vegetation cover and avoidance of deep ploughing. Improve soil management through support for practices to prevent soil degradation and depletion of soil carbon stock. Support local crop varieties and livestock breeds as a means to adapt to climate change and disease while maintaining genetic diversity.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities in advance of 2014. In addition the following general considerations would improve governance and delivery:

- Set up a climate change adaptation strategy clearly identifying and coordinating the responsibilities of different governmental bodies when implementing the necessary investments in a wide variety of sectors. The current low absorption of funds both within the ERDF and the EAFRD points towards insufficient administrative capacity. A genuinely strategic approach will be needed to underpin future investments.
- Promote development and implementation of national and sub national adaptation strategies to increase resilience to Climate Change.
- Develop a national risk assessment plan, accompanied by a clear investment programme, which represents an additional challenge in this sector. Although Bulgaria has started the adoption process of the necessary legislative framework for implementation, it is likely that the legislation will not be in place at the beginning of the next programming period.

Actions under this thematic objective should be coordinated and, in order to obtain synergy effects, combined as much as possible with interventions under all other thematic objectives.

FUNDING PRIORITY: STRENGTHENING CAPACITY OF PUBLIC ADMINISTRATION, GOVERNANCE AND JUDICIARY

The objectives of the funding priority '**Strengthening capacity of public administration, governance and judiciary**' will be achieved primarily by thematic objective 'Enhancing institutional capacity and ensuring an efficient public administration'.

Thematic objective: Enhancing institutional capacity and ensuring an efficient public administration

Country-specific Recommendations:

From Country Specific Recommendation n. 1 of 2012: '... implement a comprehensive tax-compliance strategy to further improve tax revenue and address the shadow economy.'

Country Specific Recommendation n. 5 of 2012: Step up efforts to enhance administrative capacity and reforms by reducing red tape and the cost of tax compliance and collection, and further improving the absorption of EU Funds, in particular in road and rail transport and water management. Improve the quality and independence of the judicial system and speed up the introduction of e-government. Strengthen public administrative capacity in key transport sectors and regulatory authorities.

Country Specific Recommendation n. 6 of 2012: Ensure sound implementation of public procurement legislation. Strengthen the prevention of irregularities and effectively apply the sanctions under the Public Procurement Law and those of the Law on Conflict of Interest.

For this thematic objective the funding priority translates into the following investment priority and specific objectives reflecting country specific challenges to be supported by the CSF Funds:

1. Investment in institutional capacity and in the efficiency of public administrations and public services with a view to reforms, better regulation and good governance:

- Enhance the professionalism and integrity of civil servants and magistrates.
- Promote reforms to ensure better legislation, effective management of public policies at national, regional and municipal levels and increased accountability in public administration, including regulatory, competition and enforcement authorities.
- Improve the functioning of the judicial system, including strengthening the capacity of judicial and law enforcement authorities to efficiently investigate, prosecute and try cases of organised crime and high-level corruption and to combat the shadow economy.
- Introduce an effective monitoring and sanctioning system on conflict of interests, and mechanisms for asset disclosure and corresponding verification system.
- Develop integrated electronic administrative services for citizens and business, including *e*-health, *e*-education, *e*-procurement and *e*-justice. Support measures providing for interoperability and up-take of *e*-services.
- Reduce the administrative burdens and costs to business and citizens. Ensure proper and effective public procurement, promote *e*-procurement measures and strengthen the prevention of irregularities.
- Enhance the capacity of stakeholders delivering employment, education, health and social policies and sectorial and territorial pacts.
- Foster capacity-building at local level for the management of the decentralised provision of education, health and social services.
- Improve governance of maritime sectors, including data sharing between the different maritime authorities and functions.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Adequate CSF funding should be allocated to the investment priority of enhancing institutional capacity and efficient public administration. Support is not limited to training measures; it also includes expertise, international exchange of information, consultancy, etc., and can thus be used very strategically and efficiently in supporting governmental efforts to reform public services with a view to better regulation, oversight and general good governance.
- The contribution of social partners, NGOs and other stakeholders involved in employment, social, health and education sectors to the shaping and implementation of the relevant policies is crucial and will become even more important. Therefore, adequate funding for capacity-building for these groups should be ensured.
- *e*-government measures should contribute to the development of the Digital Single Market.

Actions under this thematic objective should complement relevant interventions under thematic objectives aimed at ICT, climate change, transport and human capital development.⁵²

⁵² Thematic objectives 2, 5, 7, 8, 9 and 10 according to the draft Regulation

ADMINISTRATIVE ARRANGEMENTS

Management and control systems

An appropriate governance structure should be defined and assistance given to develop procedures to ensure swift implementation and sound financial management. To increase synergies, avoid overlap, and at the same time stimulate complementarity and synergies between the CSF Funds, a clear demarcation of policy areas and strong and efficient coordination mechanisms are needed for programme management.

The key principle of sound financial management remains the basis for the development of management and control systems. The systems for cohesion policy 2014-20 should build on the positive achievements in the 2007-13 programming period. Bulgaria should ensure an effective and efficient control environment and be able to confirm in advance the operationality of its control systems.

Sound financial management should be further enhanced by the application of simplification, better coordination of funds and programmes, and by cutting administrative costs and burden for the beneficiaries and, for cohesion policy, by the wider use of *e*-cohesion possibilities, in order to comply with Article 112.3 of the CSF Regulation COM(2011) 615 extending the use of *e*-application forms and linking UMIS with other *e*-government databases.

Coordination

The role of the Directorates for coordination of the EU Funds management within the Council of Ministers does not seem to have been used to its full potential in the current programming period. It could be more proactive in the simplification and transfer of best management practices among OPs, but also be more responsive in supporting the specific needs of management systems and the different types of beneficiaries. Horizontal guidelines and recommendations should be prepared in good time, based on an assessment of past experiences.

The Bulgarian authorities should use the opportunity to carry out different types of civil engineering works simultaneously, e.g. in the fields of telecommunications, energy, transport, water and sewerage. Thus several objectives can be achieved more efficiently, by lowering the cost of investments and creating synergies.

Organisation

The complexity of the implementing system set-up needs to be reduced by optimising the number of intermediate bodies and establishing clear roles and responsibilities between the key stakeholders.

The current audit and certification functions are reliable – their capacity and experience should be sustained for the next programming period. A synergy with other national control units and bodies (like the internal audits, the National Court of Auditors, financial inspection, etc.) is necessary in order to reduce the pressure on the management bodies – on the one hand to achieve better use of resources and, on the other, to remove redundant overlap of controls.

The inclusion of the Public Procurement Agency in the CSF management and control systems needs to be considered, in the light of its important role in performing *ex-ante* verifications of procurement procedures. The new legislation on public procurement is a step forward, but the sanctions foreseen need to be applied effectively.

At this stage, Bulgaria's administrative capacity seems insufficient to effectively manage and implement the EMFF. Given the shortcomings in implementation of the Data Collection Framework over the past years, combined with problems in implementing the EFF, Bulgaria will face serious difficulties in shifting the Data Collection implementation programme to shared management. Bulgaria does not seem prepared to implement the CFP control dimension of the EMFF. If no serious improvements are made, the European Commission expects major difficulties will arise.

In this respect, the Commission notes the decision of the Bulgarian government on 23 May 2012 to move the seat of the National Agency for Fisheries and Aquaculture (NAFA), where the Managing Authority for the Fisheries OP is situated, from Sofia to Burgas. In order to minimise the risk of decreasing even more the administrative capacity for management of the EMFF, the Commission recommends that the Fisheries Managing Authority is transferred from NAFA to the Ministry of Agriculture and Food, and significantly strengthened. Moreover, the complementarity and synergies between the EMFF and the EAFRD Authorities will allow economies of scale and more efficient use of the accumulated experience and expertise of the national administrators. Finally, Bulgaria should significantly enhance its control and enforcement capacity to implement the Common Fisheries Policy and should put in place adequate administrative arrangements to comply with fisheries data collection obligations.

Human Resources

Implementation capacity in the current programming period was insufficient due to the general shortage of human resources with knowledge and experience of strategic planning, programme and project management, financial controls, monitoring and evaluation, etc., as well as difficulty in motivating staff, given the high level of responsibilities (serious financial impact), low pay (compared to remunerations for qualified staff in the private sector), the high degree of institutional instability and political interference. The Bulgarian authorities need to carefully assess staff allocation needs for the future programming period, in order to avoid repetition of the deficiencies noted in the current period and so as to ensure appropriate administrative capacity for the management of CSF Funds, in order to avoid the potential risk of automatic de-commitment.

More support is needed in the form of sufficient technical assistance for beneficiaries (such as municipalities, main state beneficiaries and private beneficiaries) who prepare and implement projects. Until now, efforts to reform or strengthen their administrative capacity have been far from sufficient, despite the extensive budget available for this purpose and the strong support provided by the Commission and different International Financial Institutions.

Efficiency of procedures

During the 2007-13 programming period there has been an inadequate relationship between programme management and control over beneficiaries, a slow verification process, lack of effective evaluations of the impact of CSF interventions, and lengthy and cumbersome public procurement procedures. The recent legislative changes in the area of public procurement still need to demonstrate effective prevention and sanction of irregularities. To this end, the stability of the established systems and well-motivated staff seem to be of crucial importance. Better performance should be sought by encouraging the system to develop and learn from its own experiences, rather than seek radical reforms.

Involvement of stakeholders

Bulgaria has to ensure proper consultation with all decisional levels and concerned bodies in the preparation and implementation of the future programmes. Particular attention should be given to the involvement of social partners and non-governmental organisations. While EU Funds are managed at national level, appropriate involvement of local government authorities in the preparation and implementation of the programmes will be critical.

Partnership

During the design and the implementation of the Partnership Contract and the Operational Programmes, respect has to be demonstrated for the horizontal principles as stipulated in the Regulation for the EU Common Strategic Framework Funds. These principles are:

- Gender equality.
- Equal opportunities.
- Non-discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or

sexual orientation.

- Sustainable development and in particular the mainstreaming of climate change.
- Protecting and improving the environment in particular by applying the ‘polluter pays’ principle, and the principle of affordability.

For the new programming period, Bulgaria should provide better and more precise guidance on the horizontal principle objectives and integrate lessons learnt from the evaluation reports to ensure better results. Special attention should be paid to include vulnerable groups at risk of discrimination – such as ethnic minorities, migrants, older and younger people – in all key actions. There is also a need to promote partnerships with non-discrimination bodies and civil society in policy planning.