

BULGARIA

Implementing the SDGs – from discussions to strategies and reforms

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On 24 March 2017 a group of NGOs with representatives of the Institute of Biodiversity and Ecosystem Research at the Bulgarian Academy of Sciences held a roundtable on "Global Sustainable Development Goals in Bulgaria". Participants united around the idea that the global Sustainable Development Goals (SDGs), adopted by the UN General Assembly in 2015, "are goals that each of us can contribute to. They are the only way to secure the survival of mankind and improve living conditions". The group declared their readiness to continue to work to promote sustainable development in Bulgaria and turned to the entire society to invite citizens, businesses and institutions to acknowledge global goals and take their part in this challenging process.

In fact, discussions on the SDGs in Bulgaria have been sporadic and not systemic, focused on specific issues, and conducted mainly by NGOs. Former President R. Plevneliev called for the adoption of a Bulgaria 2030 Agenda based on the UN SDGs and the Europe 2030 Agenda. Plevneliev insisted that the future instrument should also take into account the national goal of building "a socially responsible economy and a functioning democracy." It should be accepted by all and its implementation should be reviewed every year. The discussion was organized by the UN Global Compact Network Bulgaria, which brings together businesses, NGOs and academic institutions. It aims to encourage Bulgarian companies to take new responsibilities for the implementation of the 17 SDGs until 2030. The participants in the meeting heard a presentation of a strategic plan for implementing the goals in Bulgaria.

The government and the Parliament have adopted and discussed numerous short, medium and long-term strategies based on EU priorities and on advice provided by the IMF and the World Bank. Although these

supranational institutions of development finance declare as their fundamental purpose "the struggle against poverty", they keep on demanding economic reforms which have proved to be totally inefficient. The leading assumption is that only the free market and strictly restricted government intervention can guarantee prosperity. Instead of nations being allowed to act at their own discretion in order to increase the welfare of their people, they are forced to adopt neoliberal policies. After that no one measures whether the welfare of people has improved, but only to what extent the recommended policies have been implemented.

The European Parliament resolution of 12 May 2016 on the follow-up to and review of the 2030 Agenda (2016/2696(RSP)) should be used by various actors in Bulgaria to promote further discussion on EU and national levels.

As in most post-socialist economies, the market transition in Bulgaria has been accompanied by an increase in income inequality, which currently is one of the highest in the European Union. (Bulgaria's Gini coefficient based on equivalized disposable income is 0.35 in 2013)¹. Although inequality in Bulgaria started from a relatively low level, it has increased faster than in the rest of the regional comparators and is now the highest.

¹ Eurostat statistics explained: Equivalized disposable income is the total income of a household, after tax and other deductions, that is available for spending or saving, divided by the number of household members converted into equalized adults; household members are equalized or made equivalent by weighting each according to their age, using the so-called modified OECD equivalence scale.

Among the causes are: low-paid employment (especially for the large number of low-skilled workers) and inadequate coverage of the social protection system.

Poverty has rural, ethnic, gender, and age dimensions²

- *Rural*: nearly two-thirds of the poor live in rural areas where agriculture is usually the only sector offering jobs.

Nearly half of Bulgarian farms are involved in subsistence farming and 75 percent of the farms are outside the scope of EU sectoral assistance. The workforce in rural areas is rapidly aging (with nearly 26% of the population above working age compared to 17% for the urban population) and lacks capital assets.

- *Ethnic*: the poverty rate among the Roma is 33 percent compared to 5 percent for their non-Roma neighbours.

The Roma account for a significant part of the poor but only 4.8 percent of the population. Roma women have significantly lower educational attainment and consequentially are more likely to be unemployed or employed in informal activities. Roma women have much lower economic activity rates compared to non-Roma women. There are indications that poverty may also be high among the Turkish minority, which constituted 8.8 percent of the population in 2011. Nearly 18 percent of ethnic Turks are unemployed, compared to only 8 percent of ethnic Bulgarians, and the economic activity rate for women is 10 percentage points lower for Turks than for Bulgarians.

- *Gender and age*: poverty is higher for women, especially elderly women, than for men.

Nearly 830,000 women in Bulgaria are at risk of poverty, of these 33 percent are older than 65 years; the comparable figures for men are 697,000 and 17 percent. More than half of Bulgarian pensioners live with monthly payments below poverty line.³ Bulgaria is also

the EU member state in which children face the highest risk of poverty and social exclusion. Eurostat data for 2016, published on the occasion of the World Children's Day, reveal that 43.7 percent of children in Bulgaria (or 527,000) live in low-income households whose earnings are based on seasonal or other types of precarious workers.

At the same time the country is the EU member state with the lowest GDP per capita in 2016 (US\$ 7,239, with limited expenditure on social protection and faces adverse demographic trends, as well as persistent labour market problems. Wages are catching up from a very low level and have been pushed by an increasing labour shortage. Bulgaria's wage level is still the lowest among EU countries although it has been increasing with accelerated speed since EU accession in 2007. While catch-up dynamics explain part of Bulgaria's rapid wage growth, cyclical factors, unfavourable demographics and continual emigration of high-skilled workers have contributed to rising wages in recent years. In the industrial sector, labour shortages have increasingly been reported as a binding factor limiting business activity in the sector.

All of these issues undoubtedly pose challenges to the social policy of the country and its capacity to alleviate existing income disparities. In 2015, more than a third of the population was at risk of poverty or social exclusion (41.3%)⁴

Adverse investment, population, and productivity developments have weighed on Bulgaria's growth potential

Bulgaria's pre-global crisis boost in growth was driven by favourable capital, labour and productivity dynamics. Since the crisis in 2008 investment has slumped, labour contributions turned negative, and

National Social Security Institute data. Of these, 1,491,371 are with pensions below the poverty line – Bulgarian Lev to US\$: 317=184.57.

4 Eurostat, 17 October: International Day for the Eradication of Poverty: *The share of persons at risk of poverty or social exclusion in the EU back to its pre-crisis level, 2016*; available at: <http://skillspanorama.cedefop.europa.eu/en/news/eurostat-share-persons-risk-poverty-or-social-exclusion-eu-back-its-pre-crisis-level>

² "Systematic Country Diagnostic: Bulgaria's Potential for Sustainable Growth and Shared Prosperity"; World Bank, 2015.

³ The total number of pensioners in Bulgaria is 2,182,000, according to

productivity growth came to a virtual standstill. The fall in potential growth is in line with that of many other countries in the region although in Bulgaria's case the potential growth decline was driven by all three factors—labour, capital and total factor productivity—with labour accounting for the largest share.⁵

Private investment has been subdued for the last five years, notwithstanding a pick-up in public investment supported by EU funds

After the investment boom associated with EU accession in 2007 and supported by foreign capital inflows prior to the financial crisis, private investment contracted sharply on account of a slump in FDI. There remain important constraints to private investment, including excessive bureaucracy, inefficiency in the provision of public services, and a shortage of skilled labour. Public investment has been growing since 2012, supported by EU funds. The overall investment share has remained largely flat at around 21 percent of GDP since 2011, falling short of the level of around 25 percent typically considered necessary for a catching-up economy.⁶

Persistent concerns regarding the rule of law and corruption add to business environment challenges and undermine confidence in the macro-financial system

Corruption is an important business obstacle and is also associated with lower per-capita GDP. Corruption weakens the state's capacity to perform its core functions and affects growth via increased cost of investment, limited build-up of human capital, and productivity-hampering rent seeking. Although some steps in judicial reform and the fight against corruption had been taken, important challenges remain. The EC 2015 and 2016 Cooperation and Verification Mechanism (CVM) reports were able to acknowledge important steps taken by the Bulgarian authorities to put the reform process back on the agenda. During 2016 Bulgaria made additional

significant progress in the implementation of the judicial reform strategy, while implementation of the national anti-corruption strategy still remains in an early stage. More generally, over the past ten years, overall progress has not been as fast as hoped for and a number of significant challenges remain to be addressed. The new government will need to drive reform forward to secure irreversible results.

Emigration has led to a declining working age population and lower productivity

Bulgaria's population has declined significantly during recent decades, losing around 12 percent between 1990 and 2012, largely as a result of continued emigration and aging. Country-specific push factors coupled with overall pull factors have induced large migration waves from Bulgaria to Western EU countries.

Relatively low per-capita income and high unemployment, compared to most EU countries, coupled with high inequality, represent key push factors for emigration. Moreover, a high level of corruption in a poor institutional environment is perceived as limiting the career prospects by skilled young people, resulting in a brain drain for Bulgaria.

These push factors are magnified by cyclical conditions and country-specific shocks such as the mass lay-offs during the early transition period and the hyperinflation crisis during the late 1990s. EU accession in 2007 created a major pull factor, opening the opportunity for Bulgarian nationals to enjoy free movement within the EU's Single Market, even though certain limitations applied during a transition period. Besides better work prospects, Western EU countries also offer more generous social benefits which act as a pull factor particularly for unskilled migrants. And increasing Bulgarian expat communities in certain countries tend to make the destination more attractive for others to follow. As income and institutional convergence takes time, these factors can be expected to remain powerful drivers of migration between Bulgaria and other EU countries.

⁵ IMF Regional Economic Issues, CESEE, May 2016.

⁶ M. Spence, "The Growth Report Strategies for Sustained Growth and Inclusive Development", World Bank, 2008.

Emigration, notably of the skilled labour force, has weighed on labour productivity and GDP growth via lower investment and consumption as well as higher wages and taxes.

Decisive structural reform efforts are needed to support short-term growth and to boost Bulgaria's medium-term growth potential

Specifically,

- *Improving the conditions for investment would help both short-term growth and medium-term potential.*

The Bulgarian authorities have been working on an action plan to raise investment. Their plans include improving infrastructure, removing regulatory bottlenecks for investment, strengthening vocational educational quality and skill development to improve the employability of workers, and enhancing the consistency and efficiency of administrative procedures. Swift implementation will be key in order to achieve tangible effects on the investment climate in Bulgaria.

It will be important to ensure timely implementation of the laws on EU funds and on public procurement, including enhanced ex-ante control and e-procurement procedures. Training programmes to build capacity at the municipal level will help improve EU fund absorption.

- *Fighting corruption and adopting a comprehensive judiciary overhaul would provide better conditions for investment and productivity growth.*

The authorities should adopt a comprehensive anti-corruption law, free of amendments that compromise its effectiveness, and establish a single agency with adequate powers and independence, consolidating the anti-corruption work currently being performed in an uncoordinated manner. Stepped-up efforts are also needed to establish a track record of successful investigations and prosecutions of alleged high-level corruption. In this regard, the Bulgarian National Bank's efforts to ensure that banks apply specific due diligence measures on accounts related to politically exposed persons are welcome and should be strengthened.

Structural reforms can help achieve fiscal sustainability while enhancing long-term growth

Bulgaria's spending efficiency on education, health and public investment lags that of its peers, suggesting ample scope for efficiency gains. Improving public spending will be important for boosting Bulgaria's growth and improving social outcomes. In the context of an aging population, spending on pensions and health is critical to ensure more inclusive and sustainable growth. Pensions already provide incomes for a large share of the bottom 40 percent of the population and the number of pensioners is likely to increase rapidly in the coming years as Bulgaria's baby-boomers retire. The quality of and access to health and long-term care is critical to ensure broader participation of the bottom 40 percent in the labour market, either because health problems prevent them from working productively or they have to take care of family members. With current demographic projections, pension, health, and long-term care costs are expected to rise significantly in the absence of reforms. Structural reforms will be needed to ensure that costs are sustainable and access to services remain equitable.

Health. Measures to address Bulgaria's low use of preventive measures and outpatient services and overuse of inpatient care could improve overall health outcomes. In addition, recent measures to address the over-supply of hospitals treating a relatively small number of patients and to contain pharmaceutical pricing would help. Demand for long-term care (LTC) services is bound to increase strongly with aging. Providing high-quality long-term care services while ensuring financial sustainability requires a legislative amendment to enhance synergy between the social services system and health care system.

Education. Labour productivity could be enhanced by modernizing vocational education and encouraging adult participation in lifelong learning. Since Bulgaria has one of the most inequitable education systems in the EU, reforms are necessary to expand opportunities for the bottom 40 percent of the population. Boosting skills will entail policies to (1) expand early childhood

development programmes to improve schooling outcomes, which is especially critical for the poor; (2) improve quality of and access to primary and secondary education; (3) strengthen the governance of higher education to enhance quality and relevance; and (4) expand adult education and continuing training, particularly for groups with the greatest needs: the low-skilled, marginalized groups, and those with the least formal education and the greatest literacy and numeracy problems. In addition, education could be improved by integrating vulnerable groups as envisaged in the Strategy for Educational Integration of Children from Ethnic Minorities, 2015–2020.

Public investment. To enhance the productivity of public investment, the appraisal, selection, and approval of investment projects needs to be made more rigorous and transparent. In this regard, enhancing the capacity for assessing economic and social evaluation of project proposals beyond engineering analysis would help.

Strengthening procurement practices—such as greater transparency, faster procurement, and more competition—would also help improve public investment. The 2011 CVM report found a general rate of accounting irregularities of 60 percent among all verified tenders related to EU funds and a rate of almost 100 percent among large public infrastructure projects where the authorities had an obligation for ex-ante control. The 2016 CVM report also indicated that compared with other EU member states, the European Anti-Fraud Office has a relatively high number of ongoing investigations with Bulgaria related to EU funds. These cases are mainly related to possible corruption, irregularities, and fraud with public procurement carried out by municipal authorities. The recently-enacted Public Procurement Act is expected to help reduce public procurement.