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#### COVER NOTE

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From: Mr Valdis DOMBROVSKIS, Vice-President of the European Commission  
date of receipt: 22 October 2018  
To: Mr Hartwig LÖGER, Minister of Finance of Austria

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Subject: Structural Reform Support Programme - Work Programme for Bulgaria for 2018

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Delegations will find attached the Work Programme for Bulgaria for 2018 under the Structural Reform Support Programme.

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**EN**  
**ANNEX**

**Work Programme for Bulgaria for 2018 –**

**amounts transferred under Article 11 of Regulation (EU) No 2017/825**

**1. Introduction**

On the basis of the objectives given in the Regulation (EU) No 2017/825, this work programme contains the actions to be financed and the budget breakdown for year 2018 as follows:

for grants (implemented under direct management) (point 2),

for procurement (implemented under direct management) (point 3).

Legal basis

Regulation (EU) No 2017/825 of the European Parliament and of the Council of 17 May 2017, on the establishment of the Structural Reform Support Programme and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013.
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Budget line(s)

04.02 63 02: European Social Fund - Operational technical assistance managed by the Commission at the request of a Member State
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Objectives pursued

By the letter of 29 June 2018 to the President of the Eurogroup, the President of the European Central Bank, the Ministers of the Euro-Area Member States, the Minister of Finance and the Central Bank Governor of Denmark and Vice-President Dombrovskis of the European Commission, the Bulgarian authorities committed to implementing a number of prior commitments in policy areas, which are of high relevance for a smooth transition to the Exchange Rate Mechanism II, expressing an expectation to join Exchange Rate Mechanism II and the Banking Union by July 2019.

In the letter, the Bulgarian authorities committed to cooperating with the Structural Reform Support Service for the introduction of reforms in the area of insolvency, with accompanying measures to reinforce the judicial infrastructure and the corporate governance of State-Owned Enterprises.

In accordance with Article 5(2) of the Regulation (EU) No 2017/825, the technical support in relation to structural reforms may relate, *inter alia*, to the following broad public policy areas:

- (a) institutional reform and efficient and service-oriented functioning of public administration, at central and local levels including, in a non-exhaustive manner and where appropriate, through the simplification of rules, effective rule of law, reform of the justice system and reinforcement of the fight against fraud, corruption and money laundering;
- (b) business environment (including for small- and medium-sized enterprises), re-industrialisation, private sector development, investment, public participation in enterprises, privatisation processes, trade and foreign direct investment, competition and public procurement, sustainable sectoral development and support for innovation and digitalisation;

and

(c) financial sector policies, including the promotion of financial literacy, financial stability, access to finance and lending to the real economy; the production, provision and quality monitoring of data and statistics; and policies aimed at combating tax evasion.

In accordance with Article 11 of the Regulation (EU) No 2017/825, the Programme may be financed through additional voluntary contributions from Member States. The additional contributions may consist of contributions from resources provided for technical assistance at the initiative of the Member States under Article 59 of Regulation (EU) No 1303/2013<sup>1</sup> and transferred pursuant to Article 25 of that Regulation, which shall be used to support actions which contribute to delivering the Union strategy for smart, sustainable and inclusive growth in line with Article 11 of the Regulation (EU) No 2017/825.

By the letter of 31 January 2018, Bulgaria requested the transfer of EUR 1 500 000 from the Operational Programme Good Governance to the Commission. Pursuant to Article 25 of the Regulation (EU) No 1303/2013, the transfer was accompanied by a proposal to amend the Operational Programme Good Governance.

On 16 July 2018, in line with the letter of 29 June 2018 and the prior policy commitments of the Bulgarian authorities, Bulgaria requested three support measures for the introduction of reforms in the area of insolvency, with accompanying measures to reinforce the judicial infrastructure and the corporate governance of State-owned enterprises.

Against this background, the priorities for support measures under Article 11 of the Regulation (EU) No 2017/825 have been set on the basis of Bulgaria's requests for support, which were proposed for funding.

In accordance with Article 5(2) of the Regulation (EU) No 2017/825 and the requests of Bulgaria, the Work Programme will have the objective of supporting the Bulgarian authorities with the introduction of reforms that have been identified and committed to by Bulgaria, which are of high relevance for a smooth transition to Exchange Rate Mechanism II, in particular, those reforms identified by the Bulgarian authorities in the letter of 29 June 2018.

There will be three sub-objectives underlying this:

1. **Improving the Governance of State-owned enterprises:** In the context of the European Semester, the Commission carried out a comprehensive analysis of Bulgaria's economic policy and published it in the 2018 Country Report. It also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Bulgaria in previous years. According to that analysis, the economic performance of State-owned enterprises is weak compared to both other countries in the region and the private sector in Bulgaria. It is also a source of risk for public finances as the arrears of such companies represent contingent liabilities. Overall, the corporate governance of State-owned enterprises remains a challenge. In light of the Commission's in-depth review and this assessment, the Council examined the National Reform Programme and the Convergence Programme and, on 22 June 2018, it recommended that Bulgaria take action in 2018 and 2019 to "...upgrade the State-Owned Enterprise corporate governance framework

<sup>1</sup> Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1303>

in line with international good practices...".

Against that background, the Bulgarian authorities, in particular the Ministry of Finance, requested support to improve the governance of State-owned enterprises by revising and aligning legislation with the Organisation for Economic Cooperation and Development Guidelines on Corporate Governance of State-owned enterprises. The Work Programme will have an objective of supporting the Bulgarian authorities on improving the governance of State-owned enterprises.

- 2. Improving the functioning of the insolvency system:** Over recent years and in particular since 2013, the Bulgarian authorities have introduced amendments to the functioning of their insolvency system in order to improve recovery times and the recovery rates of creditors. Nonetheless, reform of the insolvency framework is incomplete with a remaining challenge of conducting an insolvency procedure in a reasonable timeframe. The lack of analysis of the effectiveness of the underlying framework and the lack of implementation of reforms undermine continued efforts to improve the functioning of the insolvency framework, which is in particular hindered by a lack of collection of data on insolvency cases.

Against that background, the Bulgarian authorities, in particular the Ministry of Justice, have requested support to review and provide recommendations on improving the current insolvency and stabilisation framework, developing a data collection and publication system and increasing the capacity of insolvency practitioners through training. The Work Programme will have an objective of supporting the Bulgarian authorities to improve the functioning of the insolvency system.

- 3. Improving the functioning of the judiciary:** Bulgarian courts have a serious backlog of payment order procedure cases. Approximately, 50-70% of civil procedure cases are for payment order procedures, which has significantly hampered the functioning of first instance courts (especially in the Sofia district court and in other courts in large cities). This inefficiency prevents judges from being able to allocate more of their time to work on more complex cases, in particular, insolvency proceedings.

Against that background, the Bulgarian authorities, in particular the Supreme Judicial Council, have requested support for the reform of payment order procedures under the Civil Procedure Code. The Work Programme will have an objective of supporting the Bulgarian authorities on improving the functioning of the judiciary.

#### Expected results

In the area of improving the governance of State-owned enterprises, the support measures are expected to contribute to:

- Modernising and unifying the legal framework;
- Improving the management of State-owned enterprises;
- Improving the profitability and preventing loss-generation and the accumulation of liabilities (reducing the fiscal risk for the State);
- Increasing transparency in the election and appointment of management and supervisory bodies; and
- The application of unified corporate rules.

In the area of improving the functioning of the insolvency system, the support measures are expected to contribute to:

- The introduction of improvements in the insolvency framework;
- Increasing transparency of the functioning of the insolvency framework;
- Reducing the duration of insolvency procedures; and
- Increasing the recovery rate in insolvency procedures.

In the area of improving the functioning of the judiciary, the support measures are expected to contribute to:

- Reducing the backlog of civil cases;
- Freeing up judicial capacity;
- Shortening the duration of the payment order procedure; and
- Increasing the enforcement of payment order case decisions.

## 2. Grants

The global budgetary envelope reserved for grants under this work programme amounts to EUR 400 000.

### 2.1. Grant without a call for proposals for Technical Support on Improving the Governance of State-owned enterprises in Bulgaria

Direct grants may be awarded to international organisations, which, in view of the nature of the action, have recognised and relevant technical competence, and high degrees of specialisation or administrative power in the field of corporate governance of State-owned enterprises. Such entities will be identified on the basis of their specific experience in providing support in standards for corporate governance of State-owned enterprises in recent years in European and neighbouring countries and proven knowledge of the local context.

Beneficiaries will demonstrate their financial capacity by proving that they have stable and sufficient sources of funding to maintain their activity during the period of the grant. Operational capacity will be assessed based on thematic experience in the policy field linked to the action.

In accordance with Article 198(5) of the Financial Regulation, the financial capacity of those beneficiaries that are public bodies or international organisations will not be verified.

The award of grants without a call for proposals in accordance with Article 195(f) of the Financial Regulation will be justified in the award decision. The potential beneficiary will be invited to submit an application, which will be evaluated according the following main award criteria:

- The extent to which the proposed action is in line with the objectives pursued and the extent to which the proposed outputs present added value in this context; and
- The financial quality of the proposal including a reasonable and realistic budget as well as a sound cost-efficiency ratio.

Description of the activities to be funded by the grant(s) awarded without a call for proposals on the basis of Article 195 of the Financial Regulation

Support will be provided to carry out, *inter alia*, the following activities in the area of

improving the governance of State-owned enterprises:

- (a) expertise related to policy advice, formulation of recommendations, reform roadmaps, including legislative, institutional, and administrative reforms; for example, reviewing and assessing the legal, regulatory and operational framework that refers to State-owned enterprises in Bulgaria as well as assisting on drafting legislation.
- (b) collection of data and compilation of statistics, development of common methodologies and indicators or benchmarks;
- (c) studies, research, analyses and surveys, evaluations and impact assessments, and the development of reports; and
- (d) communication activities for awareness raising, cooperation, dissemination activities and exchange of good practices; for example communicating and facilitating legislative changes to main stakeholders.

#### Implementation

The action will be implemented directly by the Structural Reform Support Service.

### **3. Procurement**

The overall budgetary allocation reserved for procurement contracts in 2018 amounts to EUR 1 100 000.

#### **3.1. Procurement activities for the implementation of the Structural Reform Support Programme in Bulgaria further to Article 11 of Regulation (EU) No 2017/825**

Based on the requests from the Bulgarian authorities, specific technical support projects will be undertaken in the policy areas referred to in Article 5(2) of the Regulation (EU) No 2017/825. The contracts may, *inter alia*, be used for studies, provision of technical assistance, carrying out surveys, etc.

Those projects will assist the Bulgarian authorities in preparing and implementing growth-enhancing administrative and structural reforms. The contracts will serve the objectives pursued referred to in Part 1.

### Implementation

The action will be implemented directly by the Structural Reform Support Service.