
Challenges Faced by Social Assistance in Bulgaria

The Active Citizenship and Good Governance in Fighting Poverty Project is being financed within the NGOs in Bulgaria Support Programme under the 2009–2014 Financial Mechanism of the European Economic Area.

This document has been drafted with the financial support of the Non-governmental Organisations in Bulgaria Support Programme under the Financial Mechanism of the European Economic Area. The Institute for Market Economics is entirely liable for the contents of this document, and it shall be acknowledged under no circumstances that this document relays the official opinion of the Financial Mechanism of the European Economic Area and the Non-governmental Organisations in Bulgaria Support Programme Operator.

<http://www.nqogrants.bg/>

Table of Contents

Preface.....	4
1. Structure and Features of the Social Assistance System in Bulgaria.....	5
1.1. Types of Allowances	6
1.2. Social Assistance Systems in Bulgaria and in the World	7
2. Social Assistance Programmes: Problems and Challenges.....	9
2.1. The Good Examples: Public Assistance and Allowances for Heating	9
2.2. Need for Reforms: Supporting Families with Children.....	14
2.3. Need for Reforms: Integration of the Disabled.....	18
3. Expected Effects from the Increase of the Guaranteed Minimum Income	22
3.1. Increase of Expenses and the Number of Beneficiaries under Social Programmes.....	23
3.2. The Unemployment Trap	26
4. Leading Principles and Guidelines for Future Reforms	30
Conclusion	32
Addendum: Key Social Programmes (2009–2013).....	34
References.....	36

Acronyms Used

ASA	The Agency for Social Assistance
APD	The Agency for People with Disabilities
GDP	Gross domestic product
GMI	Guaranteed minimum income
DMI	Differentiated minimum income
PPS	Public pension scheme
EU	The European Union
TNPIA	The Taxes on Natural Persons' Incomes Act
SIDA	The Social Integration of the Disabled Act
MPA	The Municipal Property Act
SAA	The Social Assistance Act
FAA	The Family Allowances Act
CSS	The Code of Social Security
ME	The Ministry of Education
CM	The Council of Ministers
MLSP	The Ministry of Labour and Social Policy
MF	The Ministry of Finance
NSI	The National Statistical Institute
NSSI	The National Social Security Institute
NGOs	Non-governmental organisations
NCSID	The National Council for Social Integration of the Disabled
RISIDA	Rules on Implementation of the <i>Social Integration of the Disabled Act</i>
RISAA	Rules on Implementation of the Social Assistance Act
LMOB	The Local Medical and Occupational Board

Preface

The *Challenges before Social Assistance in Bulgaria* Study was conducted under the *Active Citizenship and Good Governance in Fighting Poverty* Project. In line with the project's purpose, the analysis tries to pay attention to some shortcomings of leading programmes in the field of social assistance. The main goal of the study is to distinguish the sources of inefficient allocation of public assistance under some programmes and to propose possible solutions that could cause more efficient and purposeful assistance for people who need it the most.

Some structural defects of the Bulgarian social support system are outlined in the first part of the analysis, and four basic programmes, which are a subject matter hereof, have been represented.

The second part analyses the four programmes in terms of the main indicators, used by the World Bank, regarding effectiveness. Based on this approach, two of the social assistance programmes – *Provision of Public Assistance by Applying a Differentiated Approach* and *Funding Assistance for Heating* – demonstrate good results, i.e. they are currently relatively effective regarding the allocation of funds and spending these funds for the poorest people. The other two main programmes, however – *Supporting Families with Children* and *Social Integration of the Disabled* – have been considered as poorly performing, i.e. they waste considerable public resources. The analysis contains specific recommendations for increasing the effectiveness of both programmes, and some of these are the enhancement of the role and the scope of the social assessment in respect of the disabled and implementation of a differentiated approach when estimating the rate of the child benefit.

The third part of the analysis attempts to assess the expected increase of the guaranteed minimum income concerning the rate of the granted support, the cost thereof and the number of beneficiaries. The analysis also regards the expected effect of the public assistance increase on the financial stimuli for the employed, the people working for low salaries and the economically inactive people to actively seek jobs or higher compensation for their labour. The conclusion is that the increase of social transfers should be differentiated and it should regard the country's labour market reality. It is therefore necessary that the planned increases should be gradually implemented, and the people who need them more should get higher allowances respectively.

The fourth part of the study reasons the main principles that a future reform in the field of social assistance should be based on. These principles are the following:

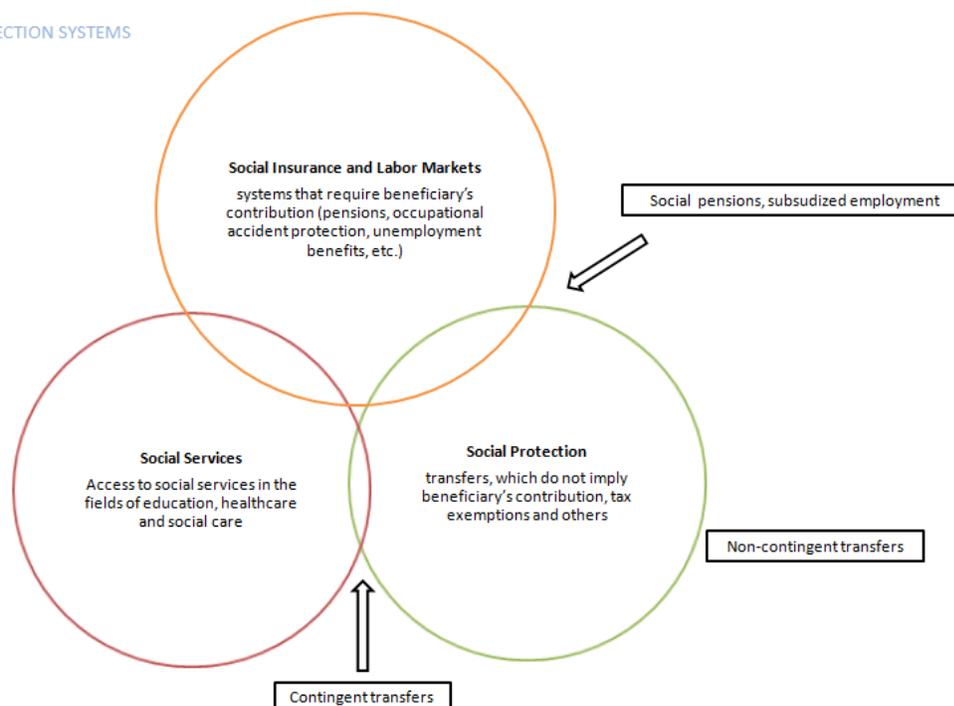
- Transparency pertaining to administrative bodies' decisions and analysis of the effect of the implemented changes and the suggested ones,
- A differentiated approach in terms of granting allowances,
- The increase of public assistance should follow the rate of increase of the public well-being.

1. Structure and Features of the Social Assistance System in Bulgaria

Social assistance systems constitute part of the social protection system. An adapted version of the basic model¹ of the World Bank, which demonstrates the scope of the social protection systems and the relation thereof with other parts of the social system, has been used in this study.

Figure 1: Scope of Social Protection Systems

SCOPE OF SOCIAL PROTECTION SYSTEMS



Source: *The World Bank*

The social assistance system² could be defined as a set of programmes, policies and instruments, which purpose is to support the most vulnerable strata of the society. This is implemented via monetary and non-monetary transfers from the state³ towards households based on a set of criteria.

The main feature that distinguishes the programmes in the field of social assistance from the rest of the social protection system is the lack of any requirement concerning beneficiary's contribution to the system. This means that any person or household is entitled to be included in a programme provided that such a person or household fulfils certain criteria without having necessarily contributed howsoever to funding the system. Some of the basic indicators, which are being considered for this purpose, are incomes, property, marital and health status, employment, age, etc. This approach allows us to make an

¹*The State of Social Safety Nets*. The World Bank, 2014.

² A list of programmes, implemented by the Agency for Social Assistance (ASA), in the field of social assistance in Bulgaria is available in the Addendum. The main programmes are explicitly analysed in the second part of this analysis.

³ An object of this analysis is solely state policies in the field of social assistance, i.e. these measures and programmes that are implemented via funds of the government budget. Private initiatives and NGOs' activities in the field of social assistance and social activities represent no part of this analysis.

important distinction between the social support system and the other elements of the social protection system. This dividing line could be illustrated by means of the example below:

The monthly social integration allowances that the Agency for Social Assistance (ASA) grants under the Integration of the Disabled Programme are encompassed by the social assistance system. Simultaneously, the disability pensions granted by the National Social Security Institute (NSSI) expressly require a minimum period of work experience, i.e. these types of pension presuppose the beneficiaries' participation in the social security system.

Maternity benefits are granted by the NSSI provided that the mother has the necessary work experience. In case such work experience cannot be evidenced, the mother is entitled to monthly public assistance, granted by the ASA, for raising a child aged up to one year; the rate thereof amounts to 100 BGN per month.

Similarly, unemployment benefits are paid at a rate estimated on the basis of the beneficiary's participation in the social security system for an estimated period of time. In case the person does not comply with any of these prerequisites, she/he could refer to the ASA in order to be granted sums under any programme, for instance under the Provision of Public Assistance by Applying a Differentiated Approach Programme.

1.1. Types of Allowances

Depending on the nature⁴ of the funds, granted under the programmes that pertain to the social assistance system, the funds could be monthly (for instance, the benefits for social integration of the disabled), assigned (for instance, funds assigned for diagnosis and treatment) or single (for instance, single assigned benefit for first graders).

Depending on their features, the social assistance programmes and the funds granted thereunder could also be classified as contingent transfers, non-contingent transfers or subsidised employment programmes.

- **Contingent transfers** are related not only to the formal fulfilment of certain criteria but they also to require a certain type of behaviour on behalf of beneficiaries. The so-called *Child Benefit*, granted under the ASA's *Supporting Families with Children* Programme, which households receive in case the children thereof have attended schools regularly, represent a good example in this case. As it is visible from the World Bank's model (Figure 1), this type of transfers is most frequently being on the verge of the scope of social services and the social assistance system.
- **Non-contingent transfers** are granted in case the beneficiary fulfils a number of requirements; these requirements are not bound by any expectations for specific behaviour. Public assistance, granted under the *Provision of Public Assistance by Applying a Differentiated Approach* Programme, constitute such a type of transfer.
- **Subsidised employment programmes** usually include beneficiaries throughout the labour process providing them a minimal remuneration. The subsidised employment intertwines the

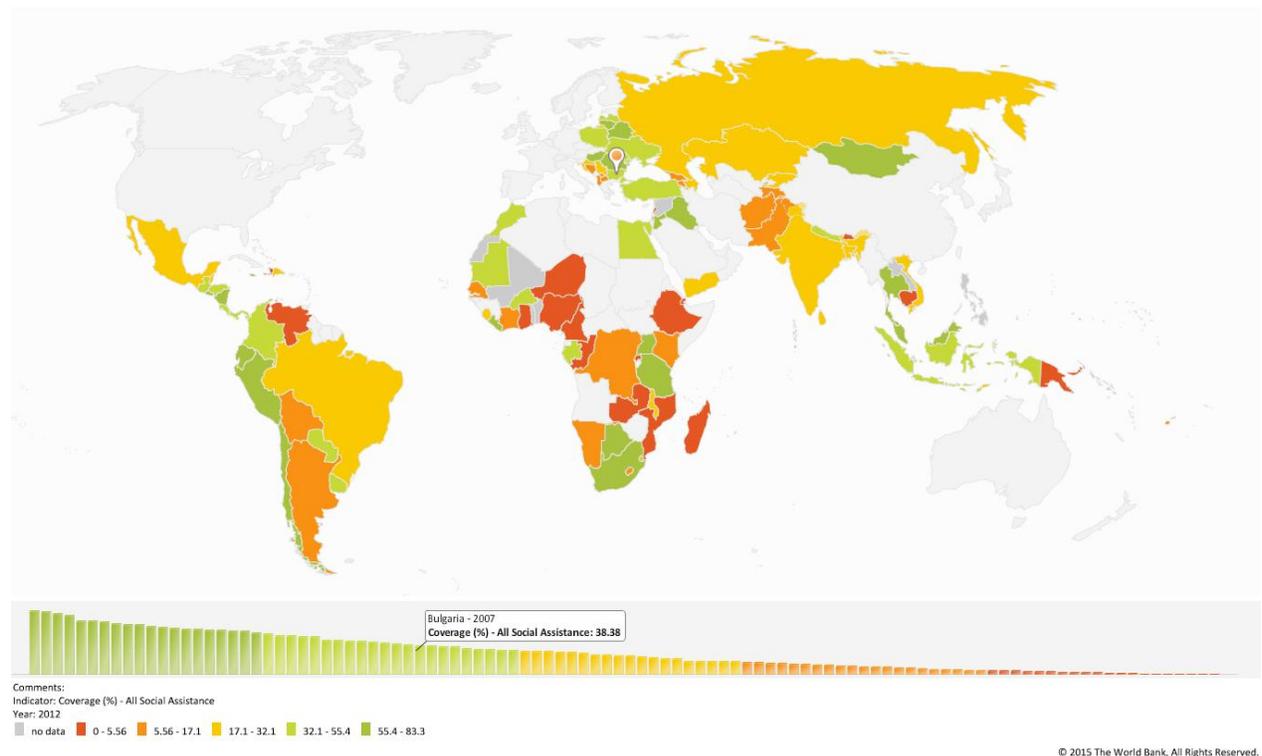
⁴ Some classifications regard transfers in kind as a separate category, but the evaluation of the monetary value of allowances, where necessary, has been used as an approach for the purposes hereof.

elements of two fields of the social system – the social security and the labour market and the social assistance system. The main purpose of this type of programmes is to act like a bridge assisting the beneficiaries' integration into the labour market.

1.2. Social Assistance Systems in Bulgaria and in the World

Comparative analyses of the social systems in various countries have been obstructed by a number of factors, among which are the diverse scope of the programmes and the criteria applied thereunder, and also the different socioeconomic environment and the demographic state of individual countries.

Figure 2: Scope of Social Assistance Systems (% of the population)



Source: ASPIRE

According to comparative studies⁵ of expenses pertaining to social assistance, richer countries allocate 1.9% of their gross domestic product (GDP) on average for programmes involving the scope of the social assistance, while this share amounts to 1.1% in respect of poorer countries. The global average rate is about 1.6% of the GDP. This share is about 1.3% in Bulgaria, which is slightly lower than most countries in Central and Eastern Europe.

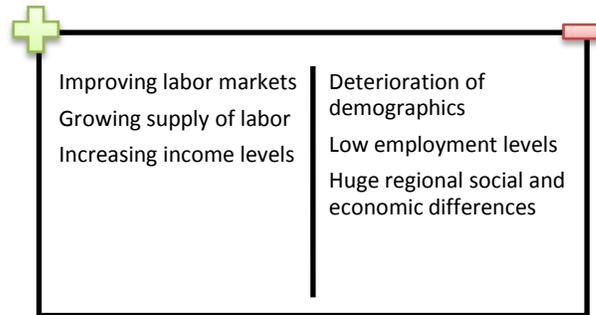
According to the latest data of ASPIRE⁶, social assistance systems in Bulgaria encompass 38.4% of the entire population (Figure 3). Simultaneously, the rate of public assistance remains relatively low, which could be due to both the lower level of socioeconomic development relative to other countries from Central and Eastern Europe and some structural defects of the social support system.

⁵The State of Social Safety Nets. The World Bank, 2014.

⁶ASPIRE: The Atlas of Social Protection – Indicators of Resilience and Equity, The World Bank, 2012.

It is clear from the review of the Strategic Plan of the Ministry of Labour and Social Policy (MLSP) regarding the period 2013–2017 that the main part of identified weaknesses of the Bulgarian social support system are structural and long-term. At the same time, strengths are rather inherently cyclical (Figure 3).

Figure 3: Core Strengths and Weaknesses Faced by Social Assistance in Bulgaria



Source: The IME on the basis of a SWOT analysis⁷ of the MLSP

Addressing these challenges and offering possible solutions require firstly to review and analyse the main programmes in this field. After that, it is necessary to adopt common goals and principles, on the basis of which proposals for changes in implemented policies are to be drafted.

We are going to review the structure and the dynamics of the main social assistance programmes in the second part of the study, namely the following ASA's programmes:

- *Provision of Public Assistance by Applying a Differentiated Approach,*
- *Monthly Social Integration Allowances,*
- *Assigned Allowance for Heating,*
- *Supporting Families with Children.*

As per our calculations, expenses under these programmes amount to 80% to 90% of total expenses that have been administered by the Agency for the past several years, for which data are available. That is why the current state and efficiency thereof are extremely significant for the most vulnerable groups of the Bulgarian society. None of the mentioned programmes requires preliminary contribution on behalf of beneficiaries as a prerequisite for admission.

⁷A Strategic Plan 2013–2017. The Ministry of Labour and Social Policy, p. 16.

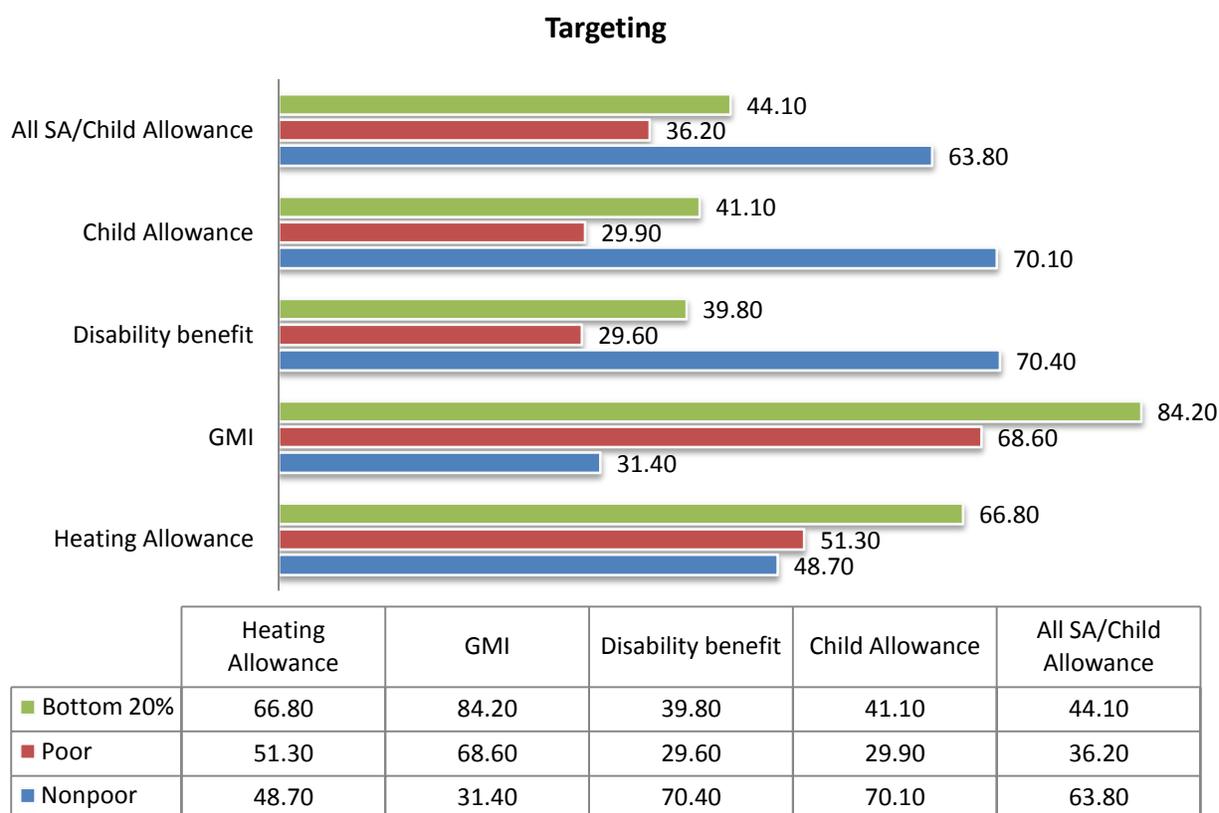
2. Social Assistance Programmes: Problems and Challenges

2.1. The Good Examples: Public Assistance and Allowances for Heating

The World Bank (WB) assesses the efficiency of the social assistance programmes on the basis of:

- Scope – what is the share of poor households that receive allowances (%),
- Purposefulness – what part of the total allowances are the poor paid (%),
- Adequacy – what part of the poor households' consumption allowances account for (%),

Figure 4: Share of the Total that the Poor Are Paid (%)



Source: The WB⁸

Note: 'The Poor' + 'People That Are Not Poor' equal 100%, 'The Poorest 20%' constitute part of 'The Poor'.

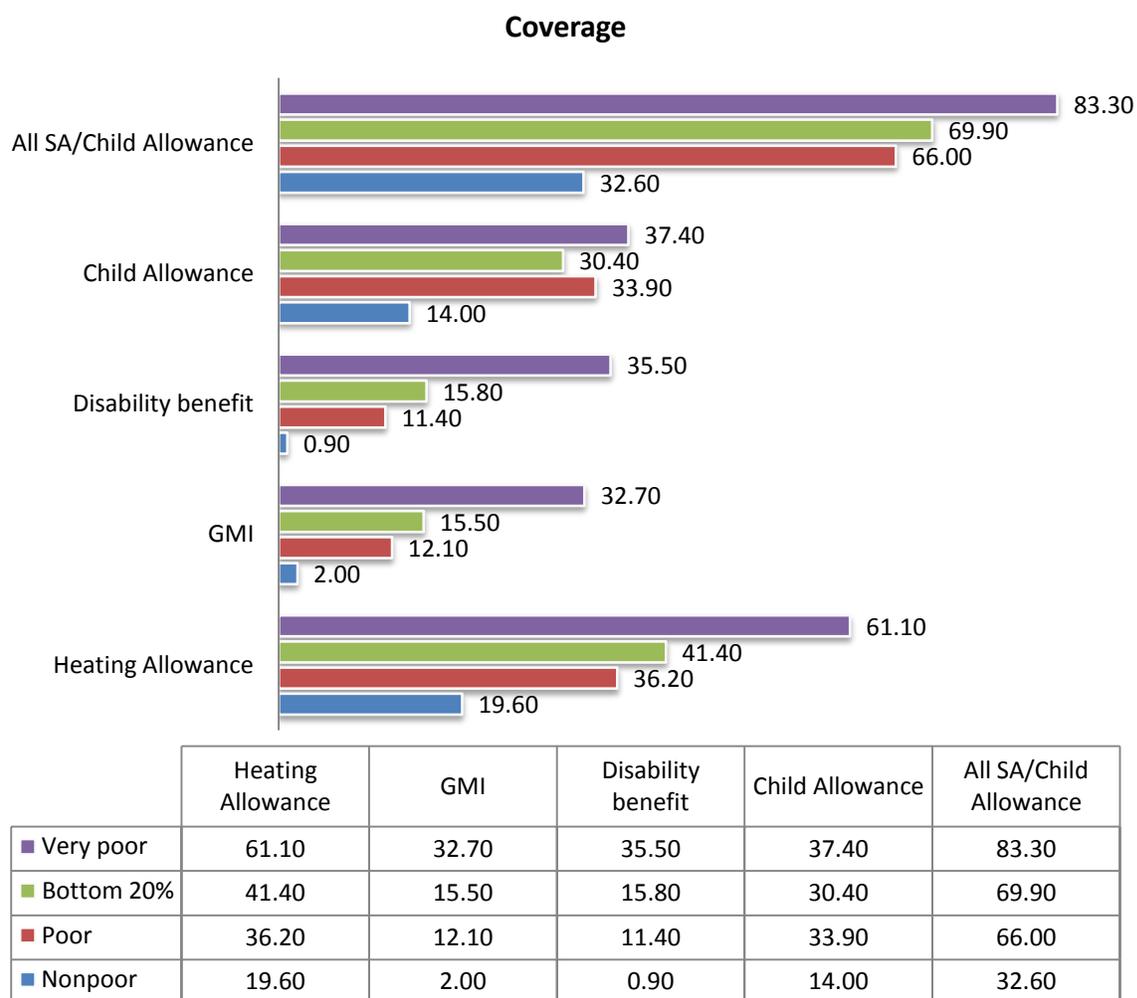
The WB's assessment regarding Bulgaria shows that:

- the *Provision of Public Assistance by Applying a Differentiated Approach and Assigned Assistance for Heating Programmes* managed to reach 84.2% of the poorest 20% of households, and 66.8% respectively.

⁸Social Assistance Programs: Cost, Coverage, Targeting and Poverty Impact (Bulgaria), 2009 / The World Bank

- by comparison, the *Monthly Social Integration Allowances* and *Supporting Families with Children* Programmes managed to barely allocate 39.8% and 41.1% to the poorest 20% of households.

Figure 5: Share of Various Types of Households That Receive Allowances (%)



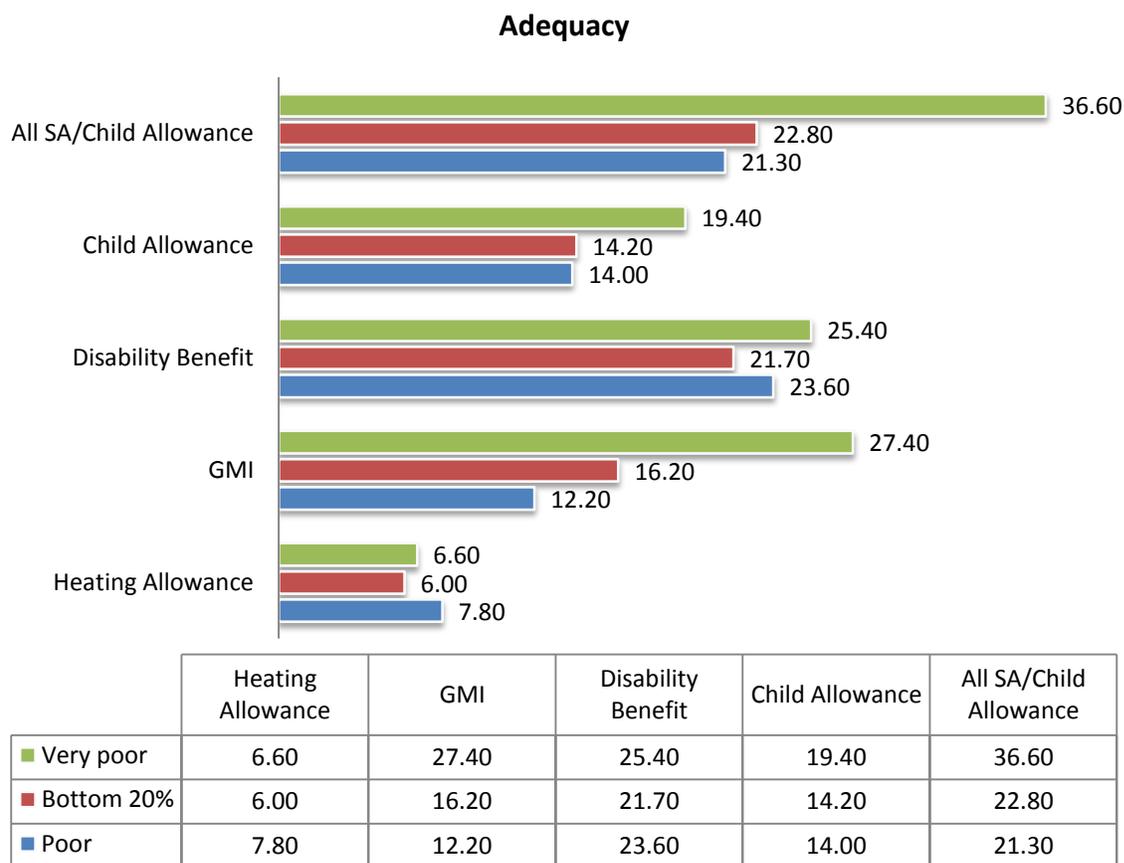
Source: *The WB*

According to the 2007 comparative analysis of the WB⁹, the allowances for heating and public assistance in Bulgaria have been **among the most effective in the world**. This is due to the underlying differentiated approach regarding the access to the programmes granted to the beneficiaries.

At the same time, despite the high effectiveness of granting funds under these programmes, the effect thereof on the material situation of households is little (Figure 6) because of the relatively low rate of granted allowances regarded as a share of the consumption of these beneficiaries. As a result of that, the good scope and purposefulness of the programmes cannot cause real reduction of poverty effects.

⁹ As the scope of the programmes and the characteristics thereof have practically remained unchanged in recent years, the conclusions of the WB's report are also fully valid today.

Figure 6: Share of Allowances in the Consumption on Behalf of Households (%)



Source: The WB

Granting funds under both programmes is effected on the basis of the guaranteed minimum income (GMI), which rate has been fixed at 65 BGN since 2009.

Funds granted under the *Provision of Public Assistance by Applying a Differentiated Approach* Programme are calculated per individual, on the basis of a personal coefficient (K1). The latter is used for calculating the differentiated minimum income for receiving public assistance (DMI1), which varies among individual groups of citizens, and it is estimated depending on their social status and age as it is demonstrated in Figure 7. The difference between the rate of DMI1 and the income¹⁰ regarding the previous month represent the allowance.

¹⁰Incomes involve all funds from pensions, salaries, rents, child benefit, support money, etc. *Family* involves spouses and all children aged up to 18, and *cohabiting persons* are individuals living together in one abode. If there are more than one reason for estimating a coefficient, the higher rated one shall be applied.

Figure 7: Granting Public Assistance

Household type

GMI = 65BGN

	Social payment coefficient (K1)	DMI (1)	Heating allowance coefficient (K2)	DMI (2)
		= (K1) x (GMI)		= (K2) x (GMI)
People over 75 years, that live alone	165	107.25 BGN	311	202.20 BGN
People over 65 years, that live alone	140	91.00 BGN	297	193.62 BGN
People over 70 years	100	65.00 BGN	206	134.34 BGN
For each of the spouses that live together	66	42.90 BGN	167	108.60 BGN
For a person that lives with another person, or a family	66	42.90 BGN	224	146.04 BGN
For a person that lives alone	73	47.45 BGN	233	151.50 BGN
For a disabled person, that lives alone	100	65.00 BGN	272	177.24 BGN
Disabled person (over 50% disability)	100	65.00 BGN	206	134.34 BGN
Disabled person (over 70% disability)	125	81.25 BGN	246	160.08 BGN
Disabled person (over 90% disability)	125	81.25 BGN	297	193.62 BGN
For children aged 0-18, or until the end of secondary education, but not above 20 years	91	59.15 BGN	180	117.18 BGN
For a single parent, that takes care of a child/children before they are 3 years old	120	78.00 BGN	206	134.24 BGN
For a single parent with a child aged 0-18, or until the end of secondary education, but not above 20 years	100	65.00 BGN	272	177.24 BGN
For pregnant women, 45 days before the expected birth of the child	100	65.00 BGN	206	134.34 BGN
For a parent, that takes care of children younger than 3 years			206	134.34 BGN
For orphans			220	142.92 BGN
For children with disabilities			220	142.92 BGN

Source: The ASA

An individual differentiated minimum income (DMI2), based on a higher coefficient (K2), is calculated under the *Assigned Benefit for Heating Programme*. The allowance thereunder is fixed and it is only to be received throughout the so-called 'heating season' – from November to March. The monthly rate of this allowance for 2014/2015 is 65.72 BGN or 328.60 BGN for the entire season.

The differentiating criteria that underlie the *Assigned Allowance for Heating Programme* help allocate budget funds more effectively, which is demonstrated by the high share of revoked applications. This share normally fluctuates between 16 and 18 per cent but it has reached 26% in certain cases (like 2010/2011 heating season).

Figure 8: Number of Granted and Revoked Allowances for Heating

HEATING ALLOWANCE				
Heating Season	Total applications	Granted Applications	Revoked Applications	Share of RA
2007/2008	358 042	300 340	57 702	16%
2008/2009	311 717	256 763	54 954	18%
2000/2010	310 953	259 395	51 558	17%
2010/2011	279 198	206 452	72 746	26%
2011/2012	268 548	219 760	48 788	18%
2012/2013	266 454	210 711	55 743	21%
2013/2014	303 878	251876	52 002	17%
2014/2015	299 967	254998	44 969	15%

Source: The ASA

It is obvious from the data regarding the adequacy of granted allowances that the two most effective programmes in terms of their scope and purposefulness suffer low funding on account of the other two main programmes – *Monthly Social Integration Allowances* and mostly *Supporting Families with Children*.

According to the World Bank, about 40% of allowances granted under the *Supporting Families with Children* Programme (which is a social assistance programme administered by the ASA that features the greatest scope and sum of granted funds) are paid to households which are not poor. In view of the increase of the maximum allowable income for the period 2007–2009 and the doubling of the supplementary allowance, it could reasonably be presupposed that a subsequent study would unveil rapidly intensifying programme ineffectiveness regarding the period 2008–2012.

These deductions underline the significance of resolute reforms that pertain to the programmes, which are directed at assisting families with children, and to programmes directed at the disabled.

2.2. Need for Reforms: Supporting Families with Children

PROGRAMME „SUPPORT FOR FAMILIES WITH CHILDREN“: Monthly allowance for children until the completion of secondary education, but not after 20 years of age

Target group	Families, whose children attend school regularly and whose average monthly income per household member does not exceed 350 BGN
Number of beneficiaries (2013)	797 903 children; 537 325 households
Total expenditure (2013)	352 416 070 BGN

The biggest social assistance programme in terms of both rate and number of beneficiaries is the monthly allowances for children granted till completion of the secondary education, but not later than twenty years of age. These allowances are often called *child benefit*. They constitute part of the broader programme called *Supporting Families with Children* of the ASA, which involves also:

- One-off benefit upon childbirth – 25,620,985 BGN (2013),
- One-off monetary benefit for raising twins till completion of their first year – 2,366,905 BGN (2013),
- One-off monetary assistance for raising a child till completion of its first year, provided to student mothers attending full-time courses – 12,990,474 BGN (2013),
- Monthly allowances for raising a child till the end of its first year – 26,111,263 BGN (2013),
- One-off benefit during pregnancy – 2,716,445 BGN (2013),
- One-off assigned benefit for first graders – 12,191,162 BGN (2013),
- Monthly allowances for permanently disabled children – 68,619,001 BGN (2013),
- Assigned benefit for travelling of mothers with many children by bus – 768,410 BGN (2013).

Despite being only one of the nine measures that are implemented under the *Supporting Families with Children* Programme, almost 70% of the programme's budget and more than 40% of the total budget of the ASA was allocated exactly for paying child benefit in 2013.

The main reason for the big scope of the programme is the structural changes in the programme that have been undertaken for the period 2007–2009, which have doubled the rate of monthly allowances (from 18 BGN in 2007 to 35 BGN per child in 2009) and which have increased the allowable maximum income to 350 BGN per household member. The programme's expenditure amounted to 192.6 m BGN in 2007, before the implementation of these changes, which equals to 29.5% of the ASA's total budget, compared to 352.4 mln BGN and 42.0% in 2013 following a drop in the number of beneficiaries approximately by 37,000 people (or 4%).

Although the programme encompasses considerable part of the poor population in Bulgaria, the structure thereof renders it initially ineffective. The main problems regarding the programme are the following:

The maximum allowable income is too high

The fact that six years have passed since the increase of the maximum allowable income under the programme is sufficiently indicative; it has remained exorbitant – 350 BGN per household member. The average monthly income per household member in 2009 – when the maximum income was set – amounted to 307.8 BGN or 87.9% of the maximum allowable income of 350 BGN. Analysis per district demonstrates that this figure is higher than 350 BGN in 2 of the 28 provinces in Bulgaria – Sofia (the capital city) and Pleven.

Figure 9: Average Monthly Income per Household Member, BGN

	2009	2010	2011	2012	2013
Blagoevgrad	258.92	256.42	268.75	318.58	344.33
Burgas	310.17	273.25	281.17	308.50	352.83
Varna	335.00	311.25	311.58	358.83	409.33
Veliko Tarnovo	284.08	291.83	304.00	336.92	365.42
Vidin	282.08	232.83	254.33	301.25	301.17
Vratsa	287.25	316.50	282.92	310.25	342.33
Gabrovo	298.92	259.42	279.25	367.33	404.83
Dobrich	247.83	251.08	249.50	321.33	347.17
Kurdzhali	249.00	227.83	250.17	290.25	277.75
Kyustendil	294.75	279.58	294.50	292.33	299.42
Lovech	260.33	253.08	235.42	246.92	261.17
Montana	236.50	253.08	246.75	249.50	273.00
Pazardzhik	307.50	249.08	247.67	288.33	312.92
Pernik	343.25	349.50	372.75	418.42	480.33
Pleven	356.25	350.50	325.17	424.25	452.58
Plovdiv	296.75	312.08	304.75	332.33	376.17
Razgrad	248.75	218.42	229.42	260.92	272.00
Ruse	284.83	304.58	339.25	368.00	375.33
Silistra	207.83	219.08	215.75	278.08	270.75
Sliven	286.00	325.58	300.42	268.83	251.17
Smolyan	314.67	324.17	348.33	353.50	382.50
Sofia (cap.)	412.58	399.58	453.17	533.58	620.08
Sofia	270.92	266.75	263.00	293.58	296.92
Stara Zagora	309.42	323.83	348.67	365.17	419.75
Targovishte	197.75	196.17	224.58	243.67	252.08
Haskovo	283.33	302.83	309.00	321.25	344.17
Shumen	244.33	267.33	285.58	328.67	361.08
Yambol	336.33	310.17	300.17	317.83	381.00
Bulgaria	307.75	304.00	315.17	360.58	401.17

Source: The NSI, calculations by the IME

The provinces of Burgas, Varna, Veliko Tarnovo, Gabrovo, Pernik, Plovdiv, Ruse, Smolyan, Stara Zagora, Shumen and Yambol, or a total of 13 provinces out of 28 in Bulgaria, were also listed in this category in 2013. The number of provinces started to barely increase in 2012, since incomes in Bulgaria have stagnated due to the effects of the crisis.

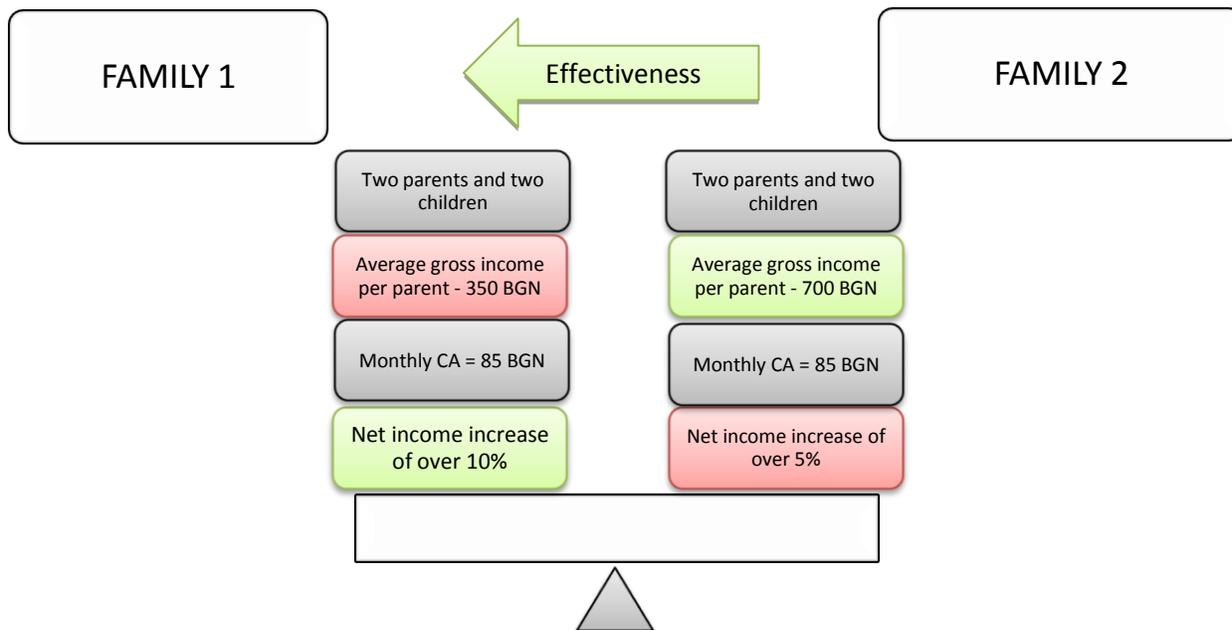
Considering the high share of the black economy¹¹ in Bulgaria, it could be assumed that real incomes of bigger part of beneficiaries have been higher than the officially stated ones. In addition, the effects of the global financial and economic crisis on the Bulgarian economy, and the labour market in particular, delayed the income increase and retrospectively demonstrated that the increase of the maximum allowable income had been excessive and rash.

¹¹ According to Schneider (2014), the share of the black economy in Bulgaria was 31,2% in 2013, being 35,9% in 2003. (Schneider, F., *Size and Development of the Shadow Economy of 31 European and 5 Other OECD Countries from 2003 to 2013: A Further Decline*, 2014)

Lack of payment differentiation

Excluding the supplementary assisting of disadvantaged children¹², there is no payment differentiation whatsoever under the programme. That means the rate of the allowance is equal for all beneficiaries regardless of their social status and financial situation.

Figure 10. Effect of Granted Allowances on Households Budgets



Source: The IME

In the example shown on Figure 10, Family 1 features half of the gross monthly budget of Family 2. Nevertheless, since both families have two children each, and meet the criteria for getting child benefit, each of the families is entitled to child benefit of 35 BGN for the first child and 50 BGN for the second, or a total of 85 BGN.

- Regarding Family 1, the increase of the net income due to the child benefit exceeds 10%, since its net income prior to receiving the child benefit will surely be less than 700 BGN following taxation and payment of social insurance.
- Regarding Family 2, the increase of the net income due to the child benefit will be more than 5% but less than 10%, since its net income prior to receiving the child benefit will surely be higher than 700 BGN even following taxation and payment of social insurance.

The exact rate, with which the child benefit increases the net income of Family 1 and Family 2, depends on the number of working parents. If we assume that only one of the parents works in both families, earning gross salary of 700 BGN (Family 1), and 1,400 BGN respectively (Family 2), then the increase of the net income following the granting of the child benefit will be 15.49% regarding Family 1 and 7.75% regarding Family 2.

¹²Although it has been implemented under an individual measure within the *Supporting Families with Children* Programme.

Figure 11: Increase of the Net Income following the Receipt of Child Benefit

	Gross Income (BGN)	Net Income (BGN)	Child Allowance (BGN)	Net Income Increase (%)
FAMILY 1	700	548,73	85	15,49
FAMILY 2	1400	1097,46	85	7,75

Source: The IME

Considering the fact that both families generally pay similar prices for goods and services, the marginal utility of these 85 BGN will be much higher for Family 1 than Family 2.

Implementing a differentiating mechanism like the one that exists concerning the granting of part of public assistance, for instance like the allowances under the *Provision of Public Assistance by Applying a Differentiated Approach* Programme, would help increase the efficiency of granted monthly allowances via allocating bigger part thereof to more needy families. Differentiating the rate of child benefit is not uncommon practice in EU countries. For instance, there is a similar programme in Croatia where the rate of granted allowances is set forth depending of the family income, and it varies from 26 to 109 euro following preliminary applying of a number of input criteria.

Formal assigned nature

The provisioning of the child benefit in the Family Allowances Act (FAA) creates the impression of an assigned nature of allowances. The granting thereof is bound to children's regular going to school. Simultaneously, less than 1% of monthly allowances have been discontinued due to irregular attending of classes. In order to underline the assigned nature of this type of allowances, it is necessary to implement supplementary criteria relevant to the educational process, for instance criteria related to children's performance at school. Retaining and even intensifying the assigned nature of the child benefit constitutes an important prerequisite for enhancing the programme's efficiency and for providing higher monthly allowances for the neediest people.

Proposals for reforms

1. Retention of the level of the maximum allowable income regarding admission to the programme till the moment when the average monthly income per household member has reached 150% of the current level of the maximum allowable income, i.e. 475 BGN. Subsequent indexing of the maximum income against indicators such as average monthly income per household member or the average salary of employees. This will narrow the number of beneficiaries in order to decrease the programme's expenditure and in order to increase the allowances for the people who really need them.
2. Granting child benefit to individuals following the latter's completion of 18 years should be reconsidered, except cases when the pupil attends the last class of the secondary education when completing the age of maturity.
3. Creating mechanism for binding the rate of allowances to not only regular attending classes (under increased control¹³), but also to supplementary indicators such as the average mark of the pupil during the previous school year or the marks of external examinations throughout the different stages of education. Considering the practice of giving higher marks in lower classes of the educational system, this could cause the natural allocation of supplementary funds both to the youngest pupils and to the ones that achieve better results in subsequent years (for instance, the ones averaging more than 4.50). When applying such an approach, it is important to avoid

¹³Reality shows that less than 1% of allowances have been discontinued due to irregular attending classes.

overlapping the scholarship system, i.e. the minimal mark for granting child benefit should be lower than the one regarding granting scholarships for excellent performance.

4. A differentiated approach for granting allowances, namely implementing coefficients that differentiate allowances relative to the family income, will bring about the better allocation thereof and would near their marginal utility. For instance, the child benefit for families with incomes of 200 BGN per household member could be 100% of the stipulated one; regarding the ones with incomes between 201 and 250 BGN – 90%; regarding families with average incomes of 251 BGN to 300 BGN – 75%, and this rate could be 50% for families with incomes between 301 and 350 BGN. These values are exemplary; proposals regarding individual maximum rates should be made following a thorough analysis on behalf of the ASA that pertains to the beneficiaries' income allocation under the programme. The maximum rates and limits could be related to: the official poverty line, the guaranteed minimum income or to any other metrics used for granting public assistance.

2.3. Need for Reforms: Integration of the Disabled

PROGRAMME „INTEGRATION OF THE DISABLED“: Monthly supplements for social integration

Target group	Disabled people
Number of beneficiaries (2013)	509 170, including 20 147 children
Total expenditure (2013)	138 860 190 BGN

The monthly social integration allowances for the disabled represented 17% of the ASA's total budget in 2013. They constitute a part of the broader programme called *Integration of the Disabled* that also includes the following:

- granting funds for medical devices and medical facilities, accessories and equipment – 37,552,299 BGN (2013),
- Assigned allowances for rehabilitation and purchase of an abode and for adapting a personal motor vehicle – 12 people funded (2013),
- Exempting permanently disabled people from vignette¹⁴ charges when using national roads – 130,548 funded persons; vignette charges at the rate of 10,792,762 BGN (2013).

The rate of the monthly allowance regarding social integration is calculated by means of the guaranteed minimal income (GMI) that is estimated via a resolution of the Council of Ministers (CM). The level thereof has been fixed at 65 BGN since 2009.

The social allowance is granted following the drafting of a special report on the basis of a preliminary social assessment regarding the needs and possibilities of rehabilitation and social inclusion of any

¹⁴ The notional amount of the lost revenue could be calculated by using the yearly vignette charges. Despite the unchanged price of vignette stickers since 2007, the lost revenue has increased by approximately one third – from 8.1 m BGN in 2007, to 10.8 m BGN in 2013. The reason is the increase in the number of people, who make use of their right to a free vignette. The number of these individuals has increased from 120,500 people in 2007 to 161,100 people in 2013.

individual with disabilities. Any beneficiary could receive more than one allowance due to which the number of granted allowances is higher than the number of people receiving such allowances.

Figure 12: Rate of Allowances regarding Social Integration

	% of GMI	BGN
Transportation	15%	9.75 BGN
Rent	varies	varies
Information and communication services	20%	13.00 BGN
Nutrition and medicines	15%	9.75 BGN
Education	20%	13.00 BGN
Accessible information	15%	9.75 BGN
Treatment and rehabilitation	Up to 300%	Up to 195.00 BGN

Source: The ASA

Figure 13: Number of Granted Social Integration Allowances

	2008	2009	2010	2011	2012	2013	2013/2008
Transportation	380 084	392 193	419 614	565 521	565 521	503 358	32,43%
Rent	1 038	1 035	933	1 275	1 279	1 064	2,50%
Information and communication services	115 176	112 090	103 325	123 335	120 094	97 662	-15,21%
Nutrition and medicines	361 077	367 529	358 523	442 479	443 246	384 591	6,51%
Education	227	192	423	471	471	269	18,50%
Accessible information	61 236	70 274	82 018	116 450	126 060	111 025	81,31%
Treatment and rehabilitation	10 317	9 641	9 568	9 568	8 836	708	-93,14%

Source: The ASA

The number of funded persons has increased from 445,600 to 509,200 people (an increase of 14.3%) for the period 2006–2013, and the programme’s expenditure has increased from 98.1 m to 138.9 m BGN (an increase of 42%) due to the increase of the GMI level.

A main problem – the stimuli for financial malpractice

The high and increasing number of beneficiaries, which is observed despite the quickly diminishing population, could be regarded as a main reason for the relatively low rate of this type of allowances. The effectiveness of the *Monthly Social Integration Allowances* Measure largely suffers from the defects and the anachronism of the entire state policy in respect of the assistance for the disabled in Bulgaria.

The predominant part of financial malpractice is the result of the universal meaning of the decisions of the medical examination in respect of acquiring certain privileges – a factor that causes wrong incentives for beneficiaries in terms of getting a decision issued by the LMOB. Many of these privileges are not directly related to the possibilities of social inclusion of the disabled.

Some of these benefits are the following:

- The possibility of early retirement¹⁵ due to a disability, combined with the increase of the minimal contribution period, the high level of structural unemployment in Bulgaria and the general state of the labour market since 2008,
- Legal protection against dismissal,
- Entitlement to extended annual leave (26 days),
- Programmes for lending interest-free credits to permanently disabled people,
- Relieved enrolment and discounted charges in the institutions of higher education.

Tax exemptions:

- 7,920 BGN decrease in the annual tax subtotals for individuals possessing impaired physical ability of 50% and more,
- A 75-percent decrease in the payable property taxes for individuals possessing impaired physical ability of 50% and more regarding a basic abode,
- Tax exemption on vehicles possessing engine capacity of up to 2,000 cm³ and power up to 117.64 kW, which are owned by individuals possessing impaired physical ability of 50% and more,
- A 50-percent decrease of the licence tax for individuals with impaired physical ability of 50% and more,
- Exemption of vignette charges for using the roads of the national road network.

Generally, the funds granted on the basis of social assessment account for insignificant part of the total allowances, benefits and tax exemptions that the disabled are entitled to. Thus, the concept of a differentiated approach when assessing the needs of individuals, underlying in the social evaluation (and in the *Monthly Social Integration Allowances Measure* respectively) has been formalised, and its efficiency has been aggravated.

Statutory foundations of the measure represent a good starting point to thoroughly reconsider policies aiming at the integration of the disabled. A similar change would necessitate the restructuring of the entire system of medical certification and physical and social rehabilitation of individuals.

The lack of an income criterion could be acknowledged as a basic shortcoming of the measure when evaluating the possibility of any person's getting a particular type of allowance for social integration.

Proposals for reforms

The shortcomings of the current regulation in respect of the disabled create wrong incentives for potential beneficiaries under the programmes, which respectively cause malpractice. Part of the poor effectiveness of allowances, granted in accordance with the *Monthly Social Integration Allowances Measure* under the *Integration of the Disabled Programme* of the ASA, is namely due to the universal meaning of the decisions of the medical examination in respect of the access to certain privileges and statutory exemptions. Considerable part of the funds granted to the disabled are allocated exactly on the

¹⁵An emphasis on the positive correlation between the increase in the number of certified people and the unemployment rate has been made in an analysis of the NSSI regarding disability pensions concerning the period 2000–2010, which was published in 2011. According to the analysis, the current system makes incentives for early retirement due to disability in order to provide a replacement income.

LMOB's decisions, which in reality make the currently granted monthly social integration allowances pointless. Generally, they account for less than 20% of the incomes of the disabled in Bulgaria.

1. Adopting a new approach based on an evaluation of the remaining (functional) employability and the specific needs of the disabled, instead of an evaluation of the lost employability, could help increase the effectiveness and importance of the social assessment as a means of integration.
2. Limiting the role of the medical examination up to: establishing the level of functional deficit, periodical medical re-examining of individuals, defining allowable working conditions and assistance during the identification of necessary treatment or rehabilitation.
3. Implementing an obligatory social assessment and achieving better adequacy of granted allowances constitute an important prerequisite for enhancing their effectiveness. The current rate (monthly payments between 9.25 BGN and 13 BGN depending on the type of allowance) is utterly insufficient for reaching the goals of the integration policy.
4. Introducing quantitative and qualitative requirements both at the system input as a rule and at the input of individual programmes and privileges. Implementing an income criterion at the initial admission to the system would decrease the number of beneficiaries and would simultaneously intensify the flexibility and financial adequacy of granted integration allowances.

3. Expected Effects from the Increase of the Guaranteed Minimum Income

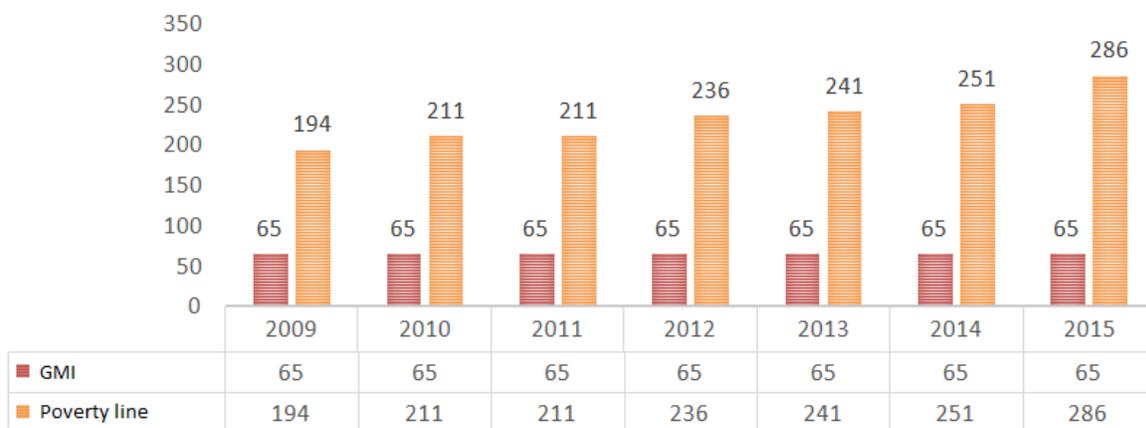
The increase of the guaranteed minimum income (GMI) is one of the measures stipulated in Priority 4.1 of the Strategic Plan of the Ministry of Labour and Social Policy regarding the period 2013–2017.

The poor efficiency of programmes like *Supporting Families with Children* and the increase of expenditure thereunder on the eve of the crisis imposed freezing of the levels of granted allowances under other measures of the ASA, including under one of the most efficient programmes: *Provision of Public Assistance by Applying a Differentiated Approach*. The GMI freezing during this period put to test part of the most vulnerable social groups by reason of the low rate of social transfers estimated on the basis of this instrument.

The government sets forth the rate of the guaranteed minimal income, and the level thereof was fixed at 65 BGN following the last amendment in 2009. From 2009 to 2015, various community groups¹⁶ have repeatedly raised the issue of lagging GMI, and the social transfers related thereto respectively.

Regarding the same period of time, the poverty line (PL) was revised from 194 BGN to 286 BGN – growth of 47.4%.

Figure 14: PL and GMI (2009–2015)



Source: The IME

There is no formal statutory relation between the poverty line level and the guaranteed minimum income. Nonetheless, the ongoing increase of the poverty line imposes expectations for revising the GMI level for the sake of updating the rate of social transfers¹⁷.

¹⁶We could include 2015 in the analysis as well, since the poverty line and GMI are stipulated in the State Budget Act regarding the year 2015.

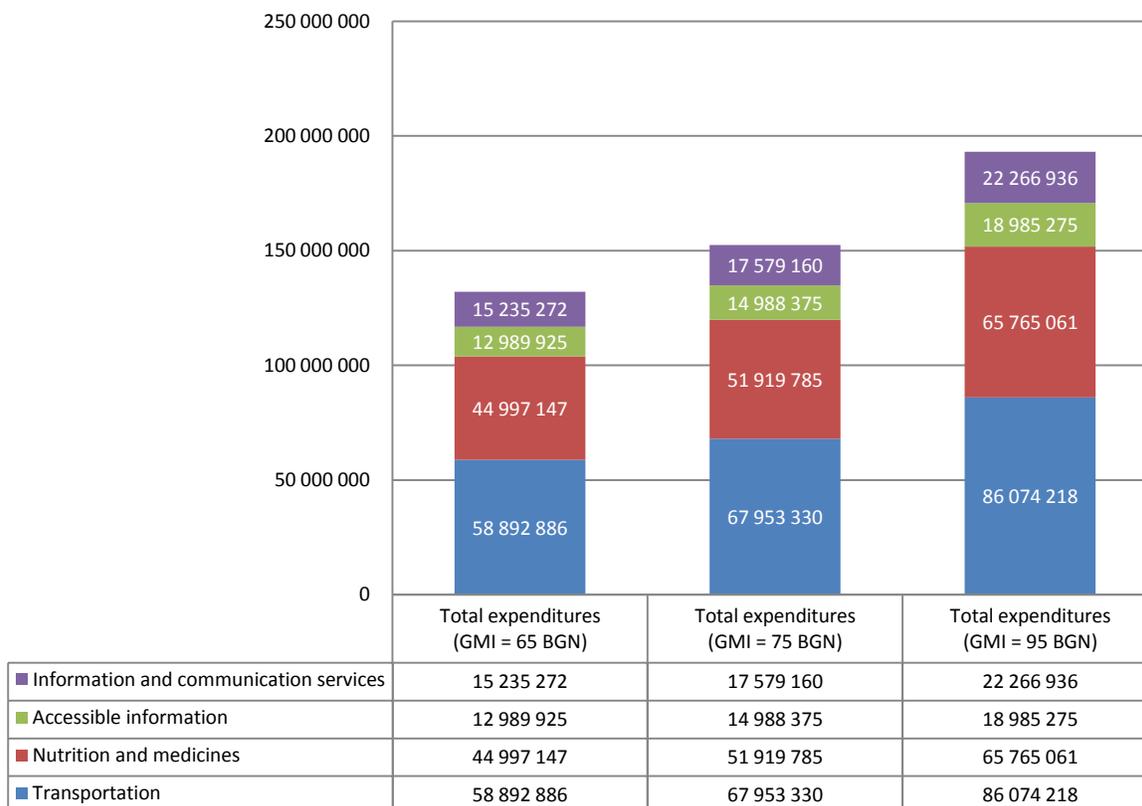
¹⁷Of course, the current regulation allows part of the public assistance to be increased – this does not imply reviewing the nominal rate of GMI. This could happen via amendment of the coefficients regarding the calculation of DMI, which the system uses, in order to estimate if an individual should receive an allowance and if yes, at what rate.

3.1. Increase of Expenses and the Number of Beneficiaries under Social Programmes

The guaranteed minimum income (GMI) is used for calculating the *Differentiated Minimum Income* (DMI) of various groups of beneficiaries, and DMI constitutes the amount protected via the public assistance system.

A hypothetical GMI increase of 10 BGN, i.e. a rate equal to the previous increase, would cause additional budget expenditure under the *Monthly Social Integration Allowances* Measure amounting to 20.3 m BGN in case the number of beneficiaries has remained the same.

Figure 15: Expenditure under the Monthly Social Integration Allowances Measure (BGN)



Source: The ASA

The calculation of supplementary expenditure under the *Allowances for Social Assistance When Applying a Differentiated Approach* Programme and the *Assigned Assistance for Heating* Programme is more difficult, since the GMI increase also entails proportionate increase of DMI for individual groups of beneficiaries. Regarding both programmes, this means that persons who have not complied with the programme's requirements (due to higher available incomes) could be involved in its scope.

For instance, two thirds of 55,700 applications, pertaining to allowances for heating during the 2012/2013 heating season, have been revoked following the disclosure of higher than the allowable average monthly income. The individual percentages of the differentiated minimum income for heating were increased the next heating season (2013/2014), reaching nominal growth of 15 BGN of the acceptance threshold regarding assigned allowance for heating for each of the groups. This entailed an increase in the number of beneficiaries by 44,300 people for the relevant heating season.

The number of revoked applications remained high, however – 45,000. If we assume that the main reason for rejecting these applications has continued to be the disclosure of higher incomes, then a 10-BGN increase in the GMI would increase the number of beneficiaries under the programme by 30,000 people at least, and the minimum expenditure thereof by 10.5 m BGN. At the same time, the GMI increase to 75 BGN will impact the DMI differently in terms of acceptance into the programme compared to the impact in terms of increasing the coefficients. This increase will be between 18 and 31 BGN regarding various groups of beneficiaries, i.e. higher than the result relating to the increase of the coefficients due to the use of the GMI level as a basis for calculations. It is rather possible that this enlargement of the scope of potential beneficiaries under the programme should entail considerably higher programme expenditure.

Figure 16: DMI Adjustment regarding Various Types of Allowances

Types of households	DMI – Social payments			DMI – Heating allowance		
	GMI=65	GMI=75	GMI=95	GMI=65	GMI=75	GMI=95
People over 75 years, that live alone	107.3	123.8	156.8	202.2	233.3	295.5
People over 65 years, that live alone	91.0	105.0	133.0	193.1	222.8	282.2
People over 70 years	65.0	75.0	95.0	133.9	154.5	195.7
For each of the spouses that live together	42.9	49.5	62.7	108.6	125.3	158.7
For a person that lives with another person, or a family	42.9	49.5	62.7	145.6	168.0	212.8
For a person that lives alone	47.5	54.8	69.4	151.5	174.8	221.4
For a disabled person, that lives alone	65.0	75.0	95.0	176.8	204.0	258.4
Disabled person (over 50% disability)	65.0	75.0	95.0	133.9	154.5	195.7
Disabled person (over 70% disability)	81.3	93.8	118.8	159.9	184.5	233.7
Disabled person (over 90% disability)	81.3	93.8	118.8	193.1	222.8	282.2
For children aged 0-18, or until the end of secondary education, but not above 20 years	59.2	68.3	86.5	117.0	135.0	171.0
For a single parent, that takes care of a child/children before they are 3 years old	78.0	90.0	114.0	133.9	154.5	195.7
For a single parent with a child aged 0-18, or until the end of secondary education, but not above 20 years	65.0	75.0	95.0	176.8	204.0	258.4
For pregnant women, 45 days before the expected birth of the child	65.0	75.0	95.0	133.9	154.5	195.7
For a parent, that takes care of children younger than 3 years	0.0	0.0	0.0	133.9	154.5	195.7
For orphans	0.0	0.0	0.0	142.9	164.9	208.9
For children with disabilities	0.0	0.0	0.0	142.9	164.9	208.9

Source: The ASA, calculations by the IME

When judging the effect of the GMI increase on expenditure regarding the **Provision of Public Assistance by Applying a Differentiated Approach** Programme, the increase of the rate of allowances should also be considered in addition to the increase in the number of potential new beneficiaries. Since allowances are calculated as the difference between the incomes of individuals and families and the DMI level regarding the relevant group, an increase in the DMI would also cause an increase in the nominal rate of allowances.

During the period 2010–2013, the annual average allowances for individuals and families, assisted as per art. 9 of the Rules on Implementation of the Social Assistance Act (RISAA), have increased minimally: from 1,077 to 1,096 BGN.

This demonstrates that the average expenses per beneficiary under the programme have not diminished over time despite the enhancing economic environment in Bulgaria. This dependence has also existed during the years before the crisis and it has been one of the reasons for the 23-percent growth in the number of beneficiaries and 38-percent growth in programme's expenditure after the previous GMI increase (in 2009).

We could reasonably assume that a GMI increase, up to 75 BGN, would have a similar effect. Therefore, we could expect the following in relation to an increase of GMI by 10 BGN (15%):

1. An increase in payments to current beneficiaries between 8 and 10 m BGN,
2. An increase in the number of beneficiaries due to higher programme eligibility criteria, and further growth of payments between 8 and 9 m BGN (given a conservative assumption regarding the increase in the number of beneficiaries of 15%).

Therefore, the **conservative assessment** regarding the effect of a GMI increase of 10 BGN entails growth of expenditure under the three reviewed programmes between 46.8 and 51.8 m BGN per annum.

- Expenditure increase of 20.3 m BGN under the *Monthly Social Integration Allowances* Programme (while preserving the number of beneficiaries thereunder),
- Expenditure increase of 10.5 to 12.5 m BGN under the *Assigned Benefit for Heating* Programme (with the assumption of an increase in the number of beneficiaries by about 30,000 people in view of the increase of 40,000 people after increasing the coefficients for calculating DMI in 2013 and excluding any new beneficiaries, i.e. people whose applications for granting allowances have not been revoked in the previous period but that could be encompassed by the programme's scope under the new criteria),
- Expenditure increase of 16 to 19 m BGN under the *Provision of Public Assistance by Applying a Differentiated Approach* Programme (assuming there will be proportionate increase of allowances to existing beneficiaries and an increase in the number of beneficiaries by 15% – the previous review of GMI reporting a 23% increase).

Again under the **conservative assessment**, the potential increase of GMI up to 95 BGN, i.e. with percentage point nearing the growth of the minimum wage and the poverty line for the period 2009-2015, will result in increasing the expenditure between 125.6 and 163.6 m BGN per annum, and this sum shall include:

- expenditure increase of 61 m BGN under the *Monthly Social Integration Allowances* Programme (while preserving the number of beneficiaries thereunder).
- expenditure increase of 21.7 to 36.1 m BGN under the *Assigned Benefit for Heating* Programme (with the assumption of preserving the rate of monthly allowances and an increase of the number of beneficiaries between 60,000 and 100,000 people made on the basis of expected increase by 30,000 people after increasing the GMI level up to 75 BGN and excluding any new beneficiaries, i.e. people whose applications for granting allowances have not been revoked in the previous period but that could be encompassed by the programme's scope under the new criteria).
- expenditure increase of 43.9 to 63.5 m BGN under the *Provision of Public Assistance by Applying a Differentiated Approach* Programme (assuming there will be a proportionate increase of allowances to existing beneficiaries and an increase in the number of beneficiaries by 25% to

50%, taking into account the previous increase of 23% regarding the last increase of GMI – from 55 to 65 BGN).

As it has become clear from the calculations made, the main source of insecurity when estimating the defects of a possible increase of the GMI level results from the difficulties in prognosticating the number of new potential beneficiaries under any programme¹⁸. Moreover, in view of the conservative prognostication made regarding the increase in the number of beneficiaries under the programmes *Assigned Assistance for Heating* and *Allowances for Social Assistance When Applying a Differentiated Approach*, expenditure could increase more than the amount assumed hereunder.

In view of the size of the black economy in Bulgaria, the forthcoming revision of GMI and the update of social transfers should entail additional checks of the actual well-being of beneficiaries.

3.2. The Unemployment Trap

The increase of the GMI level, and the public assistance respectively, impacts the incentives for active inclusion of beneficiaries under social assistance programmes on the labour market. The so-called *unemployment trap* is a widely used indicator for assessing these incentives.

This indicator calculates the share of the gross income that is being deducted when an unemployed person starts to work again. The combined effect of the following items is used for this purpose:

- Deduction of taxes and social security contributions from salaries,
- The loss of the unemployment benefits and related public assistance.

The unemployment trap demonstrates the financial incentives featuring the transition from unemployment to poorly paid employment and is calculated per single person that is without children and that earns income amounting to 67% of the salary of the so-called *average worker*¹⁹.

The unemployment trap (UT) is calculated by means of the net income during employment (NIE), the net income during unemployment (NIU) and the gross salary (GS) as per the following formula:

$$UT (\%) = 100 * (1 - ((NIE - NIU) / (GS)))$$

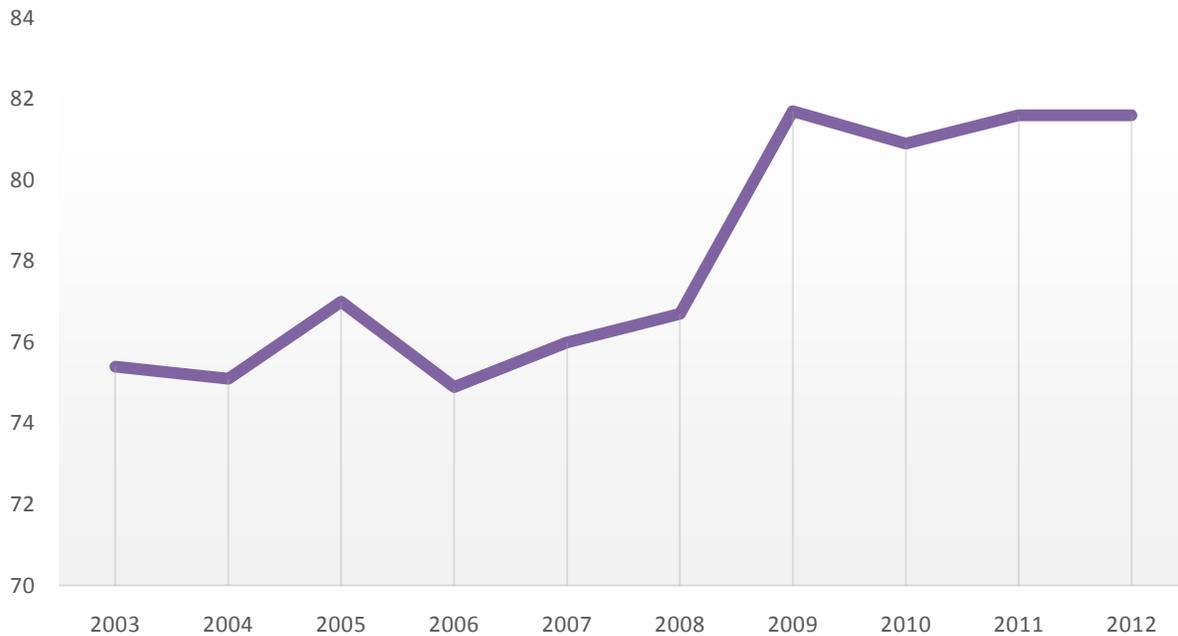
The UT regarding Bulgaria amounted to 81.6% in 2012, which is the top level for the period 2003–2012 (Figure 17). This indicator shows that the individual would earn supplementary income of barely 18.4% of their gross income when being employed.

In other words, 81.6% of their supplementary income would be deducted as taxes and social security contributions, on the one hand, and they will lose their unemployment benefits and related public assistance, on the other hand.

¹⁸ To a certain extent, this would be relevant even for the *Monthly Social Integration Allowances Measure*, especially if the method of mandatory social evaluation of the disabled, proposed hereunder, were accepted. Simultaneously, the reforms in the field of the integration of the disabled also presuppose that additional resources for the provision of increasing expenses for social integration allowances should be allocated. That could happen via equating the disability pension with the old age social pension and allocating the remaining funds at the disposal of the ASA.

¹⁹ An individual employed full time, who receives the average salary for the industry or services (sectors B to N of the CEA–2008 [Classification of Economic Activities]).

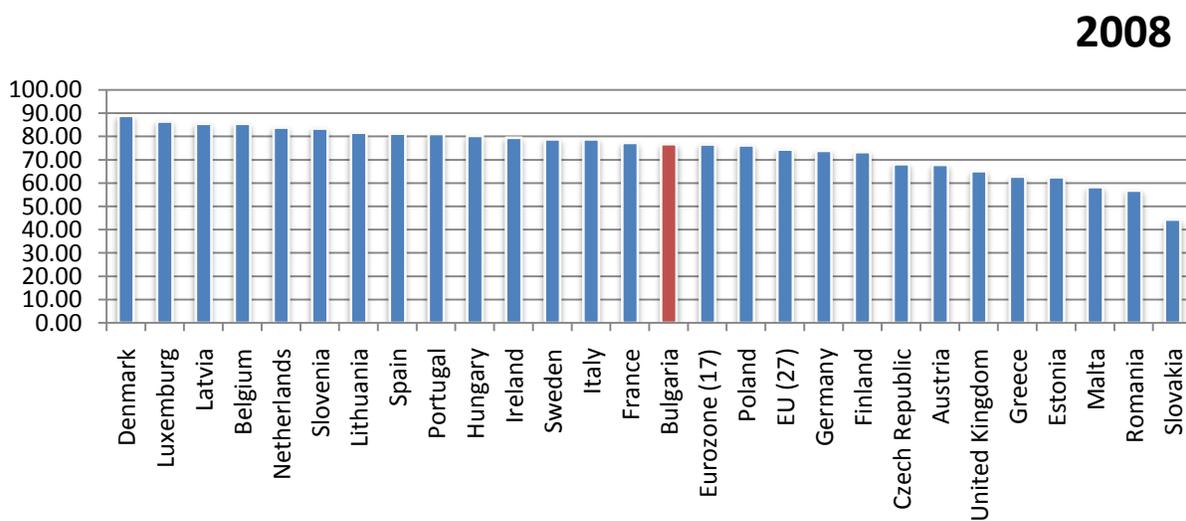
Figure 17: The Unemployment Trap pertaining to Bulgaria (2003–2012)



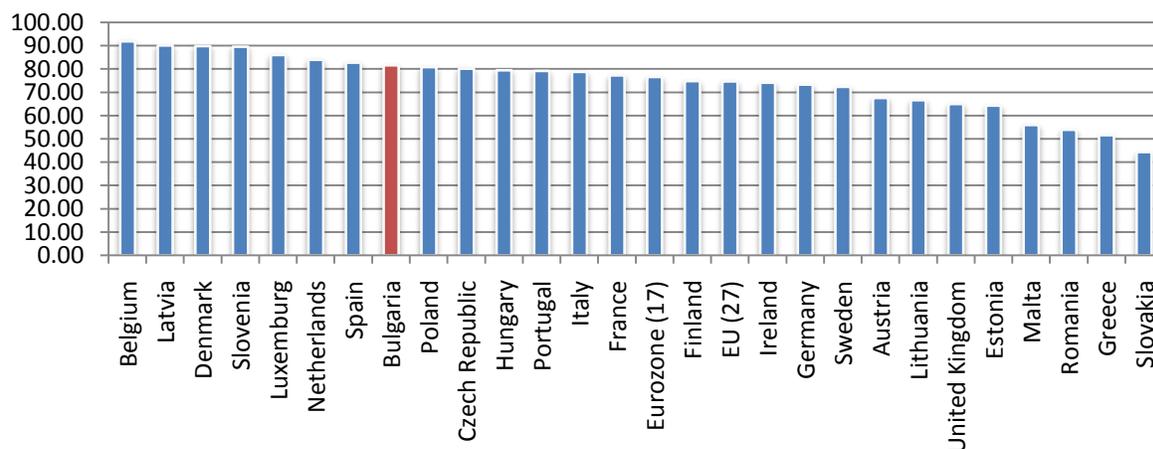
Source: the NSI

In terms of this indicator, Bulgaria ranks the eighth most unfavourable country among the 26 EU Member States, regarding which there are comparable data. It should be noted that Bulgaria ranked 15th in the EU – the UT amounted to 76.73% – in terms of this indicator, prior to the increase of the GMI and the monthly allowances under the *Supporting Families with Children Programme*.

Figure 18: The Unemployment Trap regarding Bulgaria and the EU – 2012 and 2009



2012



Source: Eurostat

Since the loss of employment income allows possibilities for access to unemployment benefits and certain social transfers, the lower the potential employment income of a person, the less the possibility of his/her seeking employment in relation to the alternative of receiving passive income from the social assistance system and the social security system. This is especially valid for poorly paid individuals who had lost their job and whose potential new employment income would be lower than the one earned previously – a phenomenon frequently occurring during periods of economic downturn and increasing unemployment.

Under such conditions, the tax and social security burden and the loss of social and social insurance payments weigh against the potential increase of the person's net employment income. This frequently causes long periods of economic inactivity, aggravation of work habits and worsening competitiveness of the worker – a factor further impacting the person's potential income, at least till the moment when the latter is disentitled to receive unemployment benefits.

The rate of social transfers and taxation of employment are also related to two other key factors:

- The low economic activity trap – it demonstrates the financial consequences for any inactive person that does not receive unemployment benefits but does get public assistance when starting work again. Depending on the person's income in comparison with the one of the average worker²⁰, the indicator varies from 50% (in terms of 33% of the average worker's salary) to 35.4% (in terms of 67% of the average worker's salary). This means that the financial benefits²¹ when finding a job would be 50% and 64.6% respectively regarding both persons.
- The low wage trap measures the percentage points of the gross income deducted via the combined effect of higher taxes and social security contributions and the discontinuance of the access to public assistance. Since 2008, the level thereof has been between 21.0% and 21.6% in Bulgaria meaning that a salary increase from 37% to 66% of the average worker's salary would

²⁰ We emphasize the options here, under which the individual receives lower income compared to the average worker. The values of the indicator decrease when the level of potential payment increase. For instance, the value of the indicator is 26.23% when a worker gets 200% of the remuneration of the average worker.

²¹ Receiving supplementary income certainly implies working and covering related daily expenses.

entail about 79% supplementary gross income notwithstanding the loss of certain public assistance.

The low economic activity trap and the low wage trap are among the lowest in Bulgaria among the EU countries, a factor that should entail increased activity with regard to returning to the labour market, enhancing qualifications or working additionally.

The comprehensive considering of these three indicators proves that traditionally the poorly paid unemployed in Bulgaria have no great incentive to seek job opportunities before expiry of the term, throughout which they are entitled to unemployment benefits. The financial incentives increase only when unemployment benefits have been discontinued. Simultaneously, despite the relatively favourable indicators of the low economic activity trap and the low wage trap, the economic activity of the population has remained relatively low.

This observation exemplifies structural problems on the labour market in Bulgaria, i.e. continuous discrepancy between qualifications and skills of economically inactive persons or persons working for low wages and the labour market requirements. These structural problems ultimately cause inability to work or to raise the income level. Under these conditions:

- The continuing increase of the minimum wage increases the labour cost, entails more incentives for economically inactive persons to seek jobs but also to aggravation of their competitiveness on the labour market, and of the probability of finding a job respectively,
- The continuing increase of the social security burden (via the increase of the minimal social security income) reduces the incentives for enhancing the economic activity of the unemployed, the economically inactive people and the ones working for low salaries,
- Increasing social transfers entails reduction of incentives for seeking jobs on behalf of the unemployed and economically inactive individuals and also the incentives regarding people working for low salaries to work additionally and to enhance their qualifications.

These circumstances necessitate some conclusions:

- Both the increase of the rate of public assistance and the increase of taxation negatively affect the incentives of the unemployed, the economically inactive people and the individuals working for low salaries, a factor that should be considered when defining the rate of the future increase of GMI,
- The increase of the minimum wage creates additional incentives for returning on the labour market but it reduces the possibilities for people to successfully find a job, and it constitutes an obstacle that will precondition the unemployed to become economically inactive, a factor that could cause an increase in the number of beneficiaries under social programmes, and an additional increase of expenditure thereunder respectively,
- In view of the structural features of unemployment in Bulgaria, providing optimal conditions for the creation and implementation of employment should be a priority of social policies.
- The increase of social transfers, which are based on the differentiated approach, should be affected via a method complying with the labour market realities in Bulgaria. It is therefore necessary the stipulated increases to be gradual.
- Setting differentiating criteria in respect of the rate of certain types of public assistance granted currently (like the one under the *Supporting Families with Children Programme*) will help decrease the negative effect of the increase thereof on the working individuals' incentives.

4. Leading Principles and Guidelines for Future Reforms

In view of the shrinking size of the workforce in Bulgaria and the ageing population, retaining the current structure of the social assistance system could have severe negative consequences. The problem will be particularly serious if the need for updating the rate of some social transfers is taken into account.

Under these conditions, the social assistance system should aim at **identifying and abolishing the reasons pertaining to the occurrence of the need of public assistance**, and not only at decreasing the negative effects of poverty via various money transfers – at least, where possible.

That view certainly underpins modern concepts regarding the purpose of social assistance systems – granting assigned allowances that would help beneficiaries solve their problem. As it is clearly visible from the data concerning the dynamics of most public assistance in Bulgaria, that thing has not happened. The reform of the Bulgarian social assistance system should be based on principles widely acknowledged by the society. The infamous ineffectiveness of the Bulgarian administration and the numerous examples of malpractice, allowed throughout the years, reasonably cause low confidence (and even negative perceptions every now and then) in respect of beneficiaries of a number of social programmes.

In order to face this problem, it is necessary, as a basis for a more efficient social support system, to utilise the principles of:

- Transparency pertaining to administrative bodies' decisions and analysis of the effect of the implemented changes and the suggested ones,
- A differentiated approach in terms of granting allowances,
- The increase of public assistance should follow the rate of increase of the public well-being.

Transparency pertaining to administrative bodies' decisions and analysis of the effect of the implemented changes and the suggested ones

The enhancement of the provision of information regarding policies is of the utmost importance for the system's effectiveness. Increasing the efficiency of public assistance requires that administrative bodies should know about the particular factors that hamper the social and employment inclusion of each group of beneficiaries. Creating an integrated information system for social assistance, which is to be available for all administrative bodies, which activities are related to servicing beneficiaries under the programmes, is an obligatory prerequisite for the timely identification of inefficient programmes and malpractice, and also for analysing measures that have already been undertaken.

A differentiated approach in terms of granting allowances

The good social policy needs flexible tools wherewith individuals, who need public assistance the most, to be identified. There have been no such tools in Bulgaria yet – in terms of granting substantial part of allowances (for instance, the ones under the *Supporting Families with Children* Programme). This entails inefficient spending of appropriations and creates prerequisites for misuse of the system.

The programmes, mainly based on applying an individual approach, remain underfunded on account of the less effective ones. The main problems, which the broader application of this approach faces, are several:

- Defining the eligibility criteria,
- Defining a methodology for amending the eligibility criteria,
- Defining maximum values within the very programme,
- Provision of information regarding the activities of the implementing body.

Regardless of the differentiating approach concerning allowances, which is to be adopted, the regulation of the social assistance system could never encompass all individual cases that could occur in a society. A number of cases are present in the judicial practice, which acknowledge this thesis. In most of these cases, an individual has been deprived of one allowance or another, for instance due to marginal exceeding of a specified income criterion.

In addition, experience shows that the administrative expenditure under programmes that implement a more comprehensive differentiating criterion, which pertains to granting any type of allowance, are higher. This is due to the individual approach for solving every case of social assistance, implemented in similar programmes. This issue should be solved by enhancing the administrative capacity and the system organisation of the very processes, instead of discontinuing the differentiation.

The increase of public assistance should follow the rate of increase of the public well-being

Given the limited financial resources, modern social systems should aim at the quickest exclusion of beneficiaries from the programme, and not at the sustainable and lasting cushioning of the negative effects of the social exclusion. Increasing the number of successful instances of social integration and enhancing the administrative bodies' efficiency would allow to cut funds which could be allocated for bettering the effects of implemented programmes.

The purpose of social assistance systems is not to provide a standard of living on the verge of or exceeding the poverty line via social transfers. The poverty line constitutes only one of the tools for identifying families and individuals that need supplementary assistance; it should, however, not be regarded as a kind of a nominal minimum level that social transfers should cover.

The increase of social transfers, which are based on the differentiated approach, should be affected via a method complying with the labour market realities in Bulgaria. It is therefore necessary the stipulated increases to be gradual.

Conclusion

The most of the identified weaknesses of the social assistance system are structural and long-term. Such weaknesses are the aggravating demographic structure, the poor employment rate and the big differences between regions. In Bulgaria, the unemployment trap has remained among the biggest ones in the EU, meaning that generally the unemployed have no incentive to seek jobs prior to the expiry of the term, throughout which they are entitled to unemployment benefits.

In view of the shrinking size of the workforce in Bulgaria and the ageing population, retaining the current structure of the social assistance system could have severe negative consequences. The problem will be particularly serious if the need for updating the rate of some social transfers is taken into account. The poor efficiency of programmes such as *Supporting Families with Children* – despite the increase of expenditure thereunder on the eve of the crisis – imposed freezing of the levels of granted allowances under other measures of the ASA. One of the most efficient programmes – *Provision of Public Assistance by Applying a Differentiated Approach* – has fallen victim to this policy.

Some key conclusions

- The increase of the rate of public assistance and the increase of taxation and the rate of social security contributions negatively affect the incentives of the unemployed, the economically inactive people and the individuals working for low salaries. This is a factor that should be considered when defining a future increase of social transfers.
- The increase of the minimum salary creates additional incentives for returning on the labour market, but it reduces the possibilities for people to successfully find a job and it preconditions the unemployed to become economically inactive. This could entail an increase in the number of beneficiaries under social programmes, and to supplementary increase of expenditure thereunder respectively.
- In view of the structural features of unemployment in Bulgaria, providing optimal conditions for the creation and implementation of employment should be a priority of social policies.
- Setting differentiating criteria in respect of the rate of certain types of public assistance granted currently (like the one under the *Supporting Families with Children* Programme) will help decrease the negative effect of the increase thereof on the working individuals' incentives.

The analysis also contains specific recommendations regarding reforms of two of the main social assistance programmes:

- The effectiveness of the *Monthly Social Integration Allowances* Measure has largely fallen victim to the defects and the anachronism of the entire state policy in respect of supporting the disabled in Bulgaria. The predominant part of financial malpractice is the result of the universal meaning of the decisions of the medical examination in respect of acquiring certain privileges. This is a factor that causes wrong incentives for beneficiaries in terms of getting a decision issued by the LMOB. Many of these privileges are not directly related to the possibilities of social inclusion of the disabled.
- The approach regarding granting allowances under the *Supporting Families with Children* Programme should be become differentiated, i.e. coefficients, wherewith the rate of child benefit is to be differentiated toward the family income, should be implemented. Thus, bigger allowances would be granted to poorer families and the marginal utility of allowances will narrow in terms of various families.

The main principles, on which a future reform in the field of social assistance should be based on, are specified in conclusion. These principles are the following:

- Transparency pertaining to administrative bodies' decisions and analysis of the effect of the implemented changes and the suggested ones,
- A differentiated approach in terms of granting allowances,
- The increase of public assistance should follow the rate of increase of the public well-being.

The effective allocation of funds towards individuals, who mostly need them, should be the ultimate purpose of the forthcoming reform. Given the limited financial resources, modern social systems should aim at the quickest exclusion of beneficiaries from the programme, and not at the sustainable and lasting cushioning of the negative effects of the social exclusion. By means of increasing the number of successful instances of social integration and enhancing the administrative bodies' efficiency, it would be possible to cut funds which could be allocated for bettering the effects of implemented programmes.

Addendum: Key Social Programmes (2009–2013)

PROGRAMME „SUPPORT FOR FAMILIES WITH CHILDREN“					
	2009	2010	2011	2012	2013
One-off benefit upon childbirth					
Number of beneficiaries	77 900	72 226	69 736	68 614	68 080
Expenditures (BGN)	29 435 815	27 735 480	26 502 304	25 802 623	25 620 985
One-off monetary benefit for raising twins					
Number of beneficiaries	4 689	2 056	2 028	1 935	1 993
Expenditures (BGN)	3 650 920	2 370 120	2 127 174	2 127 174	2 366 905
One-off assistance for raising a child till completion of its first year, provided to student mothers attending full-time courses					
Number of beneficiaries	1 434	1 934	2 344	3 090	4 532
Expenditures (BGN)	3 521 286	4 953 789	6 401 078	8 739 362	12 990 474
Monthly allowances for raising a child till the end of its first year					
Number of beneficiaries	22 089	23 201	21 557	21 773	21 417
Expenditures (BGN)	27 134 071	28 998 023	26 244 292	26 683 967	26 111 263
Monthly allowance for children until the completion of secondary education, but not after 20 years of age					
Number of beneficiaries (families)	571 416	570 557	554 883	545 325	537 325
Number of beneficiaries (children)	841 728	839 698	820 892	808 680	797 903
Expenditures (BGN)	358 331 311	385 100 984	357 884 887	352 729 121	352 416 070
One-off benefit during pregnancy					
Number of beneficiaries	19 818	17 639	17 669	18 210	18 082
Expenditures (BGN)	2 965 245	2 694 807	2 942 371	2 815 009	2 716 445
One-off assigned benefit for first graders					
Number of beneficiaries	40 259	42 399	45 434	45 549	48 845
Expenditures (BGN)	6 099 380	6 430 813	6 796 413	6 824 743	12 191 162
Monthly allowances for permanently disabled children					
Number of beneficiaries	19 490	20 126	21 205	22 549	23 650
Expenditures (BGN)	45 559 237	46 444 409	59 607 186	63 481 573	68 619 001
Assigned benefit for travelling of mothers with many children by bus					
Number of beneficiaries	18 158	15 521	14 719	14 921	14 873
Expenditures (BGN)	1 010 379	882 822	966 502	927 434	768 410

PROGRAMME „INTEGRATION OF THE DISABLED“					
	2009	2010	2011	2012	2013
Monthly supplements for social integration					
Number of beneficiaries	479 114	477 776	480 565	495 981	509 170
Expenditures (BGN)	111 414 368	123 033 221	122 088 000	128 450 017	138 860 190
Medical devices and medical facilities, accessories and equipment					
Expenditures (BGN)	47 395 767	37 552 299	37 080 276	30 412 334	41 599 123
Exempting permanently disabled people from vignette charges					
Number of beneficiaries	119 885	130 548	153 151	149 022	161 086

PROGRAMME "FROM SOCIAL ASSISTANCE TO EMPLOYMENT"					
	2009	2010	2011	2012	2013
Number of people in subsidized employment	42 724	32 520	23 447	16 532	29 555
Number of people who stopped receiving benefits	37 413	26 498	16 021	11 977	25 304
Number of people who continued receiving benefits	5 311	6 022	7 429	4 555	4 251

PROGRAMME "PERSONAL ASSISTANT"					
	2009	2010	2011	2012	2013
Number of people in subsidized employment	9 450	4 194	3 974	4 325	4 511

References

Bulgaria: Mitigating the impact of the economic crisis on the poor, Social Safety Net Reform Policy Note, 2009 / The World Bank

Examining Conditional Cash Transfer Programs: A Role for Increased Social Inclusion, 2006 / The World Bank

For Protection and Promotion: The Design and Implementation of Effective Safety Nets, 2008, The International Bank for Reconstruction and Development / The World Bank

Safety Nets How To, 2014 / The World Bank

Schneider, F., *Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2013: A Further Decline, 2014.*

Social Assistance Programs: Cost, Coverage, Targeting and Poverty Impact (Bulgaria), 2009 / The World Bank

The State of Social Safety Nets, The World Bank, 2014

Unsuccessful Employment and Support Allowance Claims – qualitative research, 2011 / Institute for Employment Studies

Aleksiev, Y. *A New Approach to Integration of the Disabled in Bulgaria.* The Institute for Market Economics, 2012.

Aleksiev, Y. *People Depending on the State.* The Institute for Market Economics, 2011.

Bogdanov, G., Zahariev, B. *Analysis of the Situation in Respect of the Minimum Incomes Schemes in Bulgaria, 2009.*

Annual Targets of the Agency for Social Assistance regarding 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013.

National Concept of Social Economy. The Ministry of Labour and Social Policy, 2011.

National Strategy for Reducing Poverty and Promoting Social Inclusion by 2020, the Ministry of Labour and Social Policy.

Report on the Implementation of Policies. The Ministry of Labour and Social Policy, March 2013.

A Strategic Plan: 2013–2017, The Ministry of Labour and Social Policy.

Indicators of Poverty and Social Inclusion in 2013, The National Statistic Institute, 2014.

Reports on the Activities of the Agency for Social Assistance regarding 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013.

Statistical Yearbooks and Bulletins of the NSSI regarding 2009, 2010, 2011, 2012 and 2013.