



FORTY FIRST NATIONAL ASSEMBLY OF THE REPUBLIC OF BULGARIA

SUMMARY

**MANAGEMENT OF EU FUNDS IN THE
REPUBLIC OF BULGARIA**

Progress and effects



December 2012



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INTRODUCTION

This, sixth Report on the EU funds management in the Republic of Bulgaria, has been prepared in compliance with Article 3(1)(3) of the Rules of Organization and Procedure of the Committee on European Affairs and Oversight of the European Funds (CEAOEF) in the 41st National Assembly.

In the end of the 2007-2013 Cohesion Policy programming period, CEAOEF undertook the challenge to perform initial evaluation of the results and effects of the implementation of the European funds in Bulgaria.

The main objective of this report is to carry out a complete qualitative and quantitative analysis of the effect of the utilization of the EU funds in the country as to December 2012. For the achievement of this objective CEAOEF applied a new approach – the so-called “**NIE**” model, including three components: Needs, Investments, Effect (see the methodology used).

CEAOEF recognizes the complex nature and the increased complexity of the task in view of the fact that the operational programmes are still in process of implementation and that **the initial summarized results from them will be available earliest during 2015**. Almost six years after the beginning of the new programming period, CEAOEF is of the opinion that sufficient time has elapsed to observe the trends in the outlining of the potential results and effects from the implementation of the European funds in Bulgaria, considering all conditions of the assigned task.

Among the main reasons, which motivate CEAOEF to undertake a study of the effects of the implementation of the operational programmes in Bulgaria, before their official completion, should be outlined the following:

- The need for an independent and objective assessment (*CEAOEF is an independent observer of the system for management and oversight of the EU funds through the regular hearings, requesting of information and taking into account the opinion of the non-governmental sector, businesses and the academia*) for the achieved until the present moment with the support of the European funds, beyond the purely financial performance. This could help to focus the attention of all participants in the process, as well as the donor countries on the impact of the European funds on the end beneficiaries – with an emphasis on the citizens, businesses and the environment, in which they live and operate;
- The need for striking a balance and applying a new approach to the work of the Managing Authority (MA). The study of the effect will provide an opportunity for the Managing Authorities to optimise their activities and at each stage of the implementation of the programmes to put a stronger emphasis on the issues, related to the efficiency and effectiveness of the EU funds. This on its turn would assist not only the quantitative but also the qualitative (priority-oriented towards the needs) absorption of the EU funds in the country;
- The need for developing a vision, establishing priorities, and defending positions during the planning of the next programming period. The study of the effect of the investments



made with European funds on the end beneficiaries at this stage could help the more rational preparation and participation of Bulgaria in the new concept of the Cohesion Policy for the period 2014-2020, whose focus is on the results and the visible effect of the support from the funds.

Within the framework of the study, a detailed survey of 14 programmes is offered, with total budget of EUR 11.75 billion, co-financed by the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Fund for Fisheries (EFF), including:

- 7 Operational Programmes, financed under priority axis 1 "Cohesion" of the Cohesion policy – Operational Programme "Transport" 2007–2013 (OPT), Operational Programme "Environment" 2007–2013 (OPE), Operational Programme "Regional Development" 2007–2013 (OPRD), Operational Programme "Human Resource Development" 2007–2013 (OPHRD), Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007–2013 (OPDCBE), Operational Programme "Administrative Capacity" 2007–2013 (OPAC), and Operational Programme Technical Assistance" 2007–2013 (OPTA);
- 5 Operational Programmes for Cross Border Cooperation (CBC), financed under priority axis 3 "European Territorial Cooperation" – 2 along the internal EU borders – Bulgaria–Greece and Bulgaria – Romania and 3 along the external EU borders – respectively Bulgaria – Turkey, Bulgaria – Republic of Macedonia, and Bulgaria – Serbia;
- The Rural Development Programme 2007–2013 (RDP), financed by the EAFRD;
- Operational Programme "Fisheries Sector Development" 2007–2013 (OPFSD), financed by the EFF.

The report is structured in **three parts**:

1. **The First part** – presents the overall progress in the EU funds management as to December 2012 from the view point of efficiency and effectiveness of their implementation, as well as an assessment of the state of the financial management and control systems;
2. **The Second part**, developed in detail in the full report, is a study of the progress made and the effects of the programmes during the current programming period in compliance with the "**NIE**" model, which in this summary will be given only in a synthesized version. In the full version of the report, subject to discussion are the following:
 - The physical and financial progress made under the separate programmes from the beginning of the programming period to date (according to data from the Managing Authorities (MAs) of the Operational Programmes (OP) as to 31.10.2012);
 - The degree of achieving the established objectives and indicators in the relevant strategic documents – the National Strategic Reference Framework (NSRF) and OP, as well as the overall impact of the programmes on the citizens, businesses, and municipalities;



- The implementation of the recommendations, addressed to the Managing Authorities in the 2010 and 2011 Reports of the CEAOEF, related to the EU funds management;
 - The remaining challenges until the end of the current programming period;
 - Examples for successful projects under the programmes, which generate high added value for the beneficiaries in the Republic of Bulgaria;
 - The results from the questionnaire survey, conducted by CEAOEF for the purpose of studying the public attitudes and perceptions of the citizens concerning the role of the EU funds on the quality of life in Bulgaria, in the context of 5 years of EU membership of Bulgaria;
 - Conclusions, drawn by the Council for Public Consultations under CEAOEF, dedicated to the topic “EU Funds Beyond Statistics”;
 - Results from the implementation of the Bulgarian econometric model for assessing the impact of the EU funds (SIBILA);
 - Conclusions and recommendations, derived from thematic analyses and studies of the non-governmental sector, the businesses, and the academia.
- 3. The third part** of the report presents findings and conclusions (“lessons learned”) until the end of the current programming period, as well as the recommendations of CEAOEF for the new programming period of the Cohesion Policy 2014-2020 focused on regional development and economic growth centres, including:
- CEAOEF vision for Bulgaria 2020, stressing on the triple "R" approach – Results, Reforms and Regions;
 - Survey of the main changes in the cohesion policy in the context of the negotiations for the EU Multiannual Financial Framework 2014-2020, and the position of Bulgaria in them;
 - Recommendations of CEAOEF to the respective units of the executive power, to be taken into consideration in the preparation of the Partnership Contract between the European Commission and the Republic of Bulgaria and the programmes for the new programming period.



PART 1: OVERALL PROGRESS IN THE EU FUNDS MANAGEMENT

Almost six years after the accession of Bulgaria to the European Union, one of the most tangible benefits from the EU membership for the Bulgarian citizens and the businesses is the access of the country to financial resources from the European funds¹. This mindset to a big extent is justified with the visible results from implemented projects in the field of transport, regional development, environment, and agriculture. The EU funds are an important source for the implementation of **structural reforms** aimed at raising the competitiveness of the Bulgarian economy, developing the regions, and speeding up the convergence process.

CEAOEF welcomes the new initiative of the Central Coordination Unit (CCU) at the Council of Ministers for the development and implementation of the Bulgarian econometric model (SIBILA), which measures the impact of the European funds on the Bulgarian social and economic development. The SIBILA model was presented to the Committee earlier this year by the Minister without portfolio charged with EU Funds Management and the team of Sofia University “St. Kliment Ohridski”, which participated in the development of the model. It consists of 170 equations, based on the following 4 economic factors: real, financial, fiscal, external. SIBILA examines the economic development according to two alternative scenarios: basic scenario without Structural and Cohesion Funds (SCF) and alternative scenario, reflecting the SCF funding. The difference between the results of these two scenarios regarding a given economic indicator measures the **net impact** of the SCF. In this sense, the **effect** is defined as a resultant reflection of the investment of EU funds on major factors of the competitiveness of the Bulgarian economy – human capital, R&D, innovations, information and communication technologies, infrastructure and production capacities (see Part II of the Report, where the effect is analysed by taking into account the tangible, intangible and horizontal results achieved under the programmes and their impact on the social and economic life in Bulgaria).

CEAOEF aims, through this report, to analyse the EU funds from two other **viewpoints, namely: their efficiency and their effectiveness**. Due to the existing different interpretations of the two terms, CEAOEF has accepted in its analysis their meaning, as defined in “The Oxford English Dictionary”.

Efficiency: Implementation of processes or functioning in the best possible manner with the least loss of time and efforts; having and using the necessary knowledge and skills for the implementation of the respective activity. With regard to the European funds, efficiency involves: contracting, periodical payment according to established terms, tracing of trends – is there accumulation of delay, are the same levels maintained or there is acceleration. Efficiency also reflects to what extent the procedures are optimised, flexibility of funding, and levels of errors. Efficient absorption should be seen as a result of effectively operating management and control systems, which lead to accelerated rate of absorption, reduction of the administrative burden and red tape.

¹ According to the results of the survey, 80.2% of the respondents point out that the main benefit from EU membership is the absorption of EU funds (see Application No 1)



Effectiveness: Adequate achievement of the established objectives and the expected (planned) results. In the context of the EU funds, effectiveness includes cost-benefit analysis, answer to the question to what extent and whether the investments made meet the requirements of the society and the businesses, assessment of their impact, their perception, etc. In this line of thought, under effectiveness it should be understood whether Bulgaria is using well the EU funds – whether they have a positive influence on the social and economic life in the country.

While efficiency can be established more easily, effectiveness needs deeper analysis according to a relevant methodology². Pursuant to the results obtained, CEAOEF has overtaken the commitment to address to the Managing Authorities (MAs) of the respective Operational Programmes (OP) the relevant findings, conclusions and recommendations, aiming at making the necessary changes in the structural funds allocation system in Bulgaria.

FROM EFFICIENCY VIEW POINT

CEAOEF analyses efficiency with regard to:

- Rate of contracting and payments from the EU funds;
- EU funds management and control system;
- Building of adequate institutional framework;
- Regulatory framework;
- Optimal use of the funds (see Part II of the Report).

Rate of contracting and payments from the EU funds

- The **sustainable contracting rate**³ under the seven operational programmes has been maintained, and as to 31 October 2012⁴ approximately **95%** of the total programme budget (EUR **7.58 billion**)⁵ has been contracted. Only in 2012, contracts amounting to a total value of EUR 2.33 billion have been signed, which represents about 30% of the total budget.

² As pointed out above, CEAOEF uses the “NIE” model for the purposes of its analysis.

³ See Chart 1

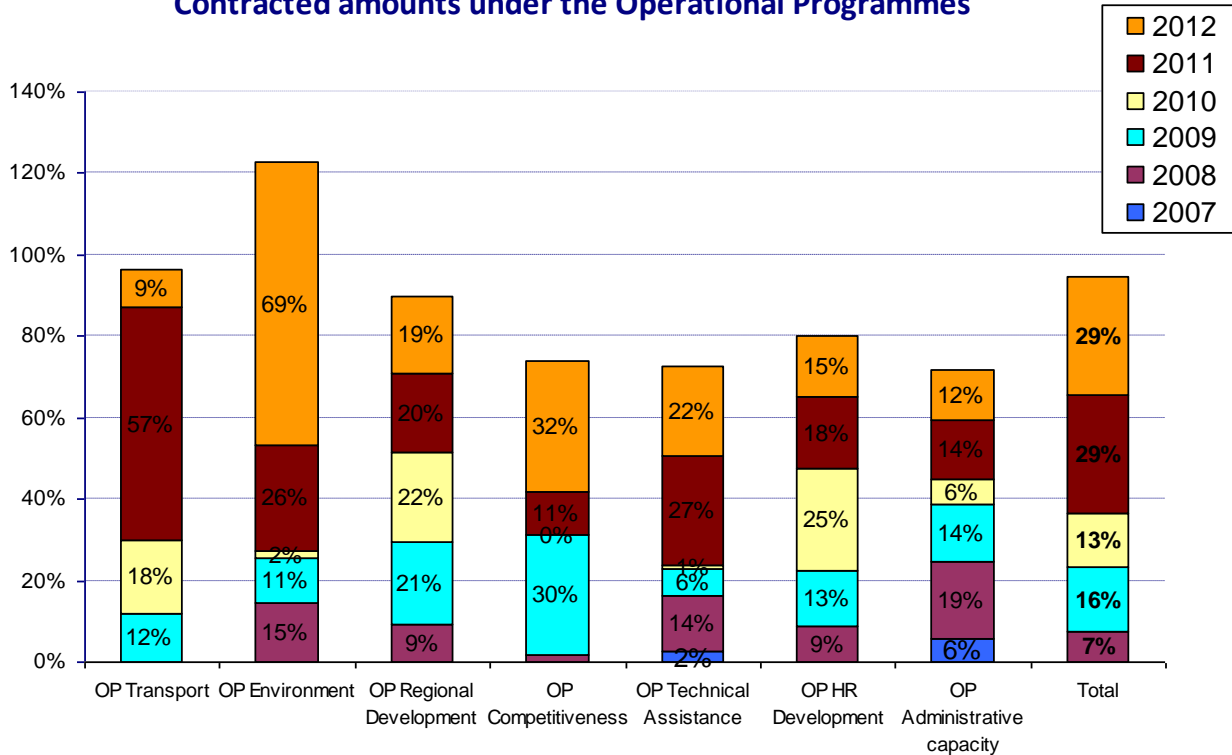
⁴ According to data from the Single information web portal for Structural and Cohesion Funds in Bulgaria - eufunds.bg

⁵ The amount of contracted funds includes concluded, in progress, completed and terminated contracts for the provision of grants.



CHART 1

Contracted amounts under the Operational Programmes



* Data for 2012 is as to 31.10.2012.

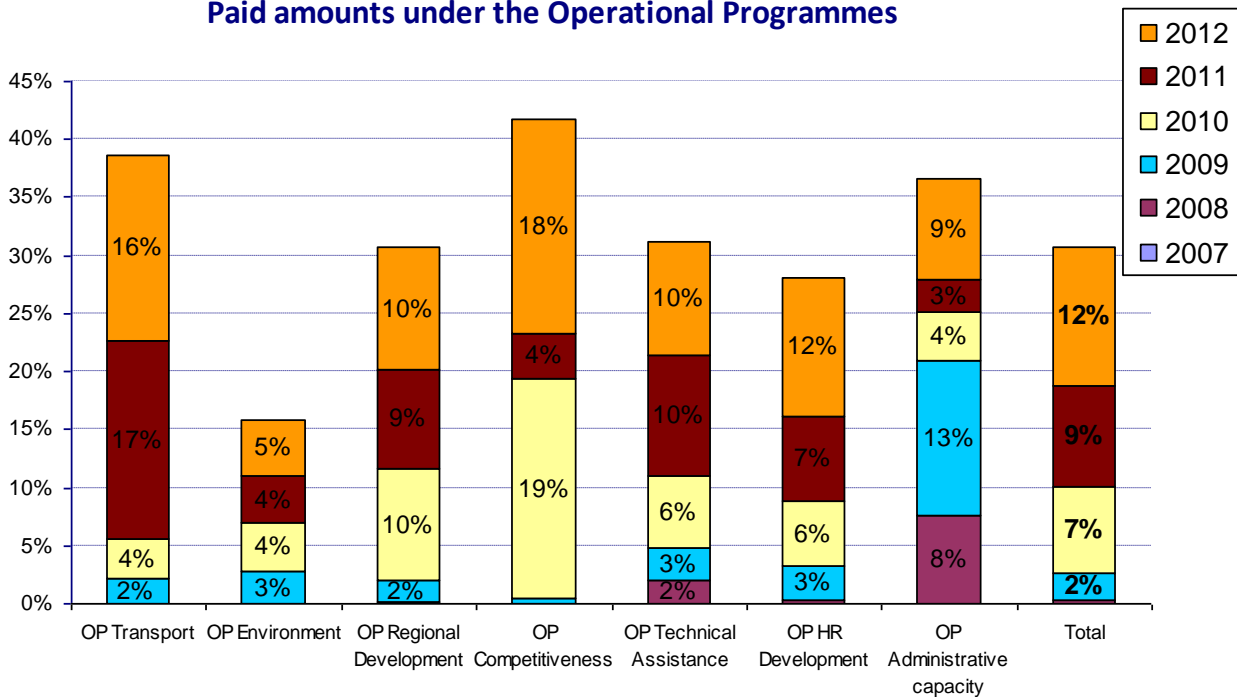
- With regard to a part of the OPs an **overcontracting approach** has been applied to avoid automatic loss of funds (the rule n+2/3).
- By mid 2013 the financial resource under all operational programmes is expected to be contracted by 100 %.
- **Sustainable payment rate** under the operational programmes is also observed, which is evident from Chart 2. According to data of the National Fund to the Ministry of Finance as to 31 October 2012 the amount of totally paid funds under the operational programmes is nearly **EUR 2.46 billion**, which represents **over 30% of the initially planned financial resources**. By 31 October 2012 approximately EUR 953 million (12% of the total budget) have already been paid, which shows the achieved stable growth in the EU funds payment rate.
- A prerequisite for accelerated payment under the programmes is the shorter period for verification and certification of costs.
- The MAs have to a great extent achieved the set up objectives and to date there is **no risk for loss of funds from ERDF and ESF, according to the N+2/3 rule**;
- CCU has established that **ever more realistic projections** are being developed under the LOTHAR instrument for the funds, which will be contracted and absorbed during the



relevant year. It should be noted that during 2012 the best LOTHAR projections have been available since the introduction of the instrument⁶.

CHART 2

Paid amounts under the Operational Programmes



* Data for 2012 is as to 31.10.2012.

EU funds management and control system

Discussing programmes, co-funded from the European and Bulgarian budget, the issue of the effective functioning of the management and control systems of the public funds, which is a prerequisite for their efficient absorption, comes to the fore.

Based on the hearings, held by CEOEF, of the Minister of the Management of EU Funds – Mr. Tomislav Donchev, of the Chairman of the Bulgarian National Audit Office – Mr. Valeri Dimitrov, and of the Executive Director of the Audit of EU Funds Executive Agency – Mrs. Dobrinka Mihailova, on the assessment regarding the effectiveness of the operating EU funds management and control systems (MCS) in the Republic of Bulgaria, CEOEF established the following:

- **A sustainable EU management and control system has been established in Bulgaria**, in compliance with the requirements of the provisions of the regulations of Council and the EC. The system is **operating effectively**, which provides reasonable confidence about the

⁶ According to CCU data, as to 31.10.2012 an excellent performance of the certification projections was observed -96.8%



precision of the cost reports submitted to the EC and the **lawfulness and regularity of the accompanying transactions**.

- **Quality and effective control** are in the focus of the EU funds management. In the MCS of MA the necessary mechanisms for **self-correction and timely reaction** are introduced in case of occurrence of irregularities during the process of EU funds absorption (most of all with regard to some aspects of the control on public procurement). There is **“internal self-control”** on the part of MA with an **emphasis on prevention** – in case of established violations and signals under the operational programmes, no financial correction from EC is waited for, but the MAs themselves react on time and refer to the concerned institutions. The achieved good financial management is objectified through:
 - The low percentage of **financial corrections** under the operational programmes (1,59 % of the paid total amounts from SCF as to 31.10.2012 according to data from the Certifying Authority)
 - **The low level of errors**⁷ under the operational programmes – below the permissible 2 % materiality threshold (according to data of the Audit Authority).
- The effective control on implementation is the main prerequisite for the **lack of “stopped” operational programmes**⁸;

Building of adequate institutional framework

The so-called **institutional trend in the economy** attaches great importance to institutions. A number of analyses point out that the **structural funds, which are absorbed by economies with good (effectively operating) institutions, are efficiently and effectively absorbed**. This means that they can really lead to high economic growth, high employment, low unemployment, etc.

- At the national level an adequate institutional framework for CSF funds management has been established. Through the established **coordination system**, an optimal allocation of the funds and responsibilities between the parties in the process has been achieved.
- Consistent efforts have been made for continuous **strengthening of the administrative capacity of institutions and beneficiaries** for effective implementation of the programmes, financed by EU funds:
 - Regarding the increase of the capacity of the **state administration**, involved in the process of EU funds management, measures are being implemented to minimize turnover, increase motivation, including by improvement of payment and use of different forms for improvement of team work, interaction and communication through different forms of training;

⁷ This fact was also confirmed by the MEP from the Budget Control Committee – Christopher Fellner, rapporteur for Bulgaria under the procedure for relieving from responsibility the EC for the execution of the EU budget for 2010, during his visit in Bulgaria in the end of April 2012.

⁸ Bulgaria is one of the four Member States together with Finland, Sweden and Denmark, without a single stopped programme, funded by the EU.



- Regarding **capacity of beneficiaries** as participants in the process, by different forms of support from OPTA and OPAC, and the funds for technical assistance under the operational programmes, different by type and form training courses on topics important for the process of EU funds absorption have been funded;
- Through the system for cooperation with the International Financial Institutions (IFI) – the World Bank, the European Investment Bank, the European Bank for Reconstruction and Development and by setting up mobile units for the provision of consultancy services during the implementation and management of projects, funded by the SCF, the capacity for preparation and management of big investment and infrastructure projects, and for preparation and conducting of public procurement procedures is strengthened.
- **Openness of the process** with a stronger emphasis on **partnership and dialog** with stakeholders has been provided:
 - **Transparency, publicity and system information** on the mode of its operation has been provided, which allows for stronger public control over the process – a significant part of the data in the Unified Management Information System of the Structural Funds in Bulgaria (UMIS) is publicly accessible. In addition, the operating **28 district information centres** contribute to the popularisation of the Cohesion Policy among the local community.
 - **A constructive dialog** among the participants in the EU funds management process has been established, allowing for efficient solution of difficulties, finding of adequate and workable alternatives, both during the programming process, and the implementation of the financed projects. Different forms of cooperation have been implemented, such as public discussion of draft Guidelines for Applicants and other documents, setting up of joint working groups, holding of regular meetings and discussions of issues of interest for the stakeholders.
- The changes made in the regulatory framework and the internal procedures and rules of the managing authorities and intermediate bodies have lead to significant **optimisation of application procedures**, project implementation and reporting, as well as to **lowering the administrative burden for beneficiaries**. Among these measures the following ones can be outlined: facilitation of the conditions for receiving advance payments, introduction of higher flexibility in case of need for amendments in the contract terms, shortening the periods for the evaluation of project proposals, reducing the time for the payments from the MA to the beneficiaries, as well as decreasing the volume of the required documents for project reporting. **Electronic application and project reporting** have been implemented for a part of the operational programmes using UMIS, which accelerates and facilitates the process as a whole and represents an important step towards the reduction of the administrative burden.

CEAOEF is of the opinion that significant EU funds should be allocated to projects, which would help the strengthening of the institutions, such as electronic government, faster and fair trials,



optimisation of work in the central and local administrations, implementation of more efficient policy⁹.

Efficiency of public expenditures is generally measured through **selection of projects and methods of project implementation**. And the latter in fact is determined by the procedures and the public procurement system. CEAOEF thinks that the problem is not in the low-quality public procurement contracts, but in the **inaccuracies of the Terms of Reference** (including the lack of capacity of the Contracting authorities) leading to appeals. Thus, the absorption of funds is slowed down – i.e. the efficiency is lowered.

Regulatory framework

- The regulatory framework necessary for the operation of SCF funds management system has been developed.
- This regulation in the field of EU financing in Bulgaria is at the by-law level – multiple acts (decrees, decisions) of the Council of Ministers, as well as instructions from the Managing Authorities and the Central Coordination Unit with the Council of Ministers, which creates **an additional administrative burden for the implementation**, both for the administration and for the beneficiaries.
- The regulatory framework, although in place, is fragmented and there is not sufficient environmental predictability. During the next programming period its codification into EU Funds Management Act is planned, which would lead to a more efficient absorption of the funds in the country.
- The amendments made to some sector acts and the development of sector strategies additionally guarantee the effectiveness of the system and the efficiency of funds absorption – the amendments to the Public Procurement Act (PPA), Ministry of Interior Act, Water Act, Road Act, etc.

The amendments to **the PPA** in 2011 (*Promulgated in the SG, No 93 of 25.11.2011, enacted on 26 February 2012*) **improved preliminary control** on the part of the Public Procurement Agency on the public procurement procedures, conducted in connection with the implementation of projects, financed by EU funds. The implementation of the adopted amendments to the PPA should lead to higher quality of the control exercised on procurements and **should reduce the cases of violations on the part of the Contracting Authorities, as well as of the number and the size of the imposed financial corrections under the operational programmes**.

Preliminary control covers the most essential parts of the tender documentation – decision, announcement and methodology. There is a change in the value thresholds of the procurements, which are subject to preliminary control – lower threshold values have been planned on, which increases the volume of the checked procedures under EU funded projects.

⁹ The efficiency of the institutions was identified as the most important priority by the conference, organized by the World Bank entitled “Bulgaria Golden Growth – 20+ years: Achievements and Perspectives”, Sofia, 15.11.2012.



The Public Procurement Agency has established a significant increase in the volume of the control activities, over 2.5 times¹⁰, after the enactment of the amendments to the PPA.

A two-stage model for exercising control has been implemented – prior to opening the procedure (when the draft tender documents are examined) and after opening the procedure (for the purpose of making assessment of compliance with the PPA requirements and the recommendations of the Public Procurement Agency). The implementation of the two-stage model reinforces the feedback mechanism between the Public Procurement Agency and the Contracting Authorities. Thus, communication for the implementation of control is optimised, which in its turn leads to **higher quality of the procedures and observance of the legally established terms** (the Public Procurement Agency performs preliminary control on the procedures within less than 1 calendar month).

The amendments made to the Ministry of Interior Act (Promulgated SG, No 38 of 18.05.2012, enacted on 1.07.2012) have assigned functions to the Directorate for Coordination of Fight against the Infringements Affecting the Financial Interests of the EU (AFCOS)“ at the Ministry of Interior **to investigate administrative irregularities in the EU operational programmes, following the European Anti-Fraud Office (OLAF) methodology**. For the implementation of the administrative and oversight functions, AFCOS has the right to request information and documents, and to perform on-site checks in order to identify irregularities and frauds, affecting the financial interests of the EU. According to the adopted amendments, after a given check is completed and an administrative violation is established, AFCOS notifies the relevant Managing Authority of the Operational Programme. In the cases of violations, AFCOS refers the matter to the Prosecutor’s Office.

The amendments made to the **Road Act** in 2011 (Promulgated SG, No 55 of 19 July 2011) created the prerequisites for the establishment of **National Company “Strategic Infrastructure Projects”**, which is responsible for the preparation of road projects from the Trans-European Transport Networks, passing through the Republic of Bulgaria, and of priority road projects of national importance during the new programming period 2014-2020.

By the end of 2012, the amendments to the Water Act are expected to be adopted, which together with the National Strategy for Management and Development of the Water Sector in Bulgaria for 25-year period, approved by the National Assembly (21.11.2012), represent the necessary foundation for successful conducting of the reform in the water sector and a vision for the potential development of the sector through European funding.

Optimality of spending

Most generally, the optimality of funds is the best ratio of the costs and the benefits of the investment.

Always, when public investments are concerned, the so called “ejection effect” should be considered – i.e. to what extent the interference of the state (respectively EU) is economically

¹⁰ Total number of files, examined by the Public Procurement Agency by 25.02.2012 – 275. Total number of files, examined as of 26.02.2012 г. – 702.



justified in the specific sector/industry, in which investment will be made. It is important to point out that support should be provided, **where the private interest is either missing, or the scale of the investment appears as insurmountable impediment for the business.** The EU funds are **leverage for unlocking other investments,** and since the investments with European funds **increase the long-term capacity of the economy,** the programming of these funds should be **targeted at long-term effect and sustainability.**

FROM EFFECTIVENESS VIEW POINT

Role of the EU funds for the development of the Bulgarian society

CEAOEF has set itself the ambitious aim to initiate public discussion, related to a difficult to measure aspect of the Cohesion Policy, namely – its **effectiveness.**

If the effect can still acquire quantitative parameters and values through econometric models such as SIBILA, HERMIN, etc., and the efficiency – through base, intermediate and final values of given target indicators, the study of the effectiveness is a far more difficult task. It requires multiple assumptions, acceptance of limitations, multi-layer analysis and the results from it are still debatable. They can acquire different interpretation and meaning depending on their user (EC, MA, end beneficiary, etc.).

Therefore, CEAOEF points out that the analysis of the effectiveness of the European funds in Bulgaria is necessary and useful. We express our confidence that outlining the framework of such an approach all stakeholders will make the necessary efforts immediately after the completion of the current programming period 2007-2013 to perform complete analysis of effectiveness. On the one hand, it will contribute to the **higher quality of future programming,** and on other hand, it will provide valuable information about the **basic trends in the public expenditures policy** of the Republic of Bulgaria as a whole.

Essential is the importance of the changes in the Bulgarian society, which may be driven by the EU funds on the supply side (e.g. investments in basic infrastructure, etc.), which lead to a better production environment and bigger capacity for the long-term development of the economy. CEAOEF thinks that this approach should be preferred to the achievement of one-off effects on the demand side.

In this line of thought, to achieve higher sustainability and bigger impact of the investments with EU funds, the **multiplying effect** from the invested funds should be sought.

Based on the above mentioned, CEAOEF proposes to think on the following two aspects of effectiveness. **First,** to what extent the priorities, outlined in the beginning of the programming period, actually reflect the existing needs in the Bulgarian society. **Second,** a specific Cost-Benefit analysis of the EU funds spending.



Compliance of objectives and priorities with social and economic needs

The analysis of effectiveness should consider the actual needs of the Bulgarian economy and society for investments in concrete sectors, which generate economic growth and social development. In this sense, the analysis and assessment of the progress made with regard to the achievement of NSRF objectives proves that, on the one hand, a quick progress of the country in some sectors is observed, while at the same time the difference between Bulgaria and the average values for EU-27 remains significant. The general conclusion is that “the efforts for development should continue according to the same strategy, aiming at decreasing either the distance between the Republic of Bulgaria and the other Member States, or at counteracting the unfavourable conditions in some of the sectors.”¹¹

With respect to the implementation of some of the planned key performance indicators, result and impact, reflecting the achievement of the priorities and objectives, **significant deviations have been established** (see table 1). **To a high extent this is due, on the one hand, to the accumulated delay in the beginning of the programming period (evident from Chart 2, more essential payments have been observed since 2010), on the other hand, to the lack of feasibility of some of the parameters under the conditions of changed economic situation.**

Bulgaria is a country with a small open economy and currency, fixed to the euro through the currency board. In this sense, the economic and financial development of the country is in strong interrelation with the events in the Eurozone and in Europe as a whole. In the context of the changed external environment, the initially planned target values appear to be non-feasible.

In principle, CEAOEF supports the setting up of ambitious and high targets, but it thinks that CCU and MA should analyse objectively at what stage of its development the Bulgarian economy and society is during the programming process. For example, when we are talking about innovations, a logical question arises as to what extent the specific industry or production needs these innovations. In parallel with that, it should be noted that the policies for encouraging innovations could be more effective, if they are supported by corresponding investments in education. Especially important is the increase in the innovation capacity of the companies in line with their development level. The Cohesion Policy can lead to an actual change and effect only if it combines the sector policies in a coordinated and agreed upon framework. Notwithstanding the best desire to achieve the objectives of Europe 2020, it is necessary first to create a stable base, on which to build on, as well as to have the strategic priorities at the EU level transposed into the specific national and regional context. In this aspect, **the process of “catching up”** with regard to the average EU indicators is an objective factor, which cannot be excluded from the analysis.

CEAOEF observes higher **flexibility of financing** and the application of an **integrated approach** by the MAs of the separate operational programmes and funding sources with the aim to implement sector policies and reforms. The strengthening of this trend shows that MAs are looking for an adequate mechanism to meet the emerging needs.

¹¹ See “Analysis and evaluation of the progress with regard to achievement of the objectives/priorities of NSRF and the relevant contribution of the operational programs – Final Summary Report ”

TABLE 1

STRATEGIC OBJECTIVES, PRIORITERS AND INDICATORS IN NSRF 2007-2013

Strategic objectives	Indicator	Base value	2007	2008	2009	2010	2011	Q3 2012	Target value
1. Increasing the competitiveness of the economy to achieve high and sustainable growth	1. Percentage of GDP per capita (PPP) of EU average	32.1 % (2005)	40.0%	43.6%	43.8%	43.9%	45.0%		51.2% (2013)
	2. GDP growth (average annual base)	5% (2000–2006)	1.90%						5.73% (2007-2013)
	3. Export/GDP	60.8% (2005)	59.47%	58.22%	47.51%	57.41%	66.51%		89.77% (2013)
2. Development of human capital to ensure higher employment, income and social integration.	1. Employment level;	55.8% (2005)	61.7%	64.0%	62.6%	59.7%	58.5%	60.6%	64% (2013)
	2. Unemployment level;	10.1% (2005)	6.9%	5.6%	6.8%	10.2%	11.2%	11.5%	7% (2013)
	3. Poverty risk	14.2% (2005)	22%	21.4%	21.8%	20.7%	22.4%		13% (2013)
Strategic priorities	Indicator	Base value	2007	2008	2009	2010	2011	Q3 2012	Target value
1. Improvement of the basic infrastructure	2. Time reduction, million hours	0 (railway lines) 0 (motorways)							2.3 (2013) – railway lines 1.3 (2013) - motorways
	4. Population, having access to Water & Sewerage (W&S) systems	40.5% (2004)	42.25	43.94	45.29	47.76	n/a	49.22	66.46 (2013)
2. Improving the qualities of the human capital with an emphasis on employment	1. Level of economic activity – population aged 15–64	62.1% (2005)	66.3%	67.8%	67.2%	66.5%	66.0%	66.6%	68.5% (2013)
	2. Share of the population aged 25 - 64, participating in training and retraining courses	1.3% (2005)	1.3%	1.4%	1.4%	1.2%	1.16%		5% (2013)
	3 Share of the population aged 18 - 24 with secondary education and without additional qualification	18% (2005)							16% (2013)
3. Encouraging entrepreneurship, favourable business environment and good management	1. Labour productivity	3.5% (2005)	3.2%	3.5%	-2.9%	5.3%	6.1%		5%
	2. Direct foreign investments (DFI);	EUR 11.7 million (2000-2006)		19.2	22.4	22.1	21.6		21.7 million (2007-2013)
	3. Maximum number of days, needed for new company registration	32 (2006)							1 (2013)
	4. Maximum number of the procedures, needed for new company registration	9 (2006)							1 (2013)
Maintenance of balanced territorial development	1. Increasing the income and the employment in the underdeveloped and peripheral regions as a result of the Cohesion Policy interventions	0%							



PART 2: SUMMARY OF THE “NIE” MODEL - NEEDS, INVESTMENTS, EFFECT

Logical scheme of the model (NIE):



The conceptual framework of this analysis is made in the form of logical model, which should be used as a connection between the needed information from the official databases and the information from the interviews and questions, which have been answered during the on-site survey. The logical model studies the connection between the needs of the Bulgarian economy, the investments for their satisfaction (collected from the formal statistical data) and the effects (the results and their impact on the whole society).

The ambition of the “NIE” model is in the first place to identify the existing needs in the Bulgarian society, planned to be satisfied from the EU funds for the period 2007-2013, and after that – to examine the size of the financial resources, allocated under the OPs, the process of actual contracting of resources and payments, and finally - to focus on the concrete results and their impact on the social and economic life in Bulgaria.

NEEDS

The needs, presented in details by the separate Operational Programmes: the Rural Development Programme 2007-2013, OP “Fisheries Sector Development” 2007-2013 and Cross Border Cooperation Programmes, are in accordance with the identified priority axes, reflecting the specific needs by programme (see the full content of the report).

INVESTMENTS

TABLE 2

(in million euros)

OPERATIONAL PROGRAMME		Transport	Environment	Regional Development	Competitiveness	Tech. Assistance	HR Development	Admin. Capacity	Total
EU co-financing		1 624	1 466	1 361	988	48	1 032	154	6 674
National co-financing		379	334	240	174	9	182	27	1 346
Total amount of financial assistance		2 003	1 801	1 601	1 162	57	1 214	181	8 019
Contracted amounts	Total as to 31.12.2011	1 742	959	1 137	489	29	791	107	5 254
	<i>of the total budget</i>	86,96%	53,23%	71,01%	42,11%	50,43%	65,14%	59,24%	65,52%
	Only in 2012*	187	1 250	303	370	13	181	22	2 326
	<i>of the total budget</i>	9,35%	69,43%	18,92%	31,86%	22,24%	14,88%	12,42%	29,01%
	Total as to 31.10.2012	1 930	2 209	1 440	860	41	971	130	7 580
	<i>of the total budget</i>	96,31%	122,66%	89,93%	73,97%	72,67%	80,03%	71,66%	94,53%
Paid amounts	Total as to 31.12.2011	454	198	323	271	12	197	51	1 506
	<i>of the total budget</i>	22,66%	11,00%	20,19%	23,30%	21,39%	16,21%	27,95%	18,78%
	Only in 2012*	320	86	168	213	6	145	16	953
	<i>of the total budget</i>	15,98%	4,77%	10,48%	18,37%	9,81%	11,91%	8,62%	11,89%
	Total as to 31.10.2012	774	284	491	484	18	341	66	2 459
	<i>of the total budget</i>	38,65%	15,76%	30,67%	41,66%	31,21%	28,13%	36,57%	30,66%

* Up to 31.10.2012



EFFECT

General conclusions on the results achieved and impact of the seven operational programmes:

OP “Transport” – the big infrastructure projects have led to a series of important results:

16 km of new railway lines in connection with the electrification and reconstruction of **“Svilengrad – Turkish border” railroad** have been built. **126 km railway lines** have been rehabilitated along **“Plovdiv – Burgas” railroad**.

The commissioning of the new sections of **Trakia Motorway** has increased the average travel speed along the motorway, reduced the travel time, and decreased traffic accidents within the new sections, and created a significant positive environmental effects. **82 km of a new motorway section** have been built and consecutively put into operation, compared with target value of 26.5 km.

The implementation of Sofia Metro extension project has ensured faster and more convenient urban transport, reduced travel time in Sofia, lower noise and environmental pollution level, and improved traffic in the capital city. **13 metro stations** and **13.2 km metro lines** have been built, which are used on a daily basis by **over 300 thousand passengers**. **Intermodal connection** between the suburbs and the central part of the capital city, Central Railway Station, Central Bus Station; the implementation of phase III of the project by the end of 2014 will provide connection with Sofia Airport.

The **cooperation with the World Bank and the Bulgarian Investment Bank** for consultation services for the railway and road sector is successful. Co-funding from EIB to the amount of EUR 105 million for Sofia Metro has been provided, and EUR 15 million will be provided in connection with the reconstruction and electrification of Plovdiv-Svilengrad railroad along Corridors IV and IX, within Parvomai – Svilengrad section.

The investments in base infrastructure are of key importance for the **improvement of the business environment** in Bulgaria. A serious prerequisite for implementing the “catching up process” with the average European target values is the better connectivity, security, and the transport speed as a whole.

OP “Environment” – the programme helps to improve the conditions and quality of life of the population in the country through implementation of activities directed towards water quality improvement, waste management improvement and soil protection, biodiversity preservation and nature protection. 116 projects have been completed under OPE, out of which 21 investment projects have been commissioned (20 under axis 1 and 1 under axis 2). The achieved results to a high extent are due to the newly introduced project selection approach and the transition towards a procedure for direct grant provision. This approach allows active dialog and consultations with the municipalities for strengthening of their readiness and for ensuring high quality of project proposals.

As a result of the investments made under axis 1 of OPE for improving the infrastructure for drinking and waste water, three new **Waste Water Treatment Plants (WWTP)** have been built – in the cities of Sopot, Troyan and Hisariya, 12 collectors, 4 pumping stations



and 4 water pushers. 125.93 km of **water supply networks** and 160.02 km of **sewerage networks** have been built and reconstructed, to which have been connected or which will be used by 195 355 p. e. The renewed W&S network contributes to improvement of drinking water quality and reduction of drinking water losses.

By putting into operation **the regional waste management system** in the Botevgrad region, more than 188 thousand tons of carbon dioxide emissions will be saved during the next 30 years.

In the Biodiversity sector activities to improve the **living environment for plant and animal species** in the regions with investments (restoration of habitats and populations) are supported. Plans for management of **protected areas and protected zones from NATURA 2000** are developed. The biggest project for **mapping the zones within the framework of NATURA 2000** is in progress. 34 km of eco-paths and 15 bridge structures along routes have been built and reconstructed.

CEADEF also recognises the progress made in the implementation of commitments related to the European legislation for building the necessary **W&S infrastructure in the small settlements**, through the procedure for “Improvement and Development of the Drinking and Waste Water Infrastructure in Agglomerations between 2 000 and 10 000 e. p.” announced in November 2011.

An important progress in the process of implementation of the **reform in the water sector and integrated water management** was made by a project¹² under OPE with beneficiary the Ministry of Regional Development and Public Works with a total grant amount of EUR 8,6 million, which started on 21 July 2012.

The conducted information days, seminars, conferences and campaigns to popularise the programme have effected **a change in the public attitudes, related to the environment, its protection, and the environmentally friendly thinking** as a whole.

OP “Regional Development” – the programme plays the important role of a driving force for the development of urban agglomerations and is a **main source of investment funds for the municipalities**.

The already implemented 228 projects under OPRD have improved the urban environment and the attractiveness of the cities. More than 1.1 million people use the renovated urban environment – built/rehabilitated parks, green spaces, children’s playgrounds (above 398 thousand sq. m.), pedestrian zones, bicycle alleys, sidewalks (above 216 thousand sq. m.). More than 1.5 million people use the renovated 382 buildings of the educational, social, and cultural infrastructure, in which significant energy saving has been achieved as a result of the investments made. The educational infrastructure of 173 schools, in which 33 800 pupils are trained, has been improved.

The **road infrastructure and the regional connectivity** of the urban areas have been improved through the rehabilitation of **372 km of the Republican road network**. The extension and reconstruction of 3.582 km of road network in the road II-18 sections of **Sofia Ring Road – Southern Arc** and road connection of “Mladost” road junction, have

¹² „Strategic planning and strengthening the capacity of the structures, involved in W&S sector reform process to ensure sustainable W&S infrastructure management”



improved the regional accessibility to Sofia District and created the necessary conditions for improving to a significant degree the business connections between the economic centres in the region and those in the country. The road section accommodates the automobile traffic of Sofia and the traffic from Trakia and Hemus Motorways in the direction to South-western Bulgaria and the neighbouring countries. It is expected that by 2015 the average 24-hour passenger and freight traffic along the rehabilitated section will be increased to 13 thousand motor vehicles.

The implemented 28 projects for preventing landslides, which helped to reinforce more than 588 sq. m. of landslides, have minimized the environmental risks.

The programme has been successfully implementing the **integrated approach to investments**, combining measures under separate programmes (OPHR and RDP) and sources of funding to accomplish the key for Bulgaria reform of the National system for support to children deprived of parental care, through the system for **de-institutionalisation of social institutions and improvement of children's quality of life**. 62 municipalities in the urban agglomerations implement projects, the grant funds for which amount to EUR 53 million. With the implementation of the projects 133 centres for family type accommodation and 27 protected housings will be constructed. With regard to the **de-institutionalisation** of the Homes for Medical-Social Cares for Children aged 0-3 years (HMSSC), EUR 5 million are earmarked under OPRD. 1 grant contract with concrete beneficiary the Ministry of Health (MH) for restructuring of 8 pilot HMSSC is being implemented aiming at the provision of innovative integrated services for **de-institutionalisation** and prevention of abandoning of children aged 0-3 years.

OP "Development of the Competitiveness of the Bulgarian Economy" – the programme supports the competitiveness of the Bulgarian economy by increasing the production capacity of the companies in the country. To date, according to updated information in the enterprises supported by OPDCRB, it has increased by 34.5 %. Technological modernization is being achieved – the average age of the technological equipment at the beneficiaries of the programme has decreased by 13.8 %. Investments amounting to EUR 206 million have been made. 12 R&D projects have been successfully implemented and supported for presentation in the market. 6 instruments for financial engineering with a total resource amounting to EUR 350 million have been created to overcome the problem related to the absence of sufficient own funding for project implementation in the Bulgarian business, etc.

OP "Human Resources Development" – the programme has significant contribution to the optimisation of the labour market conditions in Bulgaria. The National Reform Programme, in combination with the measures provided for in the National Employment Action Plan and the target use of the resources of the European Social Fund through OP "Human Resource Development", underlie the integrated approach to formulating and undertaking concrete actions for lowering the unemployment levels in the country, putting an emphasis on the youth employment. Within the framework of the National Employment Action Plan for 2012, financing has been ensured for training and employment to the amount of BGN 73 million for active policy from the state budget and approximately BGN 350 million for 2012 from OP "HRD". These funds are used by different groups of employed and unemployed persons, among them employed and



unemployed young people, who form a priority group in a number of programmes and schemes under OP “HRD”. Especially, under programmes and schemes dedicated to the youth within the framework of the National Employment Action Plan for 2012, financing for training and employment amounting to BGN 9.6 million from the funds for active policy from the state budget and approximately BGN 27 million for 2012 from OP “HRD” have been provided.

Thus, since the beginning of 2012, more than 9 700 new jobs have been created. In total, since the beginning of the programming period, about 68 000 unemployed persons have been enrolled in training courses, and the number of the included in employment after training exceeds 51 000 people.

The programme has a positive impact on the ensuring of **transition from education to employment** and helps to activate the so called “knowledge triangle” through specific measure for strengthening the links among the institutions for education and training, the R&D sector, and the business, whose effectiveness indicators are expected to improve (to date, the indicators’ performance level under the measure is 25% on the average).

Lowering the number of persons at risk of premature school dropout, which is one of the main objectives of Europe 2020 (below 10%), is also one of the challenges in front of OP “HRD”, which it successfully addresses (the persons, covered by measures for prevention of early dropout from school are 88 223, or more than 50% of the total number of dropouts).

The students, who receive stipends, are almost 94 000, compared to a base value of 8 thousand persons. The percentage of students, participating in mechanisms for students’ crediting is also bigger in comparison with previous years (from 2007 to 2012 it has become 12%, or more than 96 000 persons, who have used credits or supplementing stipends), which determines the growing interest towards these mechanisms, which until recently have not enjoyed high popularity (in February 2011 the number of students’ credits was 3000, several months later they were more than 4800, to the total amount of more than BGN 20 million; for 2012 according to data of the Ministry of Education, Youth and Science (MEYS), bank guarantee from the state budget to the amount of BGN 80.5 million has been ensured).

In the field of **social inclusion**, the most important results have been related to the support, which OP “HRD” provides to the development of social economy and the integration of people with disabilities. In this connection, under the operational programme, support has been provided to approximately 50 social enterprises, in which training and employment for people from the most vulnerable labour market groups is ensured.

The integration of the people with disabilities is encouraged on the one hand through the support of specialized enterprises and cooperatives of people with disabilities, and on the other hand, through the operations, under which the services “home attendant”, “social assistant” and “personal assistant” are provided. The number of the consumers, serviced in family environment, exceeds 58 thousand persons, most of all receiving the social services social/personal assistant/home attendant. It is a positive trend that only during



the current year the number of the persons, who have started a job after provision of care in a family environment for their children and relatives, is higher than 530.

OP “Administrative Capacity” – the programme aims at improving the work of the public administration to implement effective policies, quality servicing of the citizens and the businesses, and increasing the professionalism, transparency and accountability in the judiciary system.

With regard to the modernization of the judiciary system in purely technical aspects under OPAC, remarkable results have been achieved – for example the bodies of the judiciary, which **have introduced case management systems, are 146** out of the total of 174 courts and prosecutor’s offices. The newly developed (and updated) training modules for the judiciary are 89 compared to the target value of 25.

As regards one of the basic objectives of OPAC– raising the administrative capacity of the state and local authorities through different forms of training, the observed results are not fully satisfactory. Thus, the total share of the trained employees in the administration is just 9% of the planned target. The percentage of trained persons from the local administration is even lower – about 1% of the planned target. These results are due to the fact that the programme has not yet completed its operation, and just after its completion that a full assessment of the achieved benefits, expressed quantitatively, can be made.

The picture for the achieved results with regard to the indicators included in Priority Axis (PA) 3 “Quality Administrative Services and Development of Electronic Government“, which is one of the most important aspects of OPAC, is slightly different. More than 50% of all administrations observe the standard time for service provision (20 min.), due to the measures under OPAC. In this manner, as a whole there is a reduction of the time needed for the citizens and businesses to receive service or information from the administration. As far as the services provided on-line are concerned, through the funds under OPAC 2100 electronic services are offered, which exceeds the planned target more than twice. The services, included in the e-justice portal should be not less than 10, while at present none has been registered. 48 from the input 70 administrations have introduced practices for service provision to disadvantaged persons.

OP “Technical Assistance” is a specific horizontal programme, directed towards supporting structures, participating in the management, supervision and popularisation of the Structural instruments.

As a whole, OPTA can be evaluated as a successful programme, considering its objectives and their implementation. Although the benefits from OPTA are almost fully directed towards the administration, involved with the EU funds management in our country, some positive effects for the society can be pointed out, which are of indirect nature. Thus, for example, excellent performance of the objectives for organized training courses and number of trained local authorities’ representatives is observed – respectively 207 training courses compared with the target value of 200 and 3400 trained experts compared with the target value of 3500 for the whole programming period. The effect for the citizens from increased competence at the local level for work under projects, financed with



European funds, consists in potential increase of the interest of the beneficiaries towards participation and implementation of projects under SCF.

Another important contribution of OPTA is undoubtedly UMIS, which provides opportunity for the beneficiaries to become informed about all stages during the implementation of projects, financed by EU funds. The degree of satisfaction of UMIS users is significant – 71%, which is due to the fact that the Bulgarian system is one of the most transparent, since it allows the widest access to the available information, compared with the same type of systems in the other Member States.

An important element of the operation of OPTA is the building of the 28 District Information Centres (DIC), which provide information to all stakeholders about the possibilities for financing during the current programming period, and outline the directions for the next programming period. The users of the information, supplied by the 28 DIC, demonstrate significant satisfaction – 87% compared with planned target of 80%.

The developed under OPTA **unified portal** for general and specialized information on the management of the Structural Funds and the Cohesion Fund in Bulgaria - www.eufunds.bg, provides opportunity to increase the knowledge of the target groups about the operational programmes and facilitates them to find the needed information about the EU Structural instruments in one and the same place.

The **SIBILA model** has been developed (adapted HERMIN model) to assess the impact of the EU funding on the macroeconomic situation in Bulgaria, using funding under the programme.

The preparation of the **Partnership Contract of the Republic of Bulgaria for the period 2014–2020**, as well as other important for our country strategic programming documents – analytic support for the preparation of the **National Development Programme: Bulgaria 2020** has been funded under the programme.

GOOD EXAMPLES FROM THE OPERATIONAL PROGRAMMES

TABLE 3

Operational programme		Example for achieved effect
1	Transport	Lots 2,3 and partially 4 of Trakia Motorway Sofia Metro – phase 1 and phase 2
2	Environment	Integrated project for improving the water sector of Hisariya city: Component 1. Extension, reconstruction and modernization of the WWTP of the city of Hisariya. Building of the regional waste management system in Botevgrad region. Restoration of the habitat and the biological diversity in the territory of Balgarka Natural Park.



3	Regional development	<p>Lot 31 – Rehabilitation and reconstruction of road II-18 Sofia Circle Road – South Tangent and road junction “Mladost” in the section from the Ring Road to the beginning of the existing overpass.</p> <p>Rehabilitation and restoration of children’s playgrounds and public recreation zones within the inter-block areas and completion and reconstruction of pedestrian subways in the territory of seven regions of the Metropolitan municipality.</p> <p>Repair and reconstruction of school buildings in Plovdiv city.</p>
4	Competitiveness	<p>“Holcim Bulgaria” AD</p> <p>“Aroma” AD</p> <p>“Biomashinostroene” AD</p>
5	Human resources	<p>“New beginning – from education to employment”</p> <p>“Centre for Family Type Accommodation – for happier childhood”</p> <p>Project “I can do more”</p>
6	Administrative capacity	<p><u>Supreme Judicial Council</u> – a pilot project for the implementation of equipment for video-conferencing for interrogations, expert examinations, testifying, and presentation of material evidence.</p> <p><u>National Assembly of the Republic of Bulgaria</u> – “Information and Administrative Centre has been built, aiming at improving the transparency in the work of the people’s representatives. The sessions of the Parliament can be watched in real time via the web site of the institution.</p>
7	Technical Assistance	<p>Information system for EU funds management and control has been built.</p> <p>28 District Information Centres have been created.</p> <p>Econometric model (SIBILA) for assessing the impact of the EU funds has been created.</p>



PART 3: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS OF CEAOEF

This part of the report is focused on Bulgaria's preparation for the new programming period of the Cohesion Policy for the period 2014-2020. To this end, CEAOEF has stated the remaining challenges in front of the MA for the purpose of achieving high results under the OPs and has made specific recommendations to the process of programming and preparation of the Partnership Contracts between the EC and Bulgaria and the new OPs.

In order to clearly highlight the environment in which the process of preparation of Bulgaria for the next programming period is proceeding - first, the main changes in the EU Cohesion policy for the period 2014-2020 are presented:

Changes in the EU Cohesion policy in the period 2014-2020

The proposal for the MFF 2014-2020 has introduced a **results-driven approach** to spending from the EU budget to achieve European added value. It is envisaged that financing will be more closely linked to the **fulfilment of certain conditions** (ex-ante and macro), and that **financial instruments** will play a more significant role. The EU budget is seen as **an investment budget (investment tool)**, as in the current crisis, it invests in growth, employment and competitiveness, contributing to the fulfilment of the objectives of the Europe 2020 strategy.

The MFF revises specific EU policies such as the Cohesion Policy (CP) and the Common Agricultural Policy (CAP), whose budget is of great strategic importance for the development of EU regions. The EU Cohesion policy has traditionally occupied a leading position among the Union's policies regarding the amount of allocations.

The proposed changes to the CP aim at **closer relationship with the priorities of the Europe 2020 strategy** and offer a **more effective, results-driven, strategic and integrated approach** of support provided by the Funds. At policy level, the two main objectives at which the support provided by the Funds to all regions is targeted are: **investment for growth and jobs and territorial cooperation**.

The most significant change proposed by the new legislative package for the CP is the development of a Common Strategic Framework (CSF) for all Funds and **Partnership Contracts** (PC) between the EC and the Member States through which the CSF is translated into a national strategy.

A **strategic approach** has been applied to programming of funds through the proposed **thematic concentration** of all CSF funds in **11 thematic objectives**¹³ aimed at achieving

¹³ Thematic objectives under the CSF

- (1) Strengthening research, technological development and innovation;
- (2) Enhancing access to, and use and quality of, information and communication technologies;
- (3) Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector;
- (4) Supporting the shift towards a low-carbon economy in all sectors;
- (5) Promoting climate change adaptation, risk prevention and management;



the priorities of the Europe 2020 strategy. In the proposals for regulations on individual Funds (ERDF, ESF and CF), for each thematic objective a detailed list of **investment priorities** is prepared. Parallel to the thematic priorities, **horizontal** ones are provided, reflecting the impact of the funds on climate change and the environment, equal opportunities and non-discrimination.

Another important element of the new CP is the **integrated approach for territorial development** whereby support from various funds is coordinated and supplemented to meet the specific needs of different types of territories. Thus a significant **strategic coordination** between the various funds and policies is to be achieved. The provisions on **partnership and multilevel governance** throughout the programming cycle have been strengthened.

In the new programming period a **strong emphasis is placed on results**. In support of the approach based on performance and results, a **comprehensive framework for review and evaluation of programme implementation** is proposed - a **system of conditionalities** (ex-ante and macro) is put in place, and it is proposed to introduce a performance reserve (5% of the allocated resources). Implementation is tied to the achievement of specific **milestones** for each priority axis. Failure to reach targets and conditionalities can lead to **specific penalties** - suspension of payments under the programmes or financial corrections. The system for monitoring and evaluation of programmes envisages the definition of **common and Fund-specific indicators** having a base and a target value at the very beginning of the programming period.

The new system of conditionalities includes:

- **Ex-ante conditionalities** – their purpose is to ensure that prerequisites for effective CP be put in place. In this regard, it is proposed to introduce two types of conditions: **thematic** (related to 11 thematic objectives) and **common** (related to horizontal principles);
- **Macroeconomic conditionalities** – related to building a closer relationship between the CP and the **EU economic governance** in two directions: ensuring **compliance with the recommendations of the Council** concerning the excessive deficit procedure and the macroeconomic imbalances procedure, as well as providing **EU financial assistance** to a Member State experiencing temporary budgetary difficulties.

Negotiations on the CP between Member States are focused on achieving a mutually acceptable decision on the **main controversial issues** related to: aid intensity and the proposed 'threshold' of funds as a percentage of GDP; the proposed system of conditionalities; the performance reserve; the link between achieving thematic

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- (6) Promoting the environment and promoting resource efficiency;
 - (7) Promoting sustainable transport and removing bottlenecks in key network infrastructures;
 - (8) Promoting employment and supporting labour mobility;
 - (9) Promoting social inclusion and combating poverty;
 - (10) Investing in education, skills and lifelong learning;
 - (11) Enhancing institutional capacity and an efficient public administration



concentration and providing flexibility to Member States to finance their specific needs; transfer of funds from the CF to the Connecting Europe Facility; rates of pre-financing and eligibility of VAT costs.

CEAOEF, through the mechanisms provided by the Treaty of Lisbon, as early as 2011, expressed its position on the legislative package for the Cohesion policy and the Common Agricultural Policy. In 2012, CEAOEF continue to actively participate in the discussions on the future financial framework of the EU and the Cohesion Policy. In this regard, a series of hearings of the Minister of Foreign Affairs and the Minister of the Management of EU Funds were held, which presented the **Bulgarian position** on the topic.

Given the importance of the CP for Bulgaria's development as a key tool for achieving the objectives of Europe 2020 strategy, in the negotiations on the MFF Bulgaria, which is part of the Friends of Cohesion Policy group, has defended the **provision of an adequate level of funding for the CP**.

CEAOEF believes that the EU budget should be fair, **taking into account the level of economic development of each Member State**. The Cohesion policy should contribute to addressing the gap between developed and developing economies and realizing the catching-up process. In this regard, possible reductions in the CP, especially with regard to less developed countries and regions, will lead to a slowdown in the convergence process. CEAOEF expects that during the negotiations a reasonable balance between donor countries and recipient countries will be achieved for the benefit of the general direction of EU development - increasing the competitiveness and prosperity of citizens. CEAOEF stresses that "cohesion" and "better spending" should be complementary to each other and they can thus lead to this effect. Therefore, our focus of debate should be on the **three "Rs" – Results, Reforms and Regions**.

CEAOEF recommendations for the EU programming period 2014-2020 and challenges in the process of programming at national level

The recommendations are derived on the basis of the review of the proposals for the CP for the period 2014-2020, the Government's position on the issue, the discussions within the Parliamentary committee and with representatives of the civil society through the Council for Public Consultations under CEAOEF, and are also a result of the participation of Bulgarian Members of Parliament in international meetings and conferences on the new CP.

On the basis of the review of the achievements of the Operational Programmes and the overall functioning of the system for management and control of EU funds, CEAOEF has formulated the following main conclusions, "lessons learned" from the current programming period, and recommendations for the new programming period of the Cohesion Policy 2014 -2020:

1. Exiting from the crisis and limited financial resources will require a strong commitment to achieving high efficiency of the **Cohesion policy and its focusing on achieving concrete and visible results**. In this sense, the projects proposed for funding will need to be



extremely well justified. This means that the NIE model - "needs-investment-effect" - should be followed very strictly and should underlie the justification of all projects.

CEAOEF believes that the programming process, in addition to being based on an analysis at the level of measures and axes, should be preceded by a thorough analysis at project level. Such an analysis should focus on the achievement of the planned financial and economic indicators (including profitability and efficiency ones) of the underlying investment.

Given that the 2007-2013 programming period is the first one for Bulgaria as a Member State, the emphasis in the management of EU funds is primarily on their successful absorption, i.e. on efficiency. CEOEF thinks that the rate of absorption is obviously a prerequisite for achieving the strategic objectives, but should not be an end in itself. There should be an even greater commitment to programme results and objectives.

On their part, the Controlling authorities could focus on **tracking performance and effectiveness of expenditure** rather than controlling costs, regardless of the ultimate objectives of the projects. Such is the ambition of CEOEF in monitoring and controlling the spending of EU funds.

2. The Cohesion Policy is more than financial transfers or a reallocation tool. In the new programming period it will be **an important tool for coordinating the common European guidelines** and applying them in the Member States **with the participation of partners at all levels of government**. The Cohesion policy for the period 2014-2020 is expected to be a medium- and long-term **investment policy**. In this regard, the recognition of the Cohesion policy as **development policy** should be reinforced.

CEAOEF believes that national parliaments can be recognized as **an important partner for governments to implement the CP "on the ground"**. It is parliaments, expressing the voice of citizens, that can successfully implement the concept of territorial cohesion as an instrument of the CP, mobilizing the individual development potential of each region, and turning it into a centre for growth. The complementary role of national parliaments in this respect may be a key factor for a better democratic legitimacy of the "Europe of the Regions". CEOEF considers that there is a need for **stronger involvement of national parliaments not only in the debate on the future framework of the CP, but in the process of its implementation as well**.

3. CEOEF recognizes the need for the so-called **"Intelligent solidarity"** - the use of EU funds to implement reforms, observe financial discipline and ensure political and economic stability.

4. It is necessary **to submit the Europe 2020 strategy through the national vision of the results** we want to achieve by means of the Cohesion Policy and the Structural Funds in the next programming period. During the programming process the focus should be maintained on the objectives of economic, social and territorial cohesion – i.e. how the Cohesion Policy contributes to Europe 2020 and not vice versa. In this connection it is



important to strengthen coordination between national policies and the European Union.

In the programming period 2007-2013, CEAOEF recognises the lack of a clear vision for the development of Bulgaria in the medium term. This is why CEAOEF welcomes the **National Development Programme: Bulgaria 2020**, which shows the relationship among the EU priorities in the context of the Europe 2020 strategy and the national priorities of Bulgaria. CEAOEF considers that the measures taken under the Operational Programmes in the current programming period are a good basis for achieving the goals set by Bulgaria in the context of the Europe 2020 strategy.

However, CEAOEF recognizes that further efforts are needed to achieve the objectives of Europe 2020. **EU Structural Instruments are an important resource, which should be also used to address these objectives in the new programming period. In this connection, CEAOEF recommends to the MAs to provide for measures to achieve the objectives and relevant indicators in this direction in the preparation of the OP.**

CEAOEF has taken into account the **position of the EC on the development of PC and OP 2014-2020** presented in Sofia on 12 November 2012 and the identified **key challenges** to social and economic life in Bulgaria. Among the remaining challenges to be further addressed with EU funds in order to achieve the national goals set up by Bulgaria in connection with the Europe 2020 strategy, CEAOEF focuses on:

- High energy intensity of the Bulgarian economy and low labour productivity;
- Improving access to jobs, with a focus on young people;
- Discrepancy between education attained and the needs of the labour market (promoting the relationship between higher education and the real sector);
- Lower costs for research and innovation – setting up Centres of Excellence;
- Inefficient public services and judicial system - strengthening the administrative capacity of the public administration and the judiciary, widespread use of electronic services by citizens and businesses (e-government).

In this connection, we hereby urge CCU and MAs, when setting up their priorities in the programming process, to plan indicators that monitor compliance so that the identified challenges be met at the end of the next programming period.

5. Given the focus of the Cohesion policy 2014-2020 targeted at the achievement of visible results and impact, CEAOEF believes that in the new programming period, the emphasis should be placed on examining the effect of the implementation of EU funds by clearly defined **outcome indicators and impact indicators**.

CEAOEF believes that in the period 2014-2020 **outcome indicators** should play a central role in the preparation of Annual progress reports on the OP by MA. A clearer focus on outcome indicators rather than on actual spending and performance indicators will result in reporting the progress made under the programmes, which is orientation to the effect achieved.



In this regard, we support the proposal of the European Parliament establishing the **EU Performance Accountability Framework** and we believe that it can be successfully adapted at the national level. The proposed performance accountability framework includes the annual reports of the EC to the EP, and the annual debate on the implementation of the CP in the Council, parallel to **refocusing the OP performance reports on implementation of the results**.

In this context, CEAOEF believes that quantitative indicators should be set up that are realistic, achievable and measurable in order to avoid the risk of making the programming documents "theoretical", failing to report sufficiently the objective economic circumstances and the catching-up process in the Bulgarian economy as regards average EU levels.

Another important element is the study of the **territorial effect** of investment. In this regard, we encourage future annual progress reports on the OP to include information on the **territorial allocation of funds under each OP thematic objective at regional and local level - possibly at the level of NUTS III** (in the case of Bulgaria - regions and regional cities).

In this regard, the development of a **system of common outcome indicators** on EU level and the consistency among indicators applicable to the individual funds will be particularly useful for the Member States in the programming process. Thus, the requirement for putting in place reliable statistical systems and outcome indicators, set as a CSF precondition, can be adequately implemented by all Member States.

6. The Cohesion policy can be effective and lead to a real change only if it **incorporates sectoral policies in a coordinated and coherent framework**.

The application of an **integrated approach** to the different programmes and funding sources and seeking a synergy effect are key factors for successful implementation of reforms in the country with the help of EU Funds. CEAOEF believes that the combination of support from EU Funds in the implementation of structural reforms in the country will overcome the obstacles faced by the economic development, labour market and educational system.

Such synergy between the various operational programmes, priorities and funding sources has been achieved during this programming period with a view to the implementation of a number of important reforms for the country in the field of de-institutionalisation of child care and social inclusion, reform in the water sector, as well as in employment, healthcare, education and energy efficiency.

In line with its recommendation for **wider application of financial engineering instruments and an integrated approach between the various sources of funding** for the implementation of key policies and reforms, CEAOEF welcomes OPRD MA and OP Development of the Competitiveness of the Bulgarian Economy MA **new approach to the energy efficiency measures**, namely the **combined use of a grant scheme and financial engineering**. This new approach has been successfully applied by the schemes **to support**



energy efficiency in multifamily buildings (OPRD) and "Energy efficiency and green economy" (OPDCBE).

CEAOEF believes that the successful implementation of the above schemes is **an important part of pursuing a comprehensive energy efficiency policy in the country and promotion of "green" economy**. At the same time, **both the beneficiaries and the MA gain experience in implementing financial engineering instruments**, which is a prerequisite for their widespread implementation in the new programming period.

7. CEAOEF recommends that the Government should establish a "**best practices guide**" of the current programming period, containing practical results, effect and lessons learned from previous work. This will benefit both potential future beneficiaries in the programming of the next period and, in view of our policy for support and **sharing of know-how with the countries of South Eastern Europe**, the new EU Member States such as Croatia, where the new programming period will be the first of its kind.

As a starting point in the formulation of the lessons of this programming period, CEAOEF has defined **10 key conclusions** related to the need for:

- (1) Vision: clarity and coherence;
- (2) Prioritisation and goal setting;
- (3) Standardization - type documents and e-government;
- (4) Clear rules and less bureaucracy;
- (5) Transparency;
- (6) Trust and continuous dialogue with all stakeholders at national and EU level;
- (7) Discipline;
- (8) Internal immunity and sustainable systems for management and control;
- (9) Fast start of programme implementation, given the strict time frames for project implementation. Sufficient number of large infrastructure projects (in the transport and environment sectors) ready to be financed;
- (10) Strengthening the capacity of the administration and beneficiaries.

8. It is required to make a **thorough analysis of the errors in the current programming period and possible legislative changes** in the direction of setting up a comprehensive legal framework for the management of EU funds in the form of law. Thus it will be possible in the new programming period to put into practice the **principle of proportionality** - without underestimating rules to **reduce administrative burdens and facilitate streamlining of procedures**. This will lead to greater efficiency in the absorption of EU funds.



Administrative procedures should be as free from unnecessary burdens as possible and should not add additional requirements to the existing ones set by the European Commission. They should be designed to facilitate the beneficiaries so that EU funds can become more accessible.

CEAOEF believes that streamlining procedures and reducing red tape at every stage of project implementation is **equally important for both the beneficiaries and the administration**. Only through measures to simplify programme implementation we can reach high efficiency and maximize the effect of support from EU Funds in the conditions of resource constraints.

In this respect, we encourage the implementation of the **Simplifying Agenda for the MFF 2014-2020, COM (2012) 42**. By reducing the administrative burden for project reporting and shifting the focus on real results, we welcome the extended use of **simplified methods for calculating costs** (such as lump sums, flat rates and standard scales of unit costs).

9. 2014-2020: "e-Cohesion"

In the context of growing trends to implement CP processes fully electronically at EU level, CEAOEF encourages further development of the information system for EU funds in Bulgaria.

CEAOEF recognizes the progress made with regard to the unified management information system for EU funds in Bulgaria (UMIS) not only as a database of projects, beneficiaries and financial parameters, but also as a means to electronically apply for OP, which is an essential step towards reducing administrative burden for beneficiaries. Electronic project reporting is still a challenge.

10. To avoid the risk of "late start". High project pipeline - "mature projects"¹⁴, direct funding approach

The lack of sufficient experience as a new Member State and European-level factors such as slowing the process of approval of the EU budget, slowing the approval of operational programmes, etc. have led to the **late start** of the implementation of the programmes in the current programming period, late obtaining of positive conformity assessment of management and control systems of the operational programmes from the EC and respectively - delayed interim payments under the programmes which generated low rates of absorption of EU funds in the country.

CEAOEF also recognizes similar risks at European level in preparation for the new programming period 2014-2020, relating to the late negotiations on the Multiannual Financial Framework for the period 2014-2020. This might cause lack of clarity on the cost rate of the Cohesion policy and late adoption of the legislative package for CP implementation, including the Proposal for a Regulation on the Common Strategic Framework (CSF) for all funds. Such a time lag would have a negative impact on the programming process at the national level - the approval of the Partnership Contract and the operational programmes of the European Commission, despite the developed clear

¹⁴ Projects to the full extent of the pipeline - technical and business projects for the purposes of SDA.



time and thematic framework for the programming process by the draft regulation on the CSF.

In order to minimize this risk, **CEAOEF calls for optimal organization at the national level in the programming process to allow strategic documents of Bulgaria to be ready well before the start of the new programming period.** In this regard, CEAOEF has recommended to the RDP MA and RDOP to compensate for the backlog in the programming process, not to slow down the overall process of submitting the Partnership Contract.

CEAOEF has identified **the lack of project pipeline and identified priority projects** as one of the most essential problems of the current programming period, hampering the implementation of the programmes, especially of OPs related to infrastructure measures - OPE, OPT, OPRD.

CEAOEF has taken into account the measures taken by the MA to improve project pipeline of public beneficiaries, both in terms of technical assistance from IFIs and through trainings and sending "mobile teams" to place.

In its recommendations to the MAs in previous reports, CEAOEF has emphasized the need to prepare a project pipeline, which will enable the programmes to start immediately with the start of the new programming period. On the other hand, the financing of major/important for the society projects will provide higher absorption of EU funds, lower risk and greater visibility of results.

In this regard, CEAOEF has recommended that in the new programming period the **principle of competition should be limited for the beneficiary municipalities** and a move towards greater use of the so-called **direct provision** of grants should be made. Thus, the MAs will be able to more clearly define the needs for intervention on a regional basis and provide support within pre-defined IPURD projects. This approach allows also for intensification of the dialogue between the MA and the municipalities in the process of project preparation thus contributing to a high quality of projects and greater security in the municipalities to invest in preparing projects under technical assistance.

Challenges in the programming process at national level – a need for stronger focus on regional development and economic growth centres

1. CEAOEF believes that the new CP creates the necessary prerequisites for **a far more integrated approach to territorial development** in the Partnership Contracts and Operational Programmes in the new programming period with options for implementing multi-fund programmes, integrated territorial investment and new initiatives - such as community-led local development and local action groups.

CEAOEF recognizes the lack of sufficient clarity at this stage with regard to the concept of integrated territorial investment (ITI) and recommends closer cooperation among the MAs of the different OPs in earmarking this type of investment for complex solving of problems in a given geographic area (by submitting integrated project proposals). In this regard, the **integrated plans for urban reconstruction and development (IPURD)** of the municipalities, supported by the MRDPW, can be used as a good basis and a necessary step towards a regional policy that is more focused and based on demand.



2. CEAOEF believes that the efforts of the MAs in the process of programming should be focused on the realization of investments that **reflect specific regional needs, but also have high added value** in achieving the objectives of Bulgaria 2020 in the context of Europe 2020. This requires striking a balance between **thematic concentrations** set as a requirement in the CSF and the **need for flexibility** to regional specifics.

Thematic concentration is difficult to achieve in terms of the European Territorial Cooperation as **territorial cooperation programmes** often address a complex combination of needs and challenges. In this connection we consider it necessary to provide a **mechanism for coordination between the Programme Complement (PC) of the Member States participating in such programmes**, and compliance with other macro-regional and marine strategies. A greater flexibility in terms of the thematic focus of these programmes is required. Presently, they should be focused only on four thematic objectives.

3. CEAOEF calls for a **clear demarcation and better coordination of OP measures and rural development measures**. CEAOEF expresses its concern that delays in the process of programming of the future RDP will not lead to a sufficiently effective solution of the issue of demarcation lines of aid and overcoming the **threat of the so-called "white spots"** - places that are deprived of the opportunity to be supported by EU funds. In the demarcation of EU aid, in addition to the distinction between urban and rural areas, it is necessary to pay **attention to regions with specific natural features - the most remote and sparsely populated regions, such as mountainous regions**. It is also necessary to strengthen the effect of the use of structural funds for the development of **regions at risk of marginalisation and social exclusion**.

4. CEAOEF believes that common problems require a common approach, which is beyond the capacity of a single country. In this sense, the **territorial cooperation programmes and macro-regional strategies (Danube and Baltic)** and the EU Strategy for the Black Sea are tools that can provide innovative solutions to common problems through concerted joint action. We support the approach, which includes the priorities of macro-regional strategies into the general framework for programming thus providing them with the potential to achieve their goals, including through the implementation of **pilot projects**.

As regards **the countries of Southeast Europe**, CEAOEF highlights the need for "strategic thinking" and a clear vision of the territorial cohesion and development in the region. In this regard, CEAOEF identifies as a major challenge facing the SEE countries the **building of adequate regional (transport, energy, communications) infrastructure**. We believe that the implementation of integrated measures to address the shortage of infrastructure and connectivity in the SEE region will help to overcome physical barriers, increase stability and competitiveness of the entire region.

In this sense, in the new programming period we shall encourage the approach that seeks effective and workable relationship between **territorial cooperation programmes, the Connecting Europe Facility and the Regulations on trans-European networks** with a view to implement **pilot projects providing transport connectivity as part of the TEN-T network**.

5. In determining the priorities for improving the **territorial connectivity** between Bulgaria and the countries of the SEE region, CEAOEF stresses the need for taking into account the



geopolitical position of Bulgaria - **five trans-European transport corridors** pass through its territory, which determines its important strategic location as "crossroads" between Europe and Asia. One of these corridors is **Corridor № 8**, connecting international flows to and from the Balkans to and from Central and Western Europe. The lack of adequate infrastructure to the west of the Bulgarian border calls into question the operation of Corridor № 8 in the near future, so European efforts are necessary for the successful implementation of this project.

CEADEF vision for Bulgaria 2020 through the message of the three "Rs" – Results, Reforms and Regions – CEADEF conclusions concerning the regional analysis of the Institute for Market Economics (member of the Council for Public Consultations under CEADEF)

The analysis of the 28 districts made by the Institute for Market Economics is based on the following 8 categories of indicators - economy, business environment, infrastructure, demographics, education, health, environment, social environment. It has revealed several general trends characteristic of all or most of the Bulgarian districts: widespread deterioration of the demographic situation, the effects of the economic boom until 2008, the scope of the crisis, which started in 2009, and the subsequent squeeze in investment and jobs; health problems, lowering the quality of education, poor penetration of electronic services at the local level.

Financial profile of the districts in Bulgaria by the indicators "GDP", "Funding under the seven Operational Programmes" and "OP Share in regional GDP" for 2011 per capita

TABLE 3

(in euro)

District	GDP per capita	Amount paid under the 7 OPs per capita	7 OP's share (in %) in GDP per capita
Sofia City	10 935	21	0,20
Plovdiv	3 728	64	1,70
Varna	4 915	128	2,60
Burgas	4 123	174	4,20
Ruse	3 572	44	1,20
Stara Zagora	4 708	42	0,90
Pleven	2 620	67	2,60
Sofia region	4 895	177	3,60
Kyustendil	2 718	62	2,30
Silistra	2 303	133	5,80
Vratsa	3 568	253	7,00
Veliko Tarnovo	2 923	107	3,70
Blagoevgrad	3 084	138	4,50
Vidin	2 495	60	2,40
Yambol	2 633	165	6,30
Pernik	2 718	245	9,00



Razgrad	2 536	155	6,10
Sliven	2 354	70	3,00
Targovishte	2 585	196	7,60
Kardzhali	2 595	204	7,90
Shumen	2 728	111	4,10
Gabrovo	3 744	309	8,30
Lovech	2 957	266	9,00
Pazardzhik	2 756	88	3,20
Smolyan	3 188	175	5,50
Dobrich	2 749	71	2,60
Haskovo	2 626	71	2,70
Montana	2 560	92	3,60

On the basis of the presented values of the investigated indicators in the table a number of dependencies could be displayed:

1. The highest GDP per capita is observed in the district of Sofia City - nearly € 11,000 per year, followed by Varna - nearly € 5000, Sofia district - almost € 4,900 and Stara Zagora - over € 4,700.
2. The lowest GDP per capita is observed in Silistra – a little over € 2,300 per year, followed by Vidin – nearly € 2,500 and Razgrad - a little over € 2,500.
3. The largest amount per capita from the EU funds was received in Gabrovo - nearly € 310 in 2011.
4. The smallest amount per capita from the EU funds was received in Sofia City – a little over € 20 in 2011 (not indicative, as the capital city has not only regional but also national functions and concentrates disproportionately more residents, and significantly higher GDP than the other districts).
5. The smallest amount per capita from the EU funds (after Sofia) was received in Stara Zagora - € 42 for 2011.
6. The highest share of EU funds in a district GDP is registered in Pernik and Lovech districts - 9% each in 2011 and in Gabrovo - 8.3%.
7. The lowest share of EU funds in a district GDP is registered in Sofia City - 0.2 %, Stara Zagora - 0.9% and Ruse - 1.2%.

CEADEF conclusions, findings and recommendations in connection with the above analysis

One of the main conclusions of the analysis is that the revenues of local governments have not undergone major changes and most municipalities continue to rely heavily on transfers from the central government.



Therefore, CEAOEF recommends mobilization of the efforts of national and regional authorities in the direction of creating economic growth centres on a regional basis. This is an important prerequisite for overcoming the excessive dependence of municipalities on direct government subsidies. It should be noted that according to the National Reform Programme, updated in April 2012, **over 60% of the total resource under OP 7 (4.08 billion euro) was directed to the financing of measures to achieve higher growth and more jobs.**

In this context, CEAOEF believes that **financing from the EU Funds can serve as a source of fresh resources, contributing to implementation of reforms locally, targeting investment in sectors that generate economic growth and improving living standards.** This would also **increase the motivation of young people to remain in their homelands and be successfully realized there** – a desired effect of utmost importance, since most districts are characterized by worsening demographic indicators for natural and mechanical growth of population, age structure of the population and calculated dependencies.

Although unemployment remains a major challenge in terms of the deteriorated, mainly foreign, economic environment, a number of districts managed to minimize the negative effects of the crisis and to overcome them faster than other districts. For example, **in 8 districts in 2011 there was a visible trend of increasing employment** - Blagoevgrad, Veliko Tarnovo, Vratsa, Kardzhali, Pernik, Targovishte, Shumen and Yambol. Although none of these districts has reached the level of employment in 2009, this trend in the employment level in nearly one third of Bulgarian districts is encouraging.

The relationship between the demographic development of the districts and the other key areas such as economy and education can be clearly seen. In the category of economy some of the major disparities between regions are observed: data on GDP per capita show that gross domestic product per capita in Silistra (the district was at the bottom of the list in 2009) is equivalent to about one fifth of that in the district with the highest standard of living - Sofia City. The period of economic growth from 2000 to 2008 has expanded greatly the disparity between the poorest and the richest districts.

However, the districts of Sofia City and Stara Zagora, characterized by one of the highest GDP per capita, have the lowest amounts per capita of funding obtained from the seven OPs and the lowest percentage of the share of EU funds per capita in a district GDP. Conversely, in districts with one of the lowest GDP per capita (for instance Vratsa, Lovech, Pernik) the indicators "Amount under Op 7 per capita" and "Share of EU funds in district GDP" have peak values.

Taking the above into account, **CEAOEF recognizes the importance of EU funding to achieve higher growth in relatively poor regions.** This is due to the fact that districts such as Sofia, Varna and Stara Zagora enjoy sustained high investment interest. Thus, funds of different types, nationality and intended purpose flow into their economies, i.e. EU funds are only a small part of the whole picture there. On the other hand, the scenario "absence of EU funds" could be critical for the districts, which form a significant part of their added value (Pernik, Lovech - 9%, Gabrovo - 8.3%) due to OP 7.



Apart from the significant disparities in GDP of the districts, there are huge disparities (several times strong) between the size of foreign direct investment¹⁵ and the cost of acquisition of fixed assets, the other indicator used in the investment process. **Well known is the fact that the presence or absence of basic infrastructure is one of the key factors in the investment choice of a region, district or settlement.**

CEAOEF is pleased to note that in the recent years the opportunities for improving the infrastructure have increased significantly thanks to availability of EU funds for such projects - both pre-accession, and Structural and Cohesion Funds. In this line of thought, the rate of absorption of EU funds by municipalities for infrastructure projects (roads, water supply and sewage networks, regional public works, etc.) appear to be a significant factor for the development of territories and encouragement of investment activity.

In conclusion, **CEAOEF points out that funding under OP 7 is an important factor in reducing the intra-regional and inter-regional disparities in economic development and in the gradual catching up with EU average economic indicators.** It should be borne in mind, however, that to maximize the effectiveness of EU funds, they should be absorbed in combination with national measures to promote investment activity. It is also important to target EU funds at those fields of social and economic life in Bulgaria, which are unattractive or too expensive for private capital, i.e. to improve the overall business environment and living conditions in the country.

This report has been prepared by:

**The Committee on European Affairs and
Oversight of the European Funds**

41st National Assembly of the Republic of Bulgaria

1, Alexander I Sq., Sofia 1169

Tel.: (+359 2) 939 32 82, Fax: (+359 2) 987 55 03

e-mail: kei@parliament.bg

¹⁵ FDI per capita for 2011: Sofia City – 9937 euro, Sofia-District – 5243 euro, Burgas – 3847 euro.