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European Union's Regional Policy Effectiveness

The Case of Bulgaria

Master Thesis

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INTRODUCTION

The Treaty of Rome commits the European Community to strengthen economic and social cohesion within the Community. The primary means of achieving this goal is the Union's regional policy. Regional policy aims to promote accelerated social and economic cohesion within the Union. It is based on financial solidarity, as it is directed to prosperous regions. Thereby, Structure Funds (SF) is the mechanism through which financial resources are diverted to less-developed regions in the Union. Thus, Member States implement European regional policy financed by Structure Funds, as a reflection of the solidarity between citizens.

Actions taken through the Structure instruments – on national and regional level – support the Community's priorities for sustainable development by strengthening growth, competitiveness and employment, social inclusion and protecting and improving the environmental quality. A major link between the renewed Lisbon strategy for growth and employment and regional policy has been recognized by the European Union (EU). Therefore, the European cohesion policy has become one of the Community policies to deliver the Union's growth and employment strategy.

Since the reform in 2006, regional policy has focused on the achievement of the priorities of the Lisbon strategy. Higher growth and employment for all regions and cities of the European Union - this message is the basis for cohesion policy and its instruments between 2007 and 2013. Therefore, the main part of the received Structure Funds has to focus on investments that have the potential to contribute to achievement of the Lisbon agenda.

1. Central Research Question

In Bulgaria, where for the 2007-13 period, has been allocated almost €6.9 billion in total, Cohesion Policy programs are supposed to provide strong support for the Lisbon Agenda, as 61% of funds in the Convergence Objective are allocated to related activities. The overall objective is by 2015 Bulgaria to become a competitive member state of the EU, with high quality of life, income and social awareness.

Overall, one of the anticipated benefits of the accession of Bulgaria to the EU is access to serious in scale and coverage financial support provided by Structure Funds. The SFs are seen as a major opportunity to develop and improve quality of life in the country. Yet, in the same time this is a challenge that requires not only time and efforts, but also a thorough understanding of the matter by extremely

broad and diverse range of target groups. Moreover, Bulgaria already has negative experience with insufficient use of EU funds, gained through pre-accession funds. In November 2008 the accreditation of two agencies working with PHARE money was withdrawn by the EC due to irregularities and has not been restored. Thus, Bulgaria permanently lost more than 220 million euro, as payments have been stopped. As one of the reasons for this decision the EC indicated the risk of political interference in the absorption of EU funds. Funds under PHARE to the amount of 340 million euro for already signed contracts have been also suspended. In the same time the EC suspended further 144 million euro, allocated to two projects under ISPA, due to a corruption scandal in the Fund for Regional Road Infrastructure. Such measures are used for the first time in the history of the EU.

In the context of this negative experience, the effectiveness of regional policy in Bulgaria is questionable. Halfway through the current budgetary period, the Commission has conducted a mid-term review of the current policy, assessing EU member states country-by-country to analyze how well they are succeeding in using cohesion funds. It assesses for the first time the rate of progress of each EU member state in delivering agreed EU objectives. In the case of Bulgaria the analysis shows that despite the efforts of the Bulgarian government and administration to develop effective management and control systems for EU funds the country is showing mixed results. One of the most serious concerns is the extremely poor absorption rates of all operational programs (OPs). By the time of the mid review only 5.5 % from the SFs were paid (DG Regional Policy, 2010). Moreover, the six planning regions in Bulgaria show considerable disparities in terms of economic development.

These mixed results on the halftime show that effectiveness of cohesion policy in the country remains limited and as a whole unsatisfactory for various reasons. Thus, a matter of interest of this master thesis and central research question is:

Which factors contribute to the low effectiveness of EU Regional policy in Bulgaria?

Under factor I mean one or more elements, which contribute to a particular result or situation. In this case the effectiveness of EU Regional policy, whereby effectiveness is a measure of the match between stated goals and their achievement. Regional policy of the European Union aims at reducing and overcoming significant economic, social and territorial disparities that still exist between Europe's regions, thus to achieve convergence in the European Union. It is also known as Cohesion policy. SFs are the main instrument for implementation of Regional policy, as they provide the financial assistance

to do this by investing in backward regions to encourage future growth in these regions. For 2007-13, cohesion policy focuses on three main objectives: Convergence – solidarity among regions; Regional competitiveness and employment; European territorial cooperation (EC, 2007, pp. 10 - 11).

2. Methodology and Research Design

2.1. Research Method

The research method used in terms of this thesis is a case study. The level of analysis is a Member State, in this case Bulgaria. Case study method refers both to within–case analysis of a single case as well as comparison of a small number of cases, but both are studies that aspire to casual explanations (Bennett, 2004, p.33). This is a single case study, where the case of interest Bulgaria is chosen first of all due to my personal interest in the developments in the country after joining the European Union and because this is a logical follow up of the research topic of my bachelor thesis, where I was dealing with the Impact of EU' Conditionality on the democratization process in the country. Second, and more importantly in my opinion Bulgaria is an interesting case to deal with, as it had been lagging behind in the pre-association process and also experienced a number of difficulties after joining the Union in 2007, resulting in unprecedented measures to be undertaken against Bulgaria: due to abuses and corruption scandals like the suspension of funds on PHARE and ISPA projects. Thus, in this case a descriptive case study is an attempt to describe in great depth a particular complex issue. Regarding the unit of analysis, this is a Member State of the EU.

2.1.1. Why Case Study as a Research Method?

I use a case study as a research method, as it allows an in-depth study of phenomena within its real life context. A case study has five research design tasks. Initially, a research objective has to be defined by the researcher. This includes several aspects, among which the class of events to be explained have to be considered, as well as the alternative hypothesis under consideration and the kind of theory building to be undertaken. Thereupon, it is important to specify which is the independent variable and which the dependent one, as well as intervening variables. Thereby, it is important to decide which of these are to be controlled and which are to vary across cases or types of cases. Thus as a third step the cases to be studied are selected. The case selection could be assisted by the specifications made within the first two steps. Fourth, it is crucial to consider how to describe variance in the dependent and independent variables, thereby taking in consideration not only individual variables but also types of cases and combinations of variables, as well as the sequential pathways, characteristic for each type. Finally, Structure questions that are to be asked of each case are specified by the researcher. This is done in

order to establish the values of the previously determined independent, intervening and dependent variables (Bennett, 2004, p.26 -27).

There are several advantages of case study as a research method that are to be pointed out. In the first place one of the most important advantages of case studies is their ability to achieve high levels of construct validity. Thus, this is a method which has the ability to measure in a case the indicators that best represent the theoretical concept, which the researcher intends to measure. However, achieving high levels of construct validity are at the cost of producing generalizations applicable only over a smaller number of cases. Thus, there is a tradeoff between high levels of construct validity and achieving high levels of external validity when using case study methods (Bennett, 2004, p.34).

A further advantage of case studies is their potential to generate new theories, as they can identify not only new variables but also new hypothesis both through the study of deviant cases and in the field work itself (Bennett, 2004, p.35).

Case studies use process tracing to examine in detail the hypothesized causal mechanisms in individual cases. Process tracing however does not allow direct assessment of causal mechanisms as there are always the dangers of measurement error or specification error. Yet, case studies are able to accommodate complex casual relations. Yet, there is a price to pay therefore, as the more contingent and fine-generated a typological theory, the less parsimonious it becomes and the fewer the cases to which it applies. However, not only can we use case study to explore causal mechanisms, but we can use causal mechanisms to give historical explanations to cases. Thereby, theories are used at every step of a historical process to show how the variables made subsequent steps and the ultimate outcome, which is likely under the historical circumstances of the case (Bennett, 2004, p.39).

Yet there are some critique points, despite the bright spectrum of advantages of the case study method. The most common point to be taken into consideration is that case studies are prone to selection bias, which can occur in the process of selecting cases that represent a truncated sample along the dependent variable of the relevant universe of cases (Bennett, 2004, pp.39 - 40). However, there is a broad agreement among researchers that cases selected on the dependent variable can test if a variable is necessary for the selected outcome. Some case studies may not be capable of excluding all but one explanation of a case on the basis of the available process – tracing evidence from that case. Furthermore case studies do not inspire to select representative cases of large and diverse populations and their findings can therefore not be claimed to be applicable for such populations (Bennett, 2004,

p.41). This is the generalization problem mentioned earlier in the context of the tradeoff between construct validity and external validity.

However, despite these common general research design tasks, common advantages and common critique points there are specifics of single case studies and comparative case studies, which cannot be neglected and have to be considered.

Single case studies are capable of providing tests that can either strongly support or in contrast impugn a theory. Thereby, an important research design is the study of crucial, most likely or least likely cases. Crucial cases must closely fit a theory, whereas most likely and least likely cases are either most certain to fit a theory if it is true or controversially least likely to hold a theory true. A more precise formulation would be that a theory is most strongly supported if it makes a clear prediction of the outcomes or processes of a case, whereas all other theories predict we should not find these outcomes or processes. Respectively if the theory of interest and all alternative theories predict the same outcomes or processes of a case and they are proven wrong the theory of interest is strongly impugned. Moreover, single case studies fulfill theory-building purposes. A complex causal relationship at work can be observed by watching the progress of a single unit over time and by observing variations within a case. This however has a negative side as well, as single case studies lack plentitude due to their focus on a single case (Gerring, 2001, p. 215).

2.2. Conditions for Effectiveness of Regional Policy and Research Design

The literature on effectiveness of EU Regional policy and more precisely of the SFs as its main instruments is rather controversial. There is no consensus whether Cohesion policy contributes to abolishment of regional disparities and thus leads to convergence within the European Union (Ederveen, et al, 2002, p. 31). The most significant contributions do not reach one and the same conclusion. The expressed views in the literature strongly vary.

On the one hand for example the Commission recognizes a positive impact claiming that Cohesion policy by means of the SFs is stimulating demand as it is increasing income in the assisted regions. It increases competitiveness and productivity of these regions due to the investments in infrastructure and human capital in a long term perspective (European Commission, 2001) Moreover, SFs are recognized by some scholars to have a positive impact, whereby poorer countries have caught up with the wealthier countries. Therefore, they argue that the hypothesis that SFs contributed to fewer interregional disparities within the EU cannot be rejected. (Beugelsdijk/ Eijffinger, 2005, p. 48) Econometric analyses

suggest that the impact of SFs has been sizable on growth and convergence in a positive direction (de la Fuente 2002)

On the other hand however, some studies are rather negative on convergence within the EU suggesting the impact of Regional policy is not statistically significant or even negative. (Baldrin /Canova, 2001)

The conclusions appear to depend on the methodology used as well as by the time period and Member States under investigation (Ederveen, et al., 2006) In this context a number of studies suggest Regional policy has only conditionally-positive effects depending on particular country characteristics, which may be in short supply in many poorer member states. SFs allocated to the most open economies and/or to economies with 'good' institutions are effective (Ederveen et al., 2002 and 2006). Ederveen et al. (2002, 2006) basic suggestion is that resources can be allocated either towards productive activities or to 'rent-seeking' activities and that the set of rules and institutions in a country determines this allocation. Thus, the effectiveness of investments depends on the 'institutional quality' of the receiving country. Economies with good institutional quality benefit from the funds whereas those with bad institutions lower their growth performance (Ederveen, et al., 2006, p. 4).

I acknowledge the importance of factors on micro level such as the inflation rate, openness of the economy, overall institutional quality etc.; these are factors which are not subject to a quick and extensive change for improvement in a short term perspective, in order to achieve better results. Therefore, I adopt a different framework for my analysis. Namely by focusing on micro efficiency as a condition which the effectiveness of Regional Policy depends on as this is a more relevant issue in terms of identifying factors which hinder the effectiveness of Regional Policy and addressing possible shortcoming in a short term perspective

Micro efficiency of Regional policy in turn determines its macroeconomic impact (Wostner, 2008, p. 63). The micro–efficiency of SFs is determined by the ***institutional or absorption capacity*** of a Member State (Wostner, 2008, p. 63).

Thus, my analysis is organized around the concept of ***absorption capacity***. This is the extent to which a Member State is able to fully spend in an effective and efficient way the allocated financial resources from the SFs (Boix et al., 2001, in Wostner, 2008, p. 6). There are three definitions of absorption capacity: ***Macroeconomic absorption capacity***, ***Financial absorption capacity*** and ***Administrative absorption capacity***. All three can be studied with the help of existing programming documents (Horvat, 2005).

The primary data gathering instrument for the research is the review and analysis of multiple sources of data such as programming documents, official documentation both of the European institutions and the Bulgarian National Institutions. I also use data from questionnaires, surveys and discussions conducted by NGOs active in the field of supervision of sustainable use of Structure funds. Moreover, I work with statistical data from the National statistical institute in Bulgaria, EUROSTAT, etc.

The basic Structure of the thesis is as follows: In Chapter I I elaborate more extensively on the basic concepts which I deal with in terms of the thesis. Thereupon, in Chapter II I present the analytical foundation of the thesis, based on the assumption that effectiveness of EU regional policy is at best conditional. From the theoretical background I define the different dimensions of the concept of absorption capacity as a way to measure micro–efficiency of regional policy, which is a condition of its effectiveness. Thereby, I identify which of the tree dimensions are relevant for the further analysis. Thereupon, I identify indicators for the study of absorption capacity which are to be analyzed. I formulate sub-questions around which I organize the further analysis. In the following Chapters III and IV based on the identified indicators I analyze the factors which contribute to the low effectiveness of EU Regional policy in Bulgaria. Finally, I come to a concluding chapter where I present the main findings of my research and a possible outlook for the upcoming programming period.

CHAPTER I

REGIONAL POLICY AND REGIONS – DEFINING BASIC CONCEPTS

1. Regional policy

The signing of the Treaty establishing the European Economic Community (EEC Treaty) in 1957 marks the beginning of the Regional policy of the European Union. The importance of this policy for the Member States lies precisely in this Treaty and it is reflected in its preamble:

"Anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favored regions..."

Regional policy is enshrined in Art. 2, 3 and 4 of the Treaty, which define the fundamental principles of Community:

"... to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States. "

However, with the establishment of the EEC in 1957 the regional aspects of the development of the integration process are given little attention. Even though, the differences in the level of development of different regions and the backwardness of the least favored regions are recognized, but no mechanisms for addressing this issue are provided (Art. 130 EEC Treaty).

1.1. Purpose and Principles

The Regional Policy of the EU, also known as Cohesion or Structure policy represents 35.7% of the budget of the European Union with a total of €347 billion investment in Europe's regions for the period 2007-2013(MEMO/10/115, 2010, p. 1).

The purpose of EU regional policy is to reduce the significant economic, social and territorial disparities that still exist between Europe's regions. And to encourage Structure changes that lead to economic and social growth (EC, 2007, p. 2). Within this main goal, for each period, the Community defines a number of specific objectives that are common across the EU. Based on the ideas of solidarity between people in the Union and universal economic and social progress, regional policy has an impact on development planning at regional and local level.

EU cohesion policy is based on four basic principles whose observance is mandatory in the management of Structure instruments:

The **Principle of Partnership** requires partners to submit their comments and suggestions in a transparent manner at the beginning of the programming process and in the process of preparation, financing, monitoring and evaluation. This principle requires the application of mechanisms of consultation and participation at national and regional level to ensure participation of local and regional socio-economic partners and NGOs and other stakeholders (ÖIR, 2003, p. 13). The **Principle of Coordination** ensures consistency of different views and priorities and negotiating to reach agreement among participants. It is necessary to carry out internal and interagency coordination and cooperation. Commission and Member States shall ensure coordination and support from various funds and between funds and support from other financial instruments and the European Investment Bank (EIB to prevent overlap between them. The **Principle of Decentralization** delegates the management rights of the funds from EC to the Member State. The **Principle of Additionally** requires EU funds to be supplemented by national and local funding, whose level is determined by the Member State (ÖIR, 2003, p. 13).

1.2. Structure Funds as Main Instrument

To achieve economic and social cohesion Structure and Cohesion Funds have been established as the main instruments of regional policy, to contribute in an appropriate way to achieve the objectives. SFs are the core, the cornerstone of European Structure policy. These are European Regional Development Fund, European Social Fund, Cohesion Fund (EC Guide, 2007, p. 10). The role of the ERDF is to promote investment and help reduce regional imbalances in the European Union. Priorities for funding include research, innovation, environmental issues and risk prevention, while infrastructure investments retains important role, especially in least developed regions. ESF supports policies and priorities for progress towards full employment, improving quality and productivity and promoting social inclusion and cohesion (EC Guide, 2007, pp. 10 -13). The Cohesion Fund contributes to interventions in the field of environment and trans-European networks. It applies to Member States with a gross national income

that is less than 90% of the Community average. From this fund benefit the 10 new member states, as well as Greece and Portugal. Fund (EC Guide, 2007, pp. 10 - 15).

Historical SF go back to the '60s, they were grouped in a package remodeled in the late 80 years and were made part of five years, and then of seven-year programming periods. These periods were 1989-93, the on 1994-9, 2000-6, and 2007-2013 for each programming period within the overall budget of the European Union pledged comprehensive budgets, called the Financial Framework (EC, Panorama magazine, 2008, p.2).

1.3. 2007-2013 Programming Period

The Commission adopted five new regulations for renewed Structure Funds and instruments. For 2007-2013, these instruments represent about one third of the EU budget a total of 308 billion euro (EC Factsheet, 2006). The package of five new regulations consist of a general regulation, which set out general rules for all instruments, and special regulations for the European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund. In addition, it is proposed a new regulation establishing a European grouping of cross-border cooperation (EGCC) (EC Guide, 2007, p. 8).

There are three main objectives of EU regional policy in the 2007 – 2013 programming period, which prioritize different types of regions (EC Guide, 2007, p.10) "Convergence" is directed to activities on the approximation of the least developed Member States and regions. It is achieved by: improving conditions for growth and employment by improving the quality of investment in human and physical capital, innovation and a society based on knowledge, adaptation to economic and social change, protecting and improving the quality of environment, increasing the efficiency of administration. "Convergence" is funded by the European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund (CF). Bulgaria is eligible for funding only for that goal (EC Guide, 2007, pp. 13 -17) Objective "Regional competitiveness and employment" includes regions that are not covered by the first objective and is aimed at strengthening their competitiveness and employment. It is performed by: anticipating and mitigating the effects of economic and social changes, including those related to the opening of trade, innovation and society based on knowledge, promoting entrepreneurship, protecting and improving the quality of the environment, adapting labor and business, development of the labor market. Objective "Regional competitiveness and employment" is financed by the ERDF and ESF (EC Guide, 2007, pp. 18 -19). Objective "European territorial cooperation" is aimed at strengthening cross-border cooperation. It is through joint local and regional initiatives, strengthening transnational cooperation through actions related to the priorities of the European Community, leading to integrated

territorial development, strengthening interregional cooperation and networks for exchange of experience at the appropriate territorial level. Objective "European territorial cooperation" is financed by the ERDF (EC Guide, 2007, pp. 20 - 21).

1.4. How is Regional Policy Evaluated?

The Commission itself has been using various models for assessing impacts of the SFs inflowing macro-economic aggregates, like GDP growth and employment, of the member states.

There are three types of evaluation identified according to their timing: before (ex - ante), during (e.g. on-going), and after (ex - post) the programming period. Evaluation of cohesion policy is undertaken on a partnership basis, with Member States responsible for ex ante evaluation and the European Commission for ex post evaluation. A full Cohesion report is published every three years; in the years in between, a progress report on economic and social cohesion is published.

Policy evaluation is a topic of growing importance for cohesion policy. Therefore the Commission presented a report in March 2010 that was the first of its kind, a new instrument of cohesion policy (MEMO/10/115, 2010, p. 1). Thus, halfway through the current budgetary period, which ends in 2013, the Commission has conducted a mid-term review of the current policy, assessing EU member states country-by-country to analyze how well they are succeeding in using cohesion funds. It assesses for the first time the rate of progress of each EU member state in delivering agreed EU objectives. It includes not only the so-called "absorption rate" of member states – i.e. how much of their total funds they have used, and how quickly they have used them – but also how well they have used the funds to achieve specific EU targets beyond the traditional cohesion mandate of improving infrastructure such as roads and railways.

The Commission's report is based on national reports from 27 Member States, and provides important statements about the potential of the SFs to accelerate the economic crisis (MEMO/10/115, 2010, p. 1). It serves as a monitoring tool.

In the case of Bulgaria policy analysis on the performance of Cohesion policy 2007 - 2013 shows that despite the efforts of the Bulgarian government and administration to develop effective management and control systems for EU funds the experience with EU regional funds in the country is showing mixed results (DG Regional Policy, 2010, pp. 3- 4). Thereby the main issues that need to be addressed are the administrative capacity of the Bulgarian authorities as well as the lack of progress in certain areas and an absence of strategic focus among calls for proposals (DG Regional Policy, 2010, pp. 3- 4). One of the

most serious concerns is the extremely poor absorption of Operational Program "Transport" (DG Regional Policy, 2010, p. 3). So far Bulgaria has used 7.5% of its due by 2013 two billion euro (Ministry of Finance of Republic of Bulgaria at: <http://www.minfin.bg/bg/page/374>). Despite the efforts for progress Bulgaria loses a fortune and real opportunities for the extremely needed reform in the railway sector. As a whole the absorption rate for all operational programs is very low. As till 30.06.2010 only 4.6 % from the SFs were paid (DG Regional Policy, 2010, p. 3). The six planning regions in Bulgaria show considerable disparities in terms of economic development (DG Regional Policy, 2010, p. 5). So far, there have been no evaluations of operational programs. The mid-term reviews of OPs were due by the end of 2010, although it was expected they would continue into 2011, thus the first results from the mid-term evaluations are expected to be available in 2011 (at this point to my knowledge they are not available), and the ex-post evaluations are due by the end of 2015 (DG Regional Policy, 2010, p. 4).

2. Regions

2.1. What is a Region?

In literature there is no universally accepted definition of region. In this respect the practice of EU countries is different. In 1994, Council of Europe took the initiative to develop an overall concept for „region” in the framework of the European Charter of Regional Self-Government (CLARE Recommendation 34, 1997). The approach is based on summary statistics, which serve to divide Europe to relatively equal size areas called regions (Recommendation 1349 (1997)). The main disadvantage of this approach is that it does not match the territorial division of the existing administrative divisions in different countries. Some EU countries are built on the federal principle - Germany, Austria and Belgium. Others, such as Spain and Italy have clearly defined regions. Scandinavian countries in its regional practice consolidated several municipalities in a region. Other EU countries such as France, Greece, Portugal, Ireland and Britain are divided into regions that can hardly be brought into a common scheme.

In this variety of forms of regional differentiation most probably true definition of region is the text in the Charter of the Congress of local and regional authorities in Europe, namely "administrative authority at a level just below the national government, which has its own role in governance and authorities appointed by elections".

2.2. Regional Policy for Which Regions - Administrative-territorial Division of Bulgaria

The administrative-territorial division of Bulgaria is constitutionally provided for in Chapter VII Local Self - Government and local administration of the existing Constitution (Constitution of Republic of Bulgaria). There are two basic levels - the countries divided into districts and municipalities; other administrative-territorial and territorial units can be created by law (Kovachev 2001, p2). The territorial division of the capital city and other cities are also defined by law (Kovachev 2001, p2).

The municipality is the basic administrative territorial unit in which local self-government takes place (Art 136, CRB). Local authority in the municipality is the municipal council, elected by the population for a period of 4 years (Art. 138 CRB), the executive body of the municipality is the mayor who is elected by the population for a period of 4 years (Art. 139, CRB), the municipality is a legal entity with property rights and own budget (art. 136, par. 3, 140 and Art. 141).

The role of districts as administrative-territorial units for regional policy is the implementation of state policy and to ensure consistency between national and local interests (art. 142 CRB); governance is performed by a district governor appointed by the Council of Ministers (art. 143 CRB). At present the territory of Bulgaria has 28 districts and 279 municipalities (Kovachev, 2001, p 5).

There are six planning regions, which are not administrative-territorial units according to the Law on Administrative-Territorial Division of Bulgaria. They are determined by the requirements of regional planning and in particular by the requirements by the accession of Bulgaria to the European Union, where the regions of second level of the Nomenclature of territorial units for statistics (NUTS) is a major site for planning, programming, implementation and monitoring of the objectives of SFs (Национална стратегия за регионално развитие на република България за периода 2005 - 2015 година; pp. 2 – 4.)

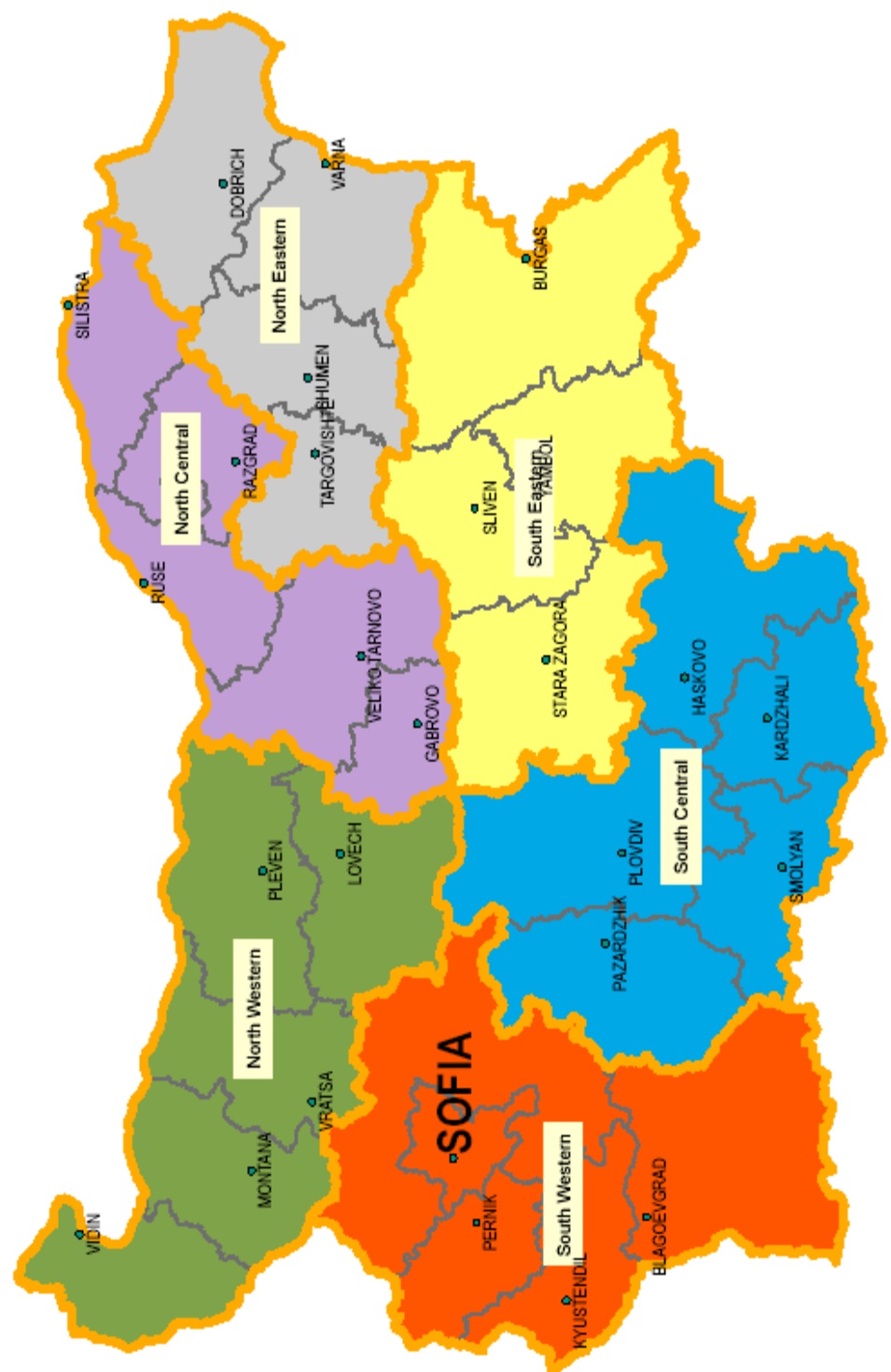


Figure 1: The six planning regions in Bulgaria

Source: Ministry of Regional Development and Public Works at:

http://www.mrrb.government.bg/index.php?lang=bg&do=reg_bg&type=67&id=1 (Last called: 10 July 2011, at 15:15)

CHAPTER II

ANALYTICAL FRAMEWORK

1. Absorption Capacity Dimensions and Indicators for their Analysis

The analytical framework of this thesis is based on the assumption, which the assessment of S. Evereen et al. (2002, 2006) confirms, that the effectiveness of EU Cohesion policy is at best conditional on particular country characteristics. As already pointed out the focus of the thesis is on micro efficiency as a condition on which the effectiveness of Regional Policy depends. More precisely the analysis is based on the concept of ***institutional or absorption capacity***, which determines the micro efficiency of the SFs as the main instrument of Regional policy (Wostner 2008, p. 63).

Absorption capacity is the extent to which a Member State is able to fully spend in an effective and efficient way the allocated financial resources from the SFs (Boot et al., 2001, in Wostner, 2008, p. 6). In relation to the EU's SFs the concept can be summarized around three specific definitions of absorption capacity: 1. ***Macroeconomic absorption capacity***, which can be defined and measured in terms of GDP levels to SFs allocated (NEI, 2002, p. 4). During the 2007 – 2013 medium-term financial perspective of the EU, the upper limit for EU cohesion purposes has been set at 3.6 per cent of the GDP of the respective country (Mrak, Tilev, 2008, p. 30). 2. ***Financial absorption capacity***, which means the *ability to co-finance* EU-supported programs and projects, to plan and guarantee these national contributions in multi-annual budgets, and to collect these contributions from several partners (public and private), interested in a program or project (NEI, 2002, p. 4). 3. ***Administrative absorption capacity***, which can be defined as the *ability and skills* of central, regional and local authorities to prepare acceptable plans, programs, and projects in due time, to decide on programs and projects, to arrange co-ordination among the principal partners, to cope with the vast amount of administrative and reporting work required by the Commission, and to finance and supervise implementation properly, avoiding fraud as far as possible.

Administrative capacity is determined by two components: demand side and supply side. It is necessary to acknowledge the economic background of the terms demand side and supply side. However the adopted concepts are to be seen in a different context for the purposes of this study. *Demand side is to be understood as the ability of potential project applicants to generate projects*, whereas *supply side is the ability of the country to manage the SFs efficiently and effectively* (Mrak, Tilev, 2008, p. 30).

The European Commission conducted some studies where issues of absorption have been tackled (ÖIR, 2003). The study by ÖIR asked questions about the impact the implementation process has on the achievement of results. Thereby its main findings were to identify the main positive but also the main negative features of the implementation system of SFs (Wostner, 2008, pp. 4 - 5). Moreover, in a set of studies by the European Commission (NEI, 2002a, 2002b, 2002c) a set of key indicators to effectively manage the SFs were defined in every phase of five stages of the policy life cycle (Management, Programming, Implementation, Monitoring and Evaluation, Financial Management and Control). These key indicators were tested in a number of the New Member States when they were Candidate Countries (Papadopoulos, 2003, 2003a) and after their accession (Horvat, 2005; Florina, 2010; Berica, 2010).

Thereby, on the supply side design variables (*Structure, Human Resources, Systems and Tools*) create the conditions for the effective and efficient management of the SFs (Horvat, 2005 p. 11). *Structure* relates to the clear assignment of responsibilities and tasks to institutions, or more precisely, at the level of departments or units within these institutions; *Human resources* relate to the ability to estimate the required number and qualifications of staff, to allocate tasks and responsibilities to the job descriptions of particular posts, and to meet these needs through the recruitment of appropriate staff. *Tools* relate to the availability of various kinds of job-aids, including instruments, methods, guideline, manuals, systems, procedures, etc., that can enhance the effectiveness of the functioning of the system. Together they form the management capability grid, which combined with the policy life cycle (Management, Programming, Implementation, Evaluation & Monitoring, Financial management & Control) concept the so-called **Structure Funds Management Grid** - an overall framework of indicators that play a role in determining the administrative absorption capacity (NEI, 200, p. 4). Overall the NEI Study introduces 20 key indicators to effectively manage the SFs. Each of these has a different number of components, which describe and explain every indicator. Tables 1 to 5 summarize the 20 key indicators and the components, which constitute them.

TABLE 1. MANAGEMENT					
Indicators	Structure		Human Resources	System and Tools	Functioning
	<i>Designation of MA</i>		<i>Staffing of MA</i>	<i>Arrangements on the delegation of tasks</i>	<i>Existence of a Modern Civil Service</i>
	Designation of MA for CSF	Designation of MA for SPD			
Components	<ul style="list-style-type: none"> ✓ Consensus and designation of CSF MA existing ✓ Location of CSF MA in line with administrative Structure ✓ Consensus and designation on Sectoral OP Managing Authorities exists ✓ Location of SOP MAs in line with administrative ✓ Consensus and designation on Regional OP Management exist ✓ Location of ROP MAs in line with administrative ✓ Consensus and designation on MA Cohesion Fund ✓ Location of MA Cohesion Fund in line with administrative Structure 	<ul style="list-style-type: none"> ✓ Consensus and designation on SPD Managing Authority existing ✓ Location of SPD MA in line with position in national administrative Structure ✓ Assignment of SPD Managing Authority within Ministerial Structure ✓ Location of SPD MA in line with intra-ministerial hierarchy ✓ Clear overview of responsibilities and tasks of SPD MA existing ✓ Consensus and designation on MA Cohesion Fund ✓ Location of MA Cohesion Fund in line with position in national administrative Structure ✓ Consensus and designation on MAs for Community Initiatives 	<ul style="list-style-type: none"> ✓ Estimates of staffing requirements available ✓ Estimates take account of program size, characteristics and tasks delegated ✓ Responsibilities and tasks assigned to job descriptions ✓ Remuneration levels for MA-staff determined ✓ Competitiveness of remuneration levels (in relation to private sector) ✓ Proof of sufficient candidates for staffing of vacancies ✓ Proven efforts for utilization of experience and know-how from pre-accession stage(including Structure Funds training) 	<ul style="list-style-type: none"> ✓ Arrangement on delegating specific tasks (evaluation, monitoring, information) ✓ Arrangement on delegating implementing tasks existing in detailed terms (tasks according to Article 34) ✓ Consensus on delegating arrangements existing among stakeholders 	<ul style="list-style-type: none"> ✓ Prestige attached to working in the public sector (in relation to private sector) ✓ Competitive remuneration levels in national government (related to private sector) ✓ Job mobility between Ministries and government departments existing ✓ Efficient and good working relations between Ministries concerned ✓ Existence of a career track for civil servants ✓ Limited outflow of civil servants (< 10%, 10-20%, > 20% per year)
Total	8	8	7	3	6

Source: Own table, based on NEI, 2002, pp. 6 – 10

TABLE 2. PROGRAMMING				
Indicators	Structure	Human Resources	System and Tools	Functioning
	<i>Partnership already present in existing economic development policy</i>	<i>Capacity to carry out programming is available quantitatively and qualitatively</i>	<i>Guidelines for program preparation exist and disseminated</i>	<i>Existence and quality of NDP document (and supporting documents)</i>
Components	<ul style="list-style-type: none"> ✓ Systematic and effective interministerial co-ordination of socio-economic policies ✓ Social partners systematically involved in design of socio-economic policies ✓ Regional partners systematically involved in design of socio-economic policies ✓ NGOs systematically involved in design of socio-economic policies 	<ul style="list-style-type: none"> ✓ Analytic skills ✓ Process skills ✓ Expertise to create Indicator systems ✓ Experience in Programming 	<ul style="list-style-type: none"> ✓ National programming methodology/process description exists ✓ Methods for creating partnership established 	<ul style="list-style-type: none"> ✓ High share of national NDP expenses as a % of national budget (comprehensiveness) ✓ National co-finance available for funding the NDP ✓ NDP includes quantification of targets ✓ NDP has been debated and agreed upon in parliament ✓ NDP is widely supported among socio-economic actors
Total	4	4	2	5

Source: Own table, based on NEI, 2002, pp. 11 – 14

TABLE 3. IMPLEMENTATION				
Indicators	Structure	Human Resources	System and Tools	Functioning
	<i>Assignment of intermediate bodies</i>	<i>Staffing of intermediate bodies</i>	<i>Existing operational project development and management process</i>	<i>Absorption of and project pipeline for pre-accession funds</i>
Components	<ul style="list-style-type: none"> ✓ List of intermediate bodies available (both first and second tier if applicable) ✓ Intermediate bodies are well-regarded within their domain of work ✓ Assignment of intermediate bodies to individual measures carried out ✓ Agreement from intermediate bodies obtained ✓ Assignments in line with main responsibilities of intermediate bodies ✓ Authority of MA over implementing body in line with national hierarchy ✓ Good, established working relations between MAs and Intermediate bodies 	<ul style="list-style-type: none"> ✓ Staffing requirements for intermediate bodies clarified ✓ Staffing for intermediate bodies secured ✓ Proven efforts for utilization of experience and know-how from pre-accession funds ✓ Experience in project generation and project preparation obtained ✓ Experience in project selection and evaluation obtained ✓ Knowledge about EU legislation at operational level (rules on state aid, public procurement, environment, equal opportunities) 	<ul style="list-style-type: none"> ✓ A coherent set of project selection criteria exists ✓ Standardized application forms exist ✓ Cost/benefit manual for large projects exists and is known ✓ Frequent reference to national policies, existing schemes, instruments and concrete projects in Structure Funds-related planning documents (NDP, OPs, PC's) ✓ -Manual for compliance with EU legislation exists 	<ul style="list-style-type: none"> ✓ Absorption rate of Phare ESC ✓ Project pipeline for Phare ESC ✓ Absorption rate of ISPA ✓ Project pipeline for ISPA ✓ Accreditation of SAPARD agencies carried out ✓ Absorption rate of SAPARD ✓ Project pipeline for SAPARD
Total	7	6	5	7

Source: Own table, based on NEI 2002, pp. 15 – 19

TABLE 4. MONITORING AND EVALUATION				
Indicators	Structure	Human Resources	System and Tools	Functioning
	<i>Designation of monitoring responsibilities</i>	<i>Availability of independent evaluation expertise</i>	<i>Existence of computerized monitoring information system(-s)</i>	<i>Functioning monitoring system for pre-accession funds</i>
Components	<ul style="list-style-type: none"> ✓ Responsibilities and tasks assigned at the level of institutions (departments/units) ✓ Responsibilities and tasks assigned at the level of job descriptions ✓ Existence of an approved document containing an overview of all organizations that are represented at all relevant Monitoring Committees (CSF and OPs) ✓ Existence of a document containing an overview of representative persons that are member of all relevant Monitoring Committees ✓ Broad composition of Monitoring Committees (social and regional partners, NGO) 	<ul style="list-style-type: none"> ✓ Evaluation expertise sufficiently available from university institutes or private consultants ✓ Independence of this evaluation expertise secured ✓ Local evaluation expertise has international quality standards (e.g. experience with MEANS) ✓ Spreading of an evaluation culture through evaluations of domestic policies 	<ul style="list-style-type: none"> ✓ Status of the system(-s) (under development versus functioning) ✓ Reliability of the system secured (e.g. by using existing or proven software) ✓ Access to system (broad-based and user-friendly) 	<ul style="list-style-type: none"> ✓ Monitoring responsibilities for each pre-accession fund clearly assigned at level of job descriptions ✓ Existence of qualified monitoring officials for each pre-accession fund ✓ Existence of a functioning computerized monitoring system ✓ Full utilization of the computerized monitoring system
Total	5	4	3	4

Source: Own table, based on NEI, 2002, pp.20 - 22

TABLE 5. FINANCIAL MANAGEMENT AND CONTROL				
Indicators	Structure	Human Resources	System and Tools	Functioning
	<i>Designation of responsibilities</i>	<i>Accounting and auditing expertise secured</i>	<i>Existence of accounting system and financial procedures established</i>	<i>Established practice in dealing with financial irregularities</i>
Components	<ul style="list-style-type: none"> ✓ PA for all Structure Funds designated ✓ Responsibilities and tasks assigned to MAs (ensure verification of the reality of expenditure, of the product or service provided, conformity to program requirements, respect of procurement rules, and fulfillment of all eligibility provisions) ✓ Responsibilities and tasks assigned to PAs ✓ Internal auditing capacities in relevant Ministries existing ✓ Body for carrying out sample checks identified and designated 	<ul style="list-style-type: none"> ✓ Responsibilities and tasks in financial management and control assigned at the level of job descriptions ✓ Evidence that adequate staffing for all financial management and control functions can be secured ✓ Auditing training available for civil servants ✓ Adequate staffing of body for carrying out sample checks secured 	<ul style="list-style-type: none"> ✓ System of payment flows in place and on paper ✓ Systems for expenditure forecasting in place ✓ System for certification of payment requests in place ✓ Procedures for verification and reality of expenditure in place ✓ Method for sample checks in place ✓ Presence of a sufficient audit trail ✓ Existence of an annual audit control plan and/or system 	<ul style="list-style-type: none"> ✓ Existence of published records on financial irregularities for pre-accession Funds ✓ Proper introduction of EDIS ✓ Track record on appropriate measures taken in dealing with irregularities ✓ Systems for correcting irregularities existing and applicable to Structure Funds ✓ National court of auditors in place, competent and active (e.g. annual reports available)
Total	5	4	7	5

Source: Own Table, based on NEI, 2002, pp. 23 - 26

2. Sub – questions for the Analysis

My analysis is organized around the three dimensions of the concept of **absorption capacity** defined in this chapter, which are studied with the help of existing programming documents (Horvat, 2005). Documents for consideration when dealing with the absorption capacities of new Member States can only be useful for *macroeconomic* and *administrative* absorption capacity, but not for *financial* absorption. Financial absorption of SFs in a country or region can only be evaluated ex-post (Horvat, 2005). Therefore I will concentrate on macroeconomic and administrative absorption capacity. However, the core analysis within the thesis is on supply side aspects of administrative absorption capacity, thus on the institutional arrangements, regulatory environment and administrative procedures, as this is more relevant in terms of making an outlook on the upcoming programming period. Macroeconomic absorption capacity as well as demand side aspects of administrative absorption capacity are analyzed in order to provide the context in Bulgaria and make the research comprehensive.

The analysis is organized around sub – questions:

1. How does macro-economic absorption capacity contribute to low effectiveness of EU Regional Policy in Bulgaria?

To analyze Macro-economic absorption capacity I will assess what percentage of the national GDP planned EU budget resources for Bulgaria are equivalent to and analyze the socio-economic profile of Bulgarian regions.

2. How do demand side aspects of administrative capacity contribute to low effectiveness of EU Regional Policy in Bulgaria?

To analyze the demand side of administrative capacity - the ability of potential project applicants to generate projects, I will use data from a survey of a NGO and national data base to assess who are the beneficiaries and what types of projects are funded. Further aspect of interest are data on the quantity and quality of project proposals, number of projects approved for funding and number of signed contracts for the respective OP.

3. How do supply side aspects of administrative capacity contribute to low effectiveness of EU Regional Policy in Bulgaria?

To analyze the *supply side* of administrative capacity I will assess the institutional arrangements and regulatory environment for implementation of Regional policy in Bulgaria, the Socio–economic profile of the Bulgarian regions and the Operational programs in the Country. I organize the analysis around the **Structure Funds Management Grid**. Thereby a matter of interest is: What Operational Programs are developed on the basis of the National Strategic Framework; Which institutions (and actors) implement Regional Policy in Bulgaria; How much stuff is assigned at every stage of the policy cycle; How are EU funds managed in Bulgaria (procedures); Do the objectives of the OP respond to the needs of the regions in Bulgaria; Which of the presented key indicators for effective implementation of the SF can be found in Bulgaria?

CHAPTER III

THE CONTEXT OF ADMINISTRATIVE CAPACITY

In the following Chapter I analyze macroeconomic absorption capacity as well as demand side aspects of administrative absorption capacity to provide the context of the situation in Bulgaria and make the conducted research more comprehensive.

1. Macroeconomic Absorption Capacity

Macroeconomic absorption capacity is defined and measured in terms of GDP levels to SFs allocated (NEI, 2002, p. 4). During the 2007 – 2013 programming period of the EU, the upper limit for EU cohesion purposes has been set at 3.6 per cent of the GDP of the respective country (Mrak/Tilev, 2008, p. 30). Thus, to analyze macro-economic absorption capacity I will assess what percentage of the national GDP planned EU budget resources for Bulgaria are equivalent to.

However, to make my analysis more comprehensive I first study the previous programming period, in order to assess if a certain degree of sustainability in the economic development of the country can be followed up. Moreover, as the current programming period is ongoing I follow the process of development of GDP compared with the period 2000 – 2010, in order to assess if a tendency can be recognized and if it is likely it would be similar in the remaining three years. There upon, I also consider regional disparities of the distribution of GDP across the six regions as a possible obstruction for absorption capacity.

In recent years, Bulgaria's economic development has been successful. During the period 2000 – 2006 Bulgaria maintains a relatively stable rate of growth of GDP per capita. As it can be seen from Table 2 an average of 5.5% growth is achieved (NSI, at: <http://www.nsi.bg/otrasal.php?otr=10>) with an average growth in EU-27 of 2.9% (EUROSTAT, at: <http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tec00001&language=en>).

Table 6 shows average GDP for the period 2000 – 2006 equals 19.2 billion Euro. Overall, the data show a clear tendency to sustainable development.

	2000	2001	2002	2003	2004	2005	2006
GDP (billion€)	14.0	15.5	16.9	18.3	20.3	23.2	26.4
GDP real growth (%)	5.394	4.065	4.483	5.007	6.642	6.246	6.322

Table 6 GDP and GDP growth 2000 – 2006, Source: National Statistical Institute of Bulgaria, at: <http://www.nsi.bg/otrasal.php?otr=10> (Last called: 31. 07. 2011)

Moreover, the growth of Bulgarian economy in 2006 was about 6%, supported by domestic demand. Investments increased to 32% of GDP (from 28% in 2005), backed up by inflows of foreign capital. Inflation was moderately high - 6.5%. In 2006 Bulgaria had a fiscal surplus of 3.5% of GDP. Nation's debt fell to 21% of GDP. (Ministry of Finance)

In the first year of EU membership, through its economic policy, Bulgaria continues to provide sustainable economic growth, high foreign and domestic investments, employment is growing fast, enhancing the process of convergence in income and prices.. According to NSI, GDP reached 9 billion euro in 2007, marking an increase of 6.2% compared to 2006. Despite the positive results, the Bulgarian economy is still one of the most underdeveloped in EU. Bulgaria is the poorest country in the European Union's gross domestic product per capita estimated by the European Statistical Office. Gross domestic product per capita in Bulgaria in 2007 was 3800 Euros (7341.2 Leva), with an average for EU-27 of 24,700 Euros.

Yet, a positive tendency in the development of the country's GDP is maintained as it can be seen from Table 3. In 2008 GDP reached 34.1 billion increasing by 6%, despite the start of the world financial crisis, which however had an impact on the economy in the following years. In 2009 and 2010 there has been a decrease in the real growth of GDP compared to 2008, as it reached levels of 32.8 million Euro in 2009 and continued decreasing to 31.0 million euro in 2010. These levels are, however, still above the 2007 level of GDP. And by 2010 a tendency towards recovery of the economy can be seen. Bulgaria is among the four EU countries with the strongest quarterly growth in the fourth quarter of 2010. According to the latest report for Bulgaria, issued by the unit of analysis and forecasts of Eurobank EFG Group (Eurobank EFG Group: Bulgaria in the top 4 of the EU GDP growth). The economy continues to recover in the fourth quarter of 2010, according to data from the National Institute of Statistics, real GDP grew by 1.7% in the last quarter of 2010 compared to the previous quarter.

	2007	2008	2009	2010
GDP (billion. €)	28.9	34.1	32.8	31.0
GDP real growth (%)	6.2	6.0	-6.3	-2.0

Table 7 GDP and GDP real growth 2007 – 2010, Source: Own table based on data from MEET, at: <http://www.mi.government.bg/ind/konk/docs.html?id=134451> (Last called: 01 08. 2011)

GDP growth in Bulgaria in the second quarter of 2011 was approximately 2% on annual basis growth (Centre for Economic Development ,CED, 2011, p. 1). Bulgarian economy goes for growth, but it is still weak and uneven.

Calculating GDP by regions is an essential tool for measuring and comparing the economic activity of business units in different territories of the country. The analysis of statistics on GDP by region shows that growth is different for different regions. The largest share of GDP is for the South-West region (54.5%), where a significant economic activity is focused. The administrative center of Bulgaria – Sofia is located in this region. (MRDPW, at: http://www.mrrb.government.bg/index.php?lang=bg&do=reg_bg&type=68)

The South Central region is second with contribution to the national GDP of 14.6%, which however shows a considerable margin in comparison to the South - West region. The North-West region is with lowest share in the country - 6.6% (MRDPW). Above are the North-Central region - 7.2% and the North-East region - 7.9% (MRDPW)

As a whole, GDP dynamics for the two analyzed periods shows a general trend of gradual growth, which however is different for different regions. Moreover, the share of the three Southern regions is crucial for the country's GDP (78.3%), which means that these regions are dominating the pace of development of the national economy.

All six regions in Bulgaria are Convergence Regions eligible for assistance from the European Structure and Cohesion funds. Table 8 shows the resources allocated from the Structure Instruments.

Fund	Budget (billion €)	Share (%)
ERDF	3.205	65.7
ESF	1.186	
Cohesion Fund	2.283	34.3
ERDF	0.17 9	2.6
Total	6.853 billion €	

Table 8 Structure Instruments Allocations for Bulgaria 2007 – 2013, Source: Own table based on data from Ministry of Finance, at: <http://www.minfin.bg/bg/page/80>

In the 2007 – 2013 programming period Bulgaria will receive almost 6.9 euro from the EU's Regional policy budget part.

The above figures indicate how significant are these resources for Bulgaria. For the period 2007 – 2010 the average level of GDP for the country was around 31, 7 billion Euro, and having in mind the tendency in development of GDP over the past ten years it is likely that by the end of the programming period it maintains around this value. This, however, would mean that the allocated recourses of the SFs are at the set 3.6 % ceiling during the 2007 – 2013 programming period. Even though, still in the limits this is a potential problem. Moreover, having in mind the severe regional disparities of the distribution of economic activity in the six regions in the country, macro-economic absorption capacity is potentially a constraint for effective and efficient use of EU resources allocated to Bulgaria.

2. Demand Side Aspects of Administrative Capacity

The **demand side of Administrative capacity** refers to the ability of potential project applicants to generate projects (Mrak, Tilev, 2008, p. 30). Thereby, a matter of concern are potential beneficiaries of the OPs and data on the quantity and quality of project proposals, projects approved for funding and signed contracts for the respective OP.

OP Regional development potential beneficiaries are municipalities, district authorities, municipal companies, associations of municipalities. By June 2010 around 600 out of approximately 1000 project

proposals were approved (PECSD, 2010, p. 37). However, potential beneficiaries deal with serious shortcomings. As a whole beneficiaries of OPRD have limited project design capacity, due to lack of detailed preliminary studies on necessary administrative capacity, shortages and turnover of staff, lack of sufficient training and experience (PECSD, p. 39) Ensuring co-financing of projects is a further crucial problem for beneficiaries. To answer this major challenge a fund "FLAG" is created to grant loans to beneficiaries (municipalities and their organizations). However, this is not a long run solution because the loans must still be paid back. This is potentially unbearable commitment for the majority of municipalities, as they are not capable to predict and control their future incomes in form of own revenue budget and particularly subsidies paid on an annual basis (PECSD, 2010,p. 40).

Out of 252 approved projects in OP Environment 45.79% and 47.06% of respectively priority axes 1 and 2, which are seen as the hardest, are technical assistance projects. Further 33.16% and 41.18% are „Project preparation" which is actually an euphemism for technical assistance. Thus, it appears that 78.95 percent of the projects under Priority Axis 1 and 88.24% of Priority Axis 2 are technical assistance projects (PECSD, 2010, p. 49). On the contrary very small number of projects target directly investments in waste water treatment – only 5, and regional waste management – only ONE (PECSD, p. 50). This is the situation, despite the adopted and approved by EC approach for achieving objectives in this area which aimed at construction of 53 regional waste management landfills (PECSD, 2010, p.53). The reasons therefore are lack of administrative capacity of potential beneficiaries (municipalities, regional municipal associations, public entities for water management) and their incapability to produce well sound projects (PECSD, 2010, p. 50) A further problem is that almost no large projects, which are projects with budget over 25 million euro, are launched. Of 11 such projects in the field of integrated water cycle, only two started by mid-2010 and out of 4 large projects in the field of waste management no one has started (PECSD, 2010, p. 50).

Eligible beneficiaries of the OP Transport are comprehensively and specifically listed. These are: National Company "Railway InfraStructure", National agency "Road InfraStructure" , State Enterprise "Port InfraStructure" , National agency "Exploration and Maintenance of the Danube", "Metropolitan" EAD and Department "Coordination of Programmes and Projects" in MTITC (PECSD, 2010, p. 59). The approved projects are as follows: Priority axis I – 1 project; Priority axis II – 3 projects; Priority axis III – 2 projects; Priority axis IV – none. Further 36 projects are approved under Priority axis V, which however covers technical assistance only (PECSD, 2010, p. 74). Contrary 22 project proposals are rejected (MF).

OP Development of the Competitiveness of the Bulgarian Economy is particularly problematic for potential beneficiaries, which are SMEs, universities, research centers (MEE 2007, p. 159). An example therefore is the third call for proposals for introduction of internationally accepted standards. Since the launch of OP "Competitiveness" in October 2007 three procedures for granting financial assistance for the introduction of internationally accepted standards have been announced. The total number of project proposals submitted in the three procedures is 1262. In the procedures announced in 2007 and 2008, 382 projects were approved and signed contracts were 360 (MEET http://www.opcompetitiveness.bg/bg/projects/id_84.html). Statistics from the last procedure indicate that 604 project proposals have been submitted. After the first round of screening 215 of them have been rejected due to lack of administrative compliance. After the second round - "Assessment of Eligibility" 156 more projects have been rejected (MEET). A simple account shows that 371 out of 604 projects or 61% have been rejected. The most common mistakes that led to negative statistics are lack of documents proving the professional experience and qualifications of the employees involved in the project; unofficial offers from suppliers; incorrect statements for state aid; incorrect or false applications under the law for small and medium enterprises (MEET).

Ministry of Economy, Energy and Tourism (MEET) is considering to establish a public list of consulting firms that fail to prepare quality projects under OP Competitiveness. The measure is being considered because of the large number of consultants on EU funded projects in relation to the approved for funding business ideas. Only 0.01 percent of the project proposals have been directly approved after the initial submission, according to statistics (MEET, http://www.opcompetitiveness.bg/bg/articles/id_68.html). The rest of the companies have to submit additional documents due to errors in the project proposals. An example could be given with the project proposals for assistance in technology modernization in small and medium enterprises. From 599, 238 projects have been prepared by 153 qualified consultants. Yet, only 70 projects have been approved for funding (MEET, http://www.opcompetitiveness.bg/bg/articles/id_68.html). Only 33 consulting firms have 100% success rate. In the procedure for the technological modernization of large enterprises, 42 applications have been prepared from 32 consulting firms. Nine projects have been approved for funding. Only five consulting firms have 100% success rate (MEET http://www.opcompetitiveness.bg/bg/articles/id_68.html).

OPAD potential beneficiaries are State administration, judiciary system, and civil society. Out of 1374 submitted project proposals there were only 258 approved projects (PECSD, 2010, p. 90). Thereby, 920 project proposals were submitted by civil society Structure, of which 137 projects were approved for

funding. However, there is a significant difference in the number of approved projects and the number of signed contracts – 50 organizations approved for funding of project did not sign contracts due to inability to cope with the financial framework and conditions for implementing them (PECSD, 2010, p. 90). This is more than 1/3 of the approved beneficiaries. On priority axes aiming at administration on local and regional level and the judiciary out of 56 submitted project proposals, 39 were approved for funding. State administration is beneficiary under 3 calls for proposals whereby out of 304 project proposals only 76 were approved for funding (PESD, 2010, p. 93) Courts are potential beneficiaries under one procedure whereby out of 8 project proposals five were approved for funding (PESD, 2010, p. 93)

The statistics show a clear problem on the demand side of administrative capacity. Data both on the quality and the quantity of project proposals show that beneficiaries from local and state administration, from civil society Structure and from the business deal with serious shortcomings and have limited capacity to generate projects in order to absorb SFs. Consulting companies success rate does not make the picture better, as only a limited number of consultants are capable of achieving high success levels. Overall the ability of potential project applicants to generate projects is limited.

The conducted analyses of macroeconomic absorption capacity and demand side aspects of administrative capacity provides the context of the situation in Bulgaria and makes the research more comprehensive, as both can be identified as factors contributing to the low effectiveness of Regional policy in the country and thus should not be neglected in terms of the research.

CHAPTER IV

ADMINISTRATIVE CAPACITY.

THE SUPPLY SIDE

On the supply side of administrative capacity design variables (*Structure, Human Resources, Systems and Tools*) create the conditions for the effective and efficient management of the SFs (Horvat, 2005 p. 11). Together they form the management capability grid, which combined with the policy life cycle (Management, Programming, Implementation, Evaluation & monitoring, Financial management & Control) concept the so-called **Structure Funds Management Grid** - an overall framework of indicators that play a role in determining the administrative absorption capacity (NEI, 200, p. 4), which was extensively provided in terms of this Thesis.

1. Management

The coordination of assistance by the SF and CF takes place on national level (NSRF) and management takes place on sectoral and regional level (OPs).

The Structure responsible for the management of the Structure instruments in Bulgaria have been designated – Central Coordination Unit (CCU), the Managing Authorities (MAs) of the Operational Programs and the Intermediate Bodies (IBs) (Council of Ministers Decision No 965/16.12.2005).

The CCU of the NSRF and the assistance by the SF and CF is the body which coordinates and monitors implementation of the NSRF objectives in the absorption process of SFs and CF in the country. Directorate „Management of EU Funds“ in Ministry of Finance is appointed as CCU (Council of Ministers Decision No 965/16.12.2005). It takes the lead at central level in coordinating the operations of the Structure and Cohesion Funds. The main responsibilities of the Unit are defined by the NSRF (NSRF, p.115)

The Managing Authority of the OP is the institution designated as responsible for managing and implementing the OP efficiently, effectively and correctly.

A Council of Ministers Decision officially nominated the names and location of the MAs and the respective IBs, which were established during the chapter 21 negotiations (Council of Ministers Decision 965/16.12.2005). The CCU gives the MAs guidance based on the requirements of the General

Regulation on how to prepare the OPs to be ready within the scope of the NSRF. Subsequently, each MA is responsible for managing and implementing their OP in accordance with the principles of sound financial management.

The designated Managing Authorities in Bulgaria are the following:

- MA of OP Regional Development – “Programming of Regional Development” Directorate General at the Ministry of Regional Development and Public Works
- MA of OP Development of the Competitiveness of the Bulgarian Economy – The European Funds for Competitiveness Directorate within the Ministry of Economy and Energy
- MA of OP Human Resources Development – Ministry of Labour and Social Policy
- MA of OP Environment – Directorate "Cohesion Policy for Environment" within the Ministry of Environment and Water
- MA of OP Transport – "Coordination of programs and projects" Directorate within the Ministry of Transport and Communications
- MA of OP Administrative Capacity - Ministry of State Administration and Administrative Reform, which was closed in 2009. The "Operational Program Administrative Capacity" Directorate at the Ministry of Finance is defined as new MA
- MA of OP Technical Assistance – Ministry of Finance

The Ministry of Finance has extensive experience with pre-accession assistance. The established CCU carries the know-how and experience of the National Aid Coordinator and National ISPA Coordinator services (Nikolova, 2007, p. 23).

For the improvement of the human resources qualification and in order to build additional capacity for absorption of funds, a comprehensive training program on Structure and Cohesion Funds for the period July-December 2006 has been established to build sufficient capacity at all levels for absorption of SFs at the earliest possible stage. (NSRF p. 118) Moreover, specialized training is also provided on some of the core areas to be effectively dealt with in the process of SCF implementation: State aids and other horizontal policies; Information and Publicity; Financial management, financial control and audit; Unified Management Information Pilot System; Monitoring and Evaluation; Procedure Manuals; Monitoring Committees and some specific issues to each Operational Program (NSRF, p. 119). In April, 2010, the MA signed a contract with the administration of the Council of Ministers to improve the system for assessing the performance of civil servants (PECSA, 2010, p. 92)

However, observers within civil society Structure still regard that the capacity for assuring smooth implementation of the OP is insufficient, because friends and political appointments often occur, which maintains low level of capacity. The Structure of the MA and IB is not consistent with the tremendous work that is expected to be completed by the OP. (PECSD, p. 46)

There has been a duplication of responsibilities: The Responsible Directorate in MIET, which is MA, continues to perform functions of Executive Agency under the PHARE program. The involvement of the same unit with features that are significantly different in nature, scope and legal framework at European level causes confusion and leads to the emergence of unavailing methodologies for working, mixing criteria and requirements of various European programs and partial suspension of requirements. Moreover, from 2008 to 2010 within OPK three times there was major replacement of current employees with new employees. Since mid-2009 senior and middle management employees have been replaced. At the same time discouraging financial measures were applied in the form of suspension of the so-called "double pay" of about 50 employees in the Ministry of Health and MA (PECSD, 2010, p. 84)

The reasons for these problems are complex: lack of detailed prior studies for the necessary administrative capacity, shortages and turnover of staff, limited training and experience; incompleteness of scheduled rules of procedures for assessment, inconsistency of the procedures within the administration and work with specific target groups (PECSD, 2010, p. 39)

The low administrative capacity to deal with European funds is a leading national issue at both central and regional level. The difference between this two levels is that while at central level this capacity can be "regenerated" (at the place of the trained people which either emigrated or went into private business, come new people, which also receive training), on a local level in general establishing a necessary capacity is often impossible (PECSD, 2010, p. 51)

As a whole, the existence of a modern civil service can be questioned. An official minimum salary for each public sector employment position is given by a regulation, starting at around 350 – 450 lv for junior servants, which is around one third to almost half of private sector salaries. Jobs within bodies dealing with SF tend to offer higher salaries, starting with entry level salaries for a junior servant at around 500 lv, which is still under the levels of the private sector. This tendency is preserved in the higher rang levels. However, the basic salary may be supplemented by bonuses based on employees' performance. Although there is no official record of outflow levels overall there is no real stability in the civil service, so that "administrative careers" do not exist, making the Bulgarian system more position-

based. There are no exceptional recruitment procedures for these positions. Senior civil servants are recruited through a competition procedure, as for other public employees. Officials with a position in senior administration for the first time in their career must follow a mandatory training course. (DGFP, Administration and the Civil Service in the EU 27 Member States, 27 country profiles, pp. 9 -10). Civil service is traditionally problematic area as this is a highly political issue in Bulgaria. The public servants were not considered to secure continuity and expertise from one political change to another. Every new government changed not only deputy-ministers and heads of departments but also the level of experts. The Law on civil service aims to protect civil servants from political pressure and to regulate career progress in the area, so that public servants and political appointees at the top of the administration are demarcated and politicization of the government bureaucracy can be stopped, however in practice things look quite differently (Noutcheva/ Bechev, 2008, pp. 131 - 132).

Despite the designation of MAs, which are in line with the administrative Structure, and the fairly clear arrangements on the delegation of tasks, the staffing of MA is rather problematic due to specifics of the work with EU funds, but also due to the overall lack of modern civil service.

2. Programming

Programming as a process of gradual organizing, decision making and financing of multiannual-joint actions of the Community and the State to achieve the objectives of the SFs and Cohesion Fund is a key element for effective absorption of SFs and Cohesion Fund (Strategy SF and CF, p. 7)

The basic tools for programming the Structure Funds and Cohesion Fund include: National Strategic Reference Framework (NSRF), which is a strategic document prepared by the state to ensure that the proposed priority areas for funding are in accordance with the Community strategic guidelines for cohesion policy. NSRF is a reference document for preparing the programming of sectoral and regional programs. (Strategy SF and CF, p. 7) Operational Program (OP) - a document prepared by the state as part of a strategic reference framework. Each OP contains a development strategy for given region or sector containing priorities and objectives to be achieved by using the Structure and Cohesion Funds. The implementation of the OP starts after their approval by the European Commission. (Strategy SF and CF, p. 8)

The framework is based on the positive experience gained in the development of the National Development Plan 2007-2013. The necessary Structure (inter-departmental coordination and partnership mechanisms) and competence (analytical capacity and capacity for development of

strategies, indicators and assessments) are developed with strong political support of the established approach for drafting the plan. (Strategy SF and CF, p. 7)

The development process of the NSRF takes place in Working Group on the National Development Plan (NDP) / NSRF and supervised by the Coordination Council of the NDP / NSRF. CCU is responsible for negotiating the NSRF with the European Commission and monitoring the implementation of the objectives of the document (Decision No. 71 of the Council of Ministers from 02.08.2002). The responsible unit for coordinating the preparation of the NSRF is the Central Coordination Unit - "Management of EU Funds", at the Ministry of Finance. The Members of the council are deputy ministers of all ministries, responsible for the management of the financial assistance from the EC. The council coordinates the activities of the working groups for the preparation of the strategic planning documents under SF, CF, EAFRD and EFF. The council is also responsible for avoidance of overlaps between them (NSRF, p. 108).

In the process of programming the principle of partnership is applied – this is reached by establishing working groups with representation of NGOs, local authorities, socio-economic partners at both the OPs and at the National Strategic Reference Framework (Strategy SF and CF, p.8). The two processes - regional planning and programming of the objectives of the OPs - are logically connected and complementary. Yet, in practice, the programming process is totally enclosed from the process of regional planning (PECSD, 2010, p. 36). Thus, a major weakness of programming is lack of proposals for the territorial distribution of the financial support, taking into accounts the specific local needs and priorities.

MEW was one of the ministries which on their own initiative invited representatives of environmental NGOs to participate and was the only ministry, which complied with the procedures for selecting representatives of NGOs, created and maintained by their own civil organization (PECSD, 2010, p.44). Yet, the purposes of OP "Environment" were not always recognized by local and regional authorities, business and communities as necessary for their own better and sustainable development (PECSD, 2010, p.47).

Participation of NGOs in the development of OPT was strongly limited. It was only in 2005 (one year after the beginning of programming process), after an explicit request from the network of the environmental NGOs, that their representatives were included. The attitude of the Ministry of Transport was restrictive, because only one NGO was chosen to participate by this Ministry, and it was not conducted according to the existing procedure for internal choice between environmental NGOs. Even

after the representative of the environmental organizations was accepted as a member of the Working Group the restrictive attitude of MA persisted as there were no submitted data, materials and information about ongoing development of programming, decision making and sending official program to the EC (PECSO,2010, p. 60).

According to the latest report of OPAC, which is for 2008, it is probably the one OP developed in accordance with the principles of continuity and partnership with all stakeholders, including representatives of the civil society: Social economic partners (nationally represented organizations of employers and employees) and NGOs were involved in the work group for the development of OPAC and participated actively in preparation of the program (PECSO, 2010, p.88).

The limited capacity of project beneficiaries also had to be taken into consideration at the stage of programming and appropriate measures for compensation to be taken (PECSO, 2010, p. 39)

The main problems contributing to the poor planning is the strong centralization of the planning process, ignoring the "from the bottom up" approach by making only sectoral, but not regional operational programs, predefined objectives which the operational programs are adjusted to, whereby all opportunities for financing other important goals and chance of seeking other ways (loans) of financing the approved ones were stopped; the enforcement "from above" (Ministry of Finance) of financial framework of operational programs (PECSO, 2010, p.).

Even though the Central Coordination Unit - "Management of EU Funds" has extensive experience with pre-accession assistance and the needed analytical and process skills can be regarded as given through the experience gained through the NDP, there is a lack of partnership and we can see a very centralist approach neglecting regional needs and specifics in the programming process. In this regard there is also a lack of guidelines for program preparation.

3. Implementation

The Intermediate Bodies are explicitly defined as Structure responsible for the management of the Structure instruments in Bulgaria (Council of Ministers Decision No 965/16.12.2005). The NSRF lists for OP Regional Development 6 Intermediate Bodies, for OP Development of the competitiveness of Bulgarian economy 1 Intermediate Body, for OP Human Resources Development 3 Intermediate Bodies, 1 Intermediate Body for OP Environment and no IB for the remaining 3 OPs. Each IB is defined and contact persons are given. The scope and scale of tasks is delegated and described in "official administrative documents/agreements" concluded between the MA and IBs of the OP (SF GENERAL

MANUAL, p. 18). The assignment of intermediate bodies is in line with main responsibilities of intermediate bodies and the authority of MA over implementing body in line with national hierarchy (SF GENERAL MANUAL, p. 89). All OPs launch call for proposals with reference to national policies and objectives set in planning documents. Usually, standardized application forms are provided. The calls for proposals are published in a number of official web sites and are also disseminated in the traditional media, along with information campaigns on the OPs and public events. For every OP there is information published in form of booklet, digital documents, leaflets, etc. as well as procedure manual. There is also a General Procedure Manual for the management of SF and CF in Bulgaria.

Yet there are a number of shortcomings in the implementation process. The problems in regard of staffing of MA are applicable for IB as well. As a whole, the number and training of employees involved in the commission for evaluation of project proposals are insufficient (PECSO, 2010, p. 84). Moreover, the criteria and procedures for making such assessments are not yet well defined, which leads to inefficient Structure of the commissions for evaluation of open procedures (PECSO, 2010, p.84). Guidelines for application and draft contracts do not provide and describe in detail indicators for monitoring of the implementation of each projects for specific schemes and do not extensively explain the relationship between degree of compliance in a project and possible refund.

There is even a phenomenon of an inadequate approach to prioritizing projects - based not on rational grounds, but under pressure not to lose money i.e. politically motivated.

A number of significant problems in terms of disclosure, communication and compliance with deadlines established by the administrative units exist, as well as incompleteness of procedural rules for the evaluation and inconsistency of procedures (PECSO, 2010, p. 39).

Corruption, private and political interests are the next problems that jeopardize the quality and effectiveness in the process of implementation some OPs (PECSO, 2010).

The results are weak operational project development and management process, which in turn leads to implementation of projects with various types of violations.

The experience with absorption of and project pipeline for pre-accession funds is not very good as well. The absorption rate of pre-accession funds was comparably good, for example for the first three years of the ISPA program (2000-3) Bulgaria committed an average of 72 per cent of its allocation (Nikolova, 2007, p.12). Absorption of SAPARD funding in Bulgaria (2000-2003) moved between 100%, 87% and

65% depending on the priority area and the year (Nikolova, 2007, p. 22) However, the effectiveness of PHARE, ISPA and SAPARD was limited.

First of all, Bulgaria relied heavily on Commission expertise in key areas such as programming (Nikolova, 2007, p. 12). Second, human resources and capacities were insufficient to handle the increasing number of pre-accession projects, which led to significant delays in project implementation (Nikolova, 2007, p. 25). A form of learning by doing took place while trying to draft strategic documents, design, manage and monitor projects. Experience was often accumulated by error and shifts of functions between ministries and between central and regional offices. This instability of Structure combined with high staff turnover, represented a major obstacle to building administrative capacity in Bulgaria's public administration (Nikolova, 2007, p. 25)

The total valuation of pre-accession financial instruments in Bulgaria is that they have not fulfilled their objectives. This is due not only to the above mentioned problems, but also is a result of weak and insufficient control over the use of funds for purposes other than European and/or national strategic objectives and wide potential for corrupt practices (PECSO, 2010, p.28). Pre-accession programs became a byword for theft, political dealings, conflicts of interest, formal "absorption" (PECSO, 2010, p. 28).

In 2008 the EC withdrew the accreditation of the two agencies working with PHARE money. Thus, Bulgaria permanently lost more than 220 million euro. As one of the reasons for its decision the European Commission indicates the risk of political interference in the absorption of EU funds, yet without giving concrete examples. (Aleksandrova, 2008)

In the same time the European Commission suspended further 144 million euro, allocated to two projects under ISPA, due to a corruption scandal in the Fund for Regional Road Infrastructure. Such measures are used for the first time in the history of the EU (Novakova, 2008).

Despite the clear assignment of intermediate bodies, with authority of MA over implementing body in line with national hierarchy and the well-established working relations between MAs and IBs, staffing of intermediate bodies is a clear problem. Furthermore, there is enough ground to doubt about the existence of unproblematic operational project development and management process. This is combined with bad experience of the absorption and project pipeline for pre-accession funds.

4. Monitoring and Evaluation

The supervision of the National Strategic Reference Framework (NSRF) and of the OPs is responsibility of the Central Coordination Unit and of the relevant Managing Authority (MA). It is done under the supervision of Monitoring Committees (MCs). The MC is the main coordinating and decision-making body of the OP. Each OP is monitored by a separate MC. Moreover, the monitoring committee is established to monitor the implementation of NSRF. The main task of the MCs is to ensure the quality and efficiency of absorption of the program (NSRF)

Monitoring means the systematic and continuous collection, analysis and use of information for management and making decisions on specific processes and interventions. The monitoring is performed on the physical and financial indicators specified in the program. Monitoring indicators allow the MCs to measure progress in achieving the objectives, outcomes and impacts during the use of aid and progress on the financial plan (NSRF).

Source of data can be one of the following databases: internal database of program participants (mainly reports for implementation of projects by the beneficiaries); studies, official statistics. Information for monitoring is collected through the Monitoring Information System for management and observation of Structure instruments, based on regular monthly, quarterly, semi-annual and annual reports by end-point beneficiaries to IB, by IB to MA and by MA to MC and EC, as well as financial reports by MA to CA.

The computerized monitoring information system provides public information concerning financial implementation of the OP (contracted and paid out funds) for the seven programs and for each separately, with different levels of information. The website provides information on projects by beneficiaries (type of beneficiary) and the contractor. There is also an opportunity to display information about the allocation of projects across regions, districts and municipalities, for all OPs and for each program. The users are offered with a detailed search by a combination of different criteria and keywords. Requirements of the European Transparency Initiative are met with the implementation of the module.

Monitoring Committees are established on the principle of partnership. The Chairman of the Monitoring Committee sends an invitation to the socio-economic partners in the areas of planning, organization of local authorities and NGOs to choose in a coordinated manner their representatives in the monitoring committee. The lineup of the Monitoring Committees comprises representatives of Managing Authorities, Certifying Authority, the Audit Authority, the Intermediate Bodies, regional and local

authorities, nationally presented NGOs, economic and social partners. Trade unions, employer organizations and NGOs designate a representative in the Monitoring Committees of the NSRF/OP. Committee for monitoring the NSRF and the Monitoring Committees of the OP include representatives of the European Commission. (SF GENERAL MANUAL, p. 23)

There is already a functioning monitoring system for pre-accession funds. A Joint Monitoring Committee (JMC) has been created for the implementation of PHARE, ISPA and SAPARD; it is a joint body of the Bulgarian government and the European Commission for monitoring and evaluation. Members of the JMC are the National Aid Coordinator (Finance Minister), National Authorized Officer (Deputy Minister of Finance) and representatives of the European Commission. (Decision of the Council of Ministers № 802 of December 6, 2000 (amended and supplemented. 582/11.08.2003 PMC). JMC consider on an annual basis the progress of programs funded by the EU pre-accession funds in the context of national priorities, set out in all program documents. JMC propose corrective measures to ensure the achievement of program objectives and to increase efficiency in the utilization of variety of funds.

The evaluation considers the development of the program compared to community and national priorities. They support the operational monitoring program. Evaluations shall be performed before, during and after the programming period. Evaluations are carried out by experts or bodies - internal or external - functionally independent of those Managing Authorities. (SF GENERAL MANUAL, p. 54) There are a number of external institutes and independent consultants to guarantee sufficient Availability of independent evaluation expertise. For example KPMG has been already engaged in conducting evaluation and reports. To name the leading independent institutes active in this field: : Centre for Economic Development (CED), Centre for Liberal Strategies (CLS), Centre for the Study of Democracy (CSD), European Institute, Foundation for Entrepreneurship Development (FED), Open Society Institute, Institute of Economics (Bulgarian Academy of Sciences), Balkan Institute for Labour and Social Policy, Economic Policy Institute, Institute for Market Economics.

Thus, to sum up there is clear designation of monitoring responsibilities and independent evaluation expertise is available. A computerized monitoring information system exists already and there is also a background experience with a functioning monitoring system for pre-accession funds.

5. Financial Management and Control

The context of the financial management can be separated in two cycles of payment: the first covers the payment of funds to the (final) beneficiary and the second covers payments by the European Commission to the body receiving the payments.

"National Fund" Directorate at the Ministry of Finance has been designated as a Certifying Authority (CA) and the authority responsible for receiving funds from the EU (Council of Ministers Decision № 988/27.12.2005). Thus, By virtue of Decision of Council of Ministers № 988/27.12.2005 the National Fund Directorate was designated as paying authority for the Structure Funds and the Cohesion Fund after accession to EU.

CA certifies expenditure listed in the request for payment submitted to the Commission. It is preparing and sending the Commission a statement of expenditure and request for payment under each operational program, based on which the Commission reimburses the costs of Republic of Bulgaria under the Structure Funds and Cohesion Fund. The CA also approves limits on expenditure within the managing authorities for making payments to beneficiaries. (National Fund Directorate, at: <http://www.minfin.bg/bg/page/55>)

Generally, payments from the SFs are made on the basis of invoices submitted, which is applied for the process related to payments by the European Commission to the Certifying Authority and in respect of payments from the IBs to the beneficiaries (SF GENERAL MANUAL, pp. 84-85)

CA maintains an electronic database on the accounts with the costs declared to the Commission and a record of reimbursable costs and sums withdrawn after partial or complete termination of support for the operation. There is an established practice in dealing with financial irregularities, as CA reports to the Commission for any violations which have been subject of primary administrative or judicial investigations. It informs the Commission, referring to previous reports on irregularities for which procedures have been started and which have been reported earlier, and on all important changes resulting from these actions.

The MS is responsible for the financial control of funds absorption of Structure and Cohesion funds. In this context accounting systems exist and financial procedures are established and implemented to ensure effective, efficient and lawful use of the funds. There are several levels of financial control. The first level of financial control are systems for internal control, implemented by bodies dealing with funds from the EU, which are based on the law on financial management and control in the public sector

(FMCPSA) (Strategy SF and CF, p. 13). FMCPSA regulates governance responsibility and obliges each leader among other responsibilities to introduce adequate control activities. Such are the procedures for review before approving the payments, making payments and accounting procedures. Under the terms of FMCPSA, internal control systems include a system of prior control which reviews the legality of all documents and actions related to the financial activity and are carried out through inspections before making the commitment and spending. Part of the internal control system is the double signature system in respect of undertaking financial obligations and making expenses. The construction of these systems should follow the principle of separation of responsibilities, so there is no risk of conflict of interest by assuming the obligations and payments (Strategy SF and CF, p. 13).

Essential element of internal control systems are procedural manuals for activities of all participants in management, programming and implementation of the Structure and Cohesion funds. These procedures duly reflect the requirements for effective management and control in accordance with applicable European and national legislation (Strategy SF and CF, p. 13).

The second level of financial control is the internal audit. According to the Law on the Internal Audit in the public sector (LIAPS) any organization spending funds from the budget and programs and funds from the European Union should have internal auditors which evaluate the legality and the principles of effectiveness, efficiency and economy (Strategy SF and CF, p. 14).

The third level of financial control is sample checks of transactions and audit in relation to EU funds by the Auditing Authority. (Strategy SF and CF, p. 14)

The tasks of an AA are assigned to the Executive Agency "Audit of EU Funds" at the Minister of Finance (Decree № 305 of Council of Ministers of 11.12.2008). The Agency is the successor of the "Audit of EU Funds" directorate at the Ministry of Finance.

The Agency is responsible for organizing and carrying out specific audits and controls on the activities of the departments responsible for EU funds and programs. It is responsible for preparation of reports in which the results of assessment of the systems management and control of operational programs in Bulgaria are presented. Moreover, it is responsible for issuing the final declaration at the completion of projects and the European Commission to provide the necessary documents in connection with the audits (Decree № 346 of Council of Ministers of 30.12.2008)

The auditors in the "Audit of EU Funds" directorate (DOSES) are appointed in accordance with Article 45 § 1 of the Law of the Internal Audit in the public sector, requiring at least two years of experience in

internal and external audit in accordance with Article 45, paragraph 2 leaders of the auditing team must have at least two years of experience in the audit of EU funds (OPTA, p. 27). A number of auditors working in the agency are experienced as public officials in the Public Internal Financial Control Directorate. These auditors have carried out audits under ISPA and SAPARD, also under the "Leonardo da Vinci" and "Socrates" (OPTA, p. 28)

This experience is a solid base for professional qualifications required to perform the functions of the Audit Authority in relation to the financial resources of the Structure and Cohesion Funds. There is the general methodology of audit as well as a common audit strategy (OPTA, p. 28) On this basis, in the process of obtaining the Extended Decentralized Implementation System (EDIS) under ISPA a positive assessment of the directorate "Audit of EU Funds" is given (OPTA, 28). The sound administrative capacity that has been built within DOSES is reinforced through training and specialization carried out by auditors from the Directorate, in order to secure accounting and auditing expertise.

The fourth level of financial control of public funds is the independent external audit, which according to Bulgarian legislation is carried out by the National Audit Office (Strategy SF and CF, p. 14). The main task the Court of Auditors is to contribute to sound management of budgetary and other public funds and to provide the National Assembly with reliable information about the use of funds according to the principles of legality, efficiency, effectiveness and economy and fair reporting of the implementation of relevant budgets. (Strategy SF and CF, p. 14)

The supreme external audit institution in Bulgaria - the Court of Auditors - may conduct audits to Structure and Cohesion Funds, including all relevant bodies (final beneficiaries and final recipients which fall within the scope of its power); that means that local authorities and private companies can also be audited by the Court of Auditors (SF GENERAL MANUAL, p 47).

Based on the above considerations it can be concluded that all four key indicators regarding financial management and control are given: there is designation of responsibilities; accounting and auditing expertise is secured; accounting system exists; financial procedures are established; there is an established practice in dealing with financial irregularities.

6. Conclusion

The **Structure Funds Management Grid** is a very useful tool for the analysis of the supply side of **administrative capacity**, as the overall framework of indicators that play a role in determining the administrative absorption capacity provided within this concept is a helpful guideline for sound analysis.

Table 8 summarizes the main findings of this chapter. Thereby, the indicators in green are confirmed, where as the ones in red are not present.

Indicators	Structure	Human Recourses	Systems and Tools	Functioning
Management	<i>Designation of MA</i>	<i>Staffing of MA</i>	<i>Arrangements on the delegation of tasks</i>	<i>Existence of a Modern Civil Service</i>
Programming	<i>Partnership already present in existing economic development policy</i>	<i>Capacity to carry out programming is available quantitatively and qualitatively</i>	<i>Guidelines for program preparation exist and disseminated</i>	<i>Existence and quality of NDP document (and supporting documents)</i>
Implementation	<i>Assignment of intermediate bodies</i>	<i>Staffing of intermediate bodies</i>	<i>Existing operational project development and management process</i>	<i>Absorption of and project pipeline for pre-accession funds</i>
Monitoring and Evaluation	<i>Designation of monitoring responsibilities</i>	<i>Availability of independent evaluation expertise</i>	<i>Existence of computerized monitoring information system(-s)</i>	<i>Functioning monitoring system for pre-accession funds</i>
Financial Management and Control	<i>Designation of responsibilities</i>	<i>Accounting and auditing expertise secured</i>	<i>Existence of accounting system and financial procedures established</i>	<i>Established practice in dealing with financial irregularities</i>

Table 9 Key indicators for Candidate Countries to effectively manage the Structure Funds in Bulgaria,
Source: NEI, 2002, p. 27 own interpretation

To sum up, the main factors contributing to limited effectiveness of Cohesion policy on the supply side of administrative capacity are on the level of Programming and Implementation - the weak phases of the policy life cycle combined with the weak staffing of MA and the overall lack of modern civil service are a major obstacle for better results.

CONCLUSION

Cohesion policy of the European Union aims to promote social and economic cohesion within the Union as expression of its solidarity.

One of the anticipated benefits of the accession of Bulgaria, which remains the poorest Member state, to the EU is access to serious in scale and coverage financial support provided by the Structure instruments, which are seen as a major opportunity to develop and improve quality of life in the country. Yet, they also represent a major challenge that requires not only time and efforts, but also a thorough understanding in Bulgaria, which for the 2007-13 period, has been allocated almost €6.9 billion in total.

Exactly two years ago I finished a Bachelor Thesis on the leverage of the European Union on Bulgaria elaborating on the suspended funds under ISPA and SAPARD, which were unprecedented measures to discipline a Member State up to this moment. Starting to work on this Master Thesis about nine month ago I was very much hoping to come up with findings leading to the conclusion that lessons have been learned on national level. Yet, the background of the choice of research question of this thesis suggested mixed results. On the half time of the current programming period Bulgaria's results were mixed and far away from achieving the stated goals.

From this background I started my analysis on the factors which contribute to limited effectiveness of Regional policy instruments in Bulgaria by approaching the question trough the idea of conditional effectiveness of Structure Funds. Thereby, I adopted as analytical framework the concept of micro efficiency as a condition on which the effectiveness of Regional Policy depends as a more relevant issue in terms of identifying factors which hinder the effectiveness of Regional Policy.

The micro efficiency of the Structure Funds is determined by the institutional or absorption capacity of a Member State, which is summarized around two dimensions of absorption capacity relevant in this case: *Macroeconomic absorption capacity* and the supply and demand sites of *Administrative absorption capacity*.

Using a case study on Bulgaria as a research method and through the adopted research design, which was formulated on the background of the theoretical framework I am able to answer the research question and to identify which factors contribute to the low effectiveness of EU Regional policy in Bulgaria.

The core analysis in terms of the thesis is concentrated on supply side aspects of administrative capacity, as the institutional arrangements and regulatory environment for implementation of Regional policy in Bulgaria is more relevant in terms of an outlook to the upcoming programming period. The analysis of macroeconomic absorption capacity and demand side aspects of administrative absorption capacity provide the context of the situation in the country. To guarantee comprehensiveness of the research these factors cannot be neglected. Moreover, in terms of the conducted analysis both have been identified as factors contributing to low effectiveness of Regional policy in Bulgaria.

To analyze macroeconomic absorption capacity I will assess what percentage of the national GDP planned EU budget resources for Bulgaria are equivalent to. During the 2007 – 2013 medium-term financial perspective of the EU, the upper limit for EU cohesion purposes has been set at 3.6 per cent of the GDP of the respective country. In the case of Bulgaria the analysis showed that the development of the GDP levels of the country during the previous programming period and the current programming period has been experiencing relatively stable rate of growth. For the period 2007 – 2010 the average level of GDP for the country was around 31, 7 billion Euro, and having in mind the tendency in development of GDP over the past ten years it is likely that by the end of the programming period it will maintain around this value. Thus, the allocated resources of the Structure Funds are at the set 3.6 % ceiling during the 2007 – 2013 medium-term financial perspective of the EU, which despite being within the limits is a potential problem. Furthermore, the analysis showed severe regional disparities of the distribution of economic activity in the six programming regions in the country. Thus, macro-economic absorption capacity is potentially a constraint for effective and efficient use of EU resources allocated to Bulgaria.

The analysis on the demand side of administrative capacity refers to the ability of potential project applicants to generate projects. The analysis of the statistics on the submitted project proposals and the actual funded projects show clear problems both on the quality and the quantity of project proposals and that beneficiary from local and state administration, from civil society Structure and from the business deal with serious shortcomings. They have limited capacity to generate projects in order to absorb Structure Funds. Thus, the demand side of administrative capacity is a factor contributing to the low effectiveness of Regional policy in the country.

The core analysis in terms of the thesis emphasizes on supply side aspects of administrative absorption capacity. The supply side of administrative capacity has been analyzed using the concept of the so-called *Structure Funds Management Grid*, which provides an overall framework of indicators that play a role in determining the administrative absorption capacity. The *Structure Funds Management Grid* is

formed by design variables: *Structure, Human Resources, Systems and Tools* and the policy life cycle: Management, Programming, Implementation, Evaluation & monitoring, Financial management & Control.

The analysis organized around the provided indicators leads to a conclusion that several factors on the supply side of administrative capacity contribute to the low effectiveness of Regional policy and the Structure instruments in Bulgaria: weaknesses on the level of Programming and Implementation of the policy life cycle and weak staffing of MA combined with overall lack of modern civil service.

It is expected that in the next programming period Bulgaria is going to receive at least as much as it did in this one. There are even suggestions that the country will receive 15% to 20% more funds between 2014 and 2020.

At the same time looking forward to the upcoming program period 2014 – 2020 Bulgaria has a number of factors to consider in order for the country to be capable to achieve better results and for the Regions of the country to move closer to the more developed regions in the European Union.

First steps have been taken by introducing a special Minister to deal with Euro Funds. Yet his position is still somehow blurry and unclear, as this happened in late 2010, five years after the start of the programming period. Analyzing the processes and structures, the stakeholders and practices in regard to the Structure instruments I did not find where to place or even where to mention this Minister and his administration. His role still appears to be only symbolic as a guarantee for the country's partners in Brussels. Hopefully analyses of the performance of OP for 2011 would show a positive impact of their contribution.

Meanwhile there have been proposals from the EC for changes in Regional policy in the next programming period. They are aiming at delivering the Europe 2020 strategy objectives and their main focus is on results. Thereby, innovation and macro-economic conditionality are key elements of the suggested changes.

The "Common Strategic Framework" (CSF) has been shortly presented by the European Commission. The main goal is to set clear investment priorities for the next financial planning period from 2014 until 2020 in Member States and their regions. Thereby the main emphasis of the introduced proposals is at seeking better coordination of measures, especially in the programming stage, so that projects are more efficient - complementing each other where possible, and seeking to avoid overlaps where not necessary (EC 2012, CSF, Part I and Part II).

To deal with the challenges and the shortcomings Bulgarian government is preparing a special law on EU funds, which will regulate the processes during the next programming period. The idea is on the one side more structures providing expertise on location to be established not only for better control, but also for assistance. Most probably these structures would be six corresponding to the six regions. On the other side, on national level the main effort would be to lower the number of structures and the OP's offices by uniting some of them.

This could be a promising start to address the shortcomings and to limit or even overcome the factors contributing to limited performance of Regional policy in Bulgaria. The intended improvement measures would also be in line with the overall tendencies for the upcoming programming period. Bulgarian authorities would have to use the framework of the CSF as the basis for drafting their 'Partnership Contracts' with the Commission, committing themselves to meeting Europe's growth and jobs targets for 2020. This is a further challenge to be addressed alongside with already present shortcomings.

However, such complex problems need to be addressed in a long-term perspective in order to be solved; at this stage only intentions for doing so have been declared. Hopefully actions will follow for Bulgarian regions and will contribute to closing the gaps among regions in Europe, which is still the key objective of Regional policy.

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