

# Two Years after EU Accession: Risks and Challenges to New Member States

## *Absorption of Community Resources*

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### Executive Summary

Effective utilisation of the resources from the Structural Funds and the Cohesion Fund provided by the European Union (EU) is an important dimension of full membership, not simply because of the large amount of these resources, which is unprecedented in the history of Bulgaria, but also because of the changes in the various spheres of the country's socio-economic life expected to result from the utilisation of these funds. Among the countries of Central and Eastern Europe, Bulgaria ranks first in terms of the financial framework as a percentage of GDP: over 6 per cent. What is the readiness of this country to take advantage of this substantial amount of support, what determines whether this will happen, and what we can learn from the experience of the countries of Central and Eastern Europe that acceded before Bulgaria: these are the questions that define the groundwork of this brief analysis, prepared by an inter-disciplinary team in the course of the broader inter-disciplinary study of the experience of the ten new Member States in the various spheres of socio-economic and public life.

So focussed, the study proceeds from the basic premise that **the provision of resources from the Structural Funds and the Cohesion Fund to Member States is directly associated with the achievements and the problems resulting from the Common Market.** As is known, integration of the markets is one of the most important economic and ideological foundations of the union. This integration gives rise to a number of favourable effects, such as an increase in trade among the integrated countries, increase in trade with the rest of the world; elimination of imperfections that would have continued to exist within the confines of a protected national economy; larger growth than national economies can achieve on their own. On the whole, the competitive advantages of the economy are enhanced, and the greater effectiveness and competition lead to greater prosperity.

The Common Market, however, places at a disadvantage some economically backward regions in the Union as, in an intensified competition, they may find themselves in a less favourable position than before the integration. For this reason, the EU conducts specialised economic policies aimed at "reducing disparities between the levels of

development of the various regions and the backwardness of the least favoured regions...”<sup>1</sup>.

These policies, however, do not involve mere “compensation” for the adverse effects of the single market but purposeful action as a result of which the vulnerable regions become stronger so as to be able to compete successfully. That is to say, **the resources under the Structural Funds<sup>2</sup> should not be seen as a “counterweight” to the Common Market but as an instrument of its improvement. In this sense, the Structural Funds should not run counter to the Common Market but should follow its logic:** sectors and separate economic operators are restructured as a result of the intensified intra-Community competition so as to guarantee the competitiveness of the relevant regional, national and European economy as a whole.

Cohesion policy, therefore, should be understood above all as an instrument of development assisting those important regions and sectors that possess a potential but lag behind for various reasons (difficulties resulting from the transition, remoteness from the economic centre of Europe etc.) and where the effect of investment of resources would be maximised.

There exist a number of factors that influence the absorption of EU funds, the word “absorption” being used with all conventionality. This analysis examines separately the most important of these factors and suggests an orientation to a more appropriate framework for the discourse about the burning issue of the “EU money,” which would steer the discussion to a more pragmatic and realistic plane, i.e. to “utilisation” of these funds as an instrument of development and building the requisite capacity and competence in the public administration; the intermediate bodies and final beneficiaries; business; the NGOs; the public bodies.

The level of actual utilisation of resources from the Structural Funds and the Cohesion Fund in Bulgaria in the short term is difficult to forecast with any measure of accuracy. Direct analogies with other recently acceded countries do not offer ready answers. Surveying the experience of the ten, we must recall once again that the institutional infrastructure for implementation of the EU Cohesion policy is determined, in the first place, by the Member States themselves rather than by Brussels, and that the distinctions between the national implementation systems are substantial.

The specific forecasts that this study proposes are based on a hypothesis that the absorption rate of the Structural Funds and the Cohesion Fund depends directly on the success demonstrated by the relevant country in handling the pre-accession instruments Phare, ISPA and SAPARD. The study proposes such short-term forecast resting on a mathematical analysis of the available information for the period of operation of the pre-accession instruments until the time of accession in the case of the first new members and Bulgaria and an analysis of the levels of contracting and of payments during the first two

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<sup>1</sup> Consolidated Version of the Treaty of European Union (29.12.2006, *Official Journal of the European Union*), TITLE XVII, ECONOMIC AND SOCIAL COHESION, *Article 158*.

<sup>2</sup> *Ibid.*, *Article 159*.

years of membership of the new Member States as a percentage of the total amounts agreed according to their financial frameworks.

**The data show as follows:**

- projected absorption rate of the Cohesion Fund in the short term: 14.1 per cent of the resources allocated;
- projected absorption rate of the Guidance Section of the European Agricultural Guidance and Guarantee Fund and the Financial Instrument for Fisheries Guidance in the short term: 20.1 per cent of the resources allocated;
- projected absorption rate of the European Regional Development Fund and the European Social Fund in the short term: 21.6 per cent of the resources allocated.

This forecast is valid in the short term, say, for the next three years. The data refer to an averaged value for this hypothetical period rather than to some specific year within it.

According to this forecast, of the EUR 3,189,452,501 available from all funds for the first three years of membership, Bulgaria will absorb EUR 617,564,915, which gives an average absorption rate of 19.4 per cent.

Despite the relatively fine performance of the new EU Member States in handling the pre-accession instruments (Phare, ISPA and SAPARD), the data of the initial experience of implementation of the Structural Funds and the Cohesion Fund suggest the existence of a number of difficulties related to: improving co-ordination and administrative development; drafting and updating of planning and strategic documents; generating good projects; delays in implementation; lack of trained EU fund managers; extent of decentralisation etc. On the whole, co-ordination of European integration has weakened. Moving from management of the accession process to managing membership requires a significant change of approach and the need to roll out specialised European integration capacity through the state administration. Most states remain well below desired co-ordination levels, at levels between “communication and information provision” and “consultation.”

In a number of new countries, regional administrations are in a weak political, financial and institutional position, which limits the capacity for participation in the Cohesion policy. The capacity to implement effective partnerships is deficient as well. In the new Member States “there is a substantial difference between the way in which the system is supposed to function and the way in which the system functions in reality,” studies on the matter often note. Partnership is important not only because the Structural Funds regulations require it but, first and foremost, because it adds value to the absorption of EU funds and contributes to a positive economic and social development at a national, regional and local level.

Last but not least, an examination of the experience of the ten new Member States that acceded before Bulgaria makes it clear that politicisation is a key impediment to successful administrative development as it runs contrary to the principles of merit, professionalism and permanence that are essential ingredients of a functioning civil

service. Two years after EU accession, a review of human resource management practices points to a return of politicisation, especially of top level appointments. The very idea of an impartial and professional civil service, based on merit and continuity, appears to have lost its appeal to the political leadership of most of the new Member States. Professionalism and expertise are key factors in the fiscal performance of states, as well as of performance in the context of the EU, and if the current trends towards dismantling of the civil service management systems will continue, effective participation in the EU, and the use of EU funds, will be at risk.

Despite the capacity building efforts of the Bulgarian administration, such problems may well accompany the process of work under the Structural Funds and the Cohesion Fund in Bulgaria during the first years of EU membership. Awareness of the difficulties and the successful models for their overcoming is essential as it could, to a certain extent, mitigate the concern over the reaction to the less than optimistic forecasts and steer the discussion and the efforts towards a more sober-minded and structured procedure.

To avoid a repeat of the mistakes made so far by the first ten new Member States in absorption of resources under the structural instruments, Bulgaria should concentrate its efforts in several areas:

- full harmonisation of the legal framework;
- flexibility of government decision-making;
- making up for delays in start of the programmes;
- timely elaboration of projects;
- development of clear procedures and mechanisms for co-ordination and control of implementation;
- strong government incentive policy so as to end the turnover of skilled personnel;
- special attention to strengthening regional capacity for programme management.

## **1. Introduction**

Effective utilisation of the resources from the Structural Funds and the Cohesion Fund provided by the European Union (EU) is an important dimension of full membership, by far not only because of the large amount of these resources, which is unprecedented in the history of this country, but also because of the changes in the various spheres of Bulgaria's socio-economic life expected to result from utilisation of these funds.

Owing to the fact that the resources from the EU funds are not disbursed as a regular subsidy but are received as a result of a complicated process of planning and organising various types of tender procedures, the amount and intended use of the resources allocated depends directly on the work and effectiveness of the public administration, the local authorities, NGOs, business etc.

Bulgaria ranks first among the countries of Central and Eastern Europe in terms of the amount of the financial framework as a percentage of GDP (more than 6 per cent)<sup>3</sup>. This substantial amount of resources makes this country's handling of the EU funds one of the most important issues related to the newly achieved full membership.

The matter is not just a subject of political regulation and comment but also concerns the plans and development prospects of thousands of public and private institutions.

This text forecasts the short-term prospects (within two to three years) in respect of absorption of EU funds, by analysing the country's recent development and above all through a review of the experience of the "first ten new Member States."

## 2. Methodological Notes

The analysis has been prepared by an inter-disciplinary team including experts in social sciences, economists, lawyers and mathematicians. The team members are representatives of the Open Society Institute-Sofia, the public administration and other research entities.

The analyses in the text are based on: open sources of information: the European Commission, the Bulgarian Government, available research papers, presentations etc. In respect of a large amount of the existing statistical information, a secondary quantitative analysis has been made, and this has been specified in each particular case.

No field studies have been conducted for the purposes of the study, but the results of such studies, conducted by other teams, have been used. A number of the conclusions are based on the experts' personal experience as well.

The forecasts on handling the EU funds are based both on the experience of the first ten new Member States and on an analysis of recent development of processes in Bulgaria. No uncritical analogies have been drawn with the experience of other countries. An effort has been made to use examples or comparisons with conditions similar to those in Bulgaria.

## 3. Community Resources<sup>4</sup>

The resources provided by the EU **are not a financial assistance in the conventional sense**, i.e. they are not granted to a Member State merely on the basis of abstract humanitarian motives. They should not be confused with charity, humanitarian aid etc., because they go far beyond these forms of support. Community resources are provided for the so-called "structural actions," i.e.:

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<sup>3</sup> Source: Ministry of Finance.

<sup>4</sup> See Annex 1 **What the European Union Structural Funds Are.**

- they must ensure maximum cohesion among the various regions/spheres in the Union, i.e. are intended to ensure the approximation of a number of sectors to the average European level: social services, capacity of public administrations and other institutions, competitiveness of business;
- they must ensure development of the common European area in respect of infrastructure, research and development, education etc.
- Community resources are allocated to minimise some of the possible adverse impacts resulting from the functioning of the Common Market (an economic as well as an ideological pillar of the Union). In some cases, upon integration of a national economy into the Common Market a situation may emerge in which the “rich get even richer” and the “poor get even poorer.” The EU Structural Funds, among others, help the new, still underdeveloped Member States, to take full advantage of the Common Market.

It is important to specify here that, in principle, the EU resources should not be seen as contrary to the normal logic of the Common Market. Thus, they do not assist directly sectors that used to survive owing to national protection but became non-competitive after the accession and come under strong pressure from companies of the other Member States. The Common Market logic is that sectors and individual economic operators should be restructured thanks to the intensified intra-Community competition, and that this should ensure competitiveness of the European economy as a whole.

In most cases Community resources will not serve as an instrument of “rescue” but as an **instrument of development**. These resources will be used to assist those important regions and sectors that possess a potential but lag behind for various reasons (difficulties resulting from the transition, remoteness from the economic centre of Europe etc.) and where the effect of investment of resources would be maximised.

#### 4. “Absorption” and “Utilisation” Distinguished

Even though a large part of the analyses focus on the so-called “absorption” of Community resources, this term requires a measure of specification.

In the first place, “absorption” is not an adequate term because it carries connotations of mechanical processes of provision and absorption, which has no direct bearing on reality; the term “utilisation” is far more appropriate, if anything because it is associated with deriving benefits, which is very important when Community resources are discussed.

In the second place, the specific amount (or percentage) of resources absorbed is not a categorical indicator of their effect. If, say, EUR 1 million from the EU Structural Funds has entered a country, this fact by no means implies that they have generated the benefit to a given sector inherent to a million euro. If these funds were invested, say, in the

construction of a bridge to which there is no access road, the benefit they generate is very small (consisting in an increased turnover and profit for subcontractors etc.) In this case, the investment practically works against<sup>5</sup> the public interest: an investment without a favourable impact. In this particular case, the bridge may be executed with impeccable quality, but the project is, to say the least, useless because of a fatally flawed planning: construction of a bridge without the adjoining road infrastructure.

Clearly, just as the benefit of a project is not contingent on the amount of its financing alone, the effect of the Structural (and other) EU funds is not influenced by the absorption rate only. Effective utilisation of Community resources requires good quality planning (reckoning with capacities, needs and limitations), good co-ordination between institutions, availability of a sufficient technical and expert capacity in the institutions responsible for the allocation of resources, as well as in the entities sharing in their utilisation.

The quantitative investigations and forecasts attempted below focus mainly on the “absorption rate” factor. This by no means implies that all issues related to the “effect” are ignored. The question is that calculating the effect is a matter of complicated and time-consuming econometric computations, which are the subject of future pursuits.

## **5. The Experience of the First Ten. What Will Happen in Bulgaria?**

### *Certain Conclusions and Data a Year after the Accession of the First Ten*

Between 2000 and 2004, when the “first ten” acceded, the EU was providing nearly EUR 3,000 million annually in financial support under the three pre-accession instruments ISPA, SAPARD and Phare (Malta and Cyprus excepted).

The negotiations on the Structural Funds programmes were completed before the accession date of the ten (back in December 2003), which allowed the new Member States the earliest possible start of implementation of their programmes. Regarding the Cohesion Fund in particular, measures were taken in 2003 and 2004 to provide technical assistance in the form of training to the public procurement agencies in spheres such as the new Financial Regulation and public-private partnerships.

Structural Funds operate according to an agreed set of objectives, funds and programmes, within a framework policy. Thus, for the 2000-2006 period, the EU Member States were invited to draw up National Development Plans or similar documents outlining how they would spend Structural Funds in accordance with the programming documents priorities. As a result of this, formal agreement was reached between the Commission and each Member State demonstrating how precisely this would be done: this document was called a Community Support Framework (CSF) or a Single Programming Document (SPD).

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<sup>5</sup> The reference is to an actual case of a project financed by the pre-accession facilities in Romania. See *Official Journal of the European Union*, 26.7.2006, COURT OF AUDITORS SPECIAL REPORT No 4/2006, p. 8, 31 (a).

Typically, CSFs or SPDs had a series of priorities, programmes and measures outlining in more detail how the Structural Funds would be spent. Further documents would then be drawn up by the Member States detailing the measures even more, including target groups and indicators to measure progress: this document was called the Programme Complement (PC). The bodies actually executing the Structural Funds, called the managing authorities, were identified as well.

Considering the enlargement of the European Union in 2004, a total of EUR 24,000 million in Community aid were allocated to the ten new Member States for the 2004-2006 programming period. Of the EUR 14,960 million from the Structural Funds, 61 per cent are from the European Regional Development Fund (ERDF), 25 per cent from the European Social Fund (ESF), 12 per cent from the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF), and about 2 per cent from the Financial Instrument for Fisheries Guidance (FIFG).

Although their Community Support Frameworks and Single Programming Documents were not been formally approved until the effective date of accession (i.e. 1 May 2004), the new Member States had the possibility of committing Structural Funds money from 1 January 2004 provided that selected projects complied with the relevant Community legislation.

Speaking in connection with the first anniversary of the enlargement, Commissioner Danuta Huebner said that although it was too early to draw conclusions about the impact of Cohesion policy after the first wave of the fifth enlargement, the EU funds were already contributing to an expansion of the huge growth potential of these countries' economy and to making tangible progress with regard to management and administrative capacity.

During the first year of membership of the "first ten," the procedure for selection of projects under the Structural Funds made progress and in some cases demand exceeded the financial resources available (e.g. for transport infrastructure in Lithuania, for the private and tourism sector in Slovakia, for environmental infrastructure and tourism in the Czech Republic). In respect of the Cohesion Fund, the number of environmental projects proposed increased and at the end of 2006 most countries managed to meet the requirement of a 50:50 split of commitments between projects in the environment and transport sectors.

Between May and November 2004, for example. 15,620 project proposals were submitted in Hungary, of which 3,705 received approval from the Hungarian authorities. In Poland, a number of water supply facilities and treatment plants, as well as stretches of the A2 and A4 motorways, were approved for financing, the last project being an overall investment of EUR 500 million. In the old Member States (EU15), less than 1 per cent of the resources committed in 2002 were not utilised by 2004.

Besides this, by 2004 twelve existing cross-border programmes under INTERREG were adapted to the EU25 framework (such as "Finland-Estonia"), nine cross-border co-



operation programmes were adopted (such as “Slovakia-Czech Republic), some of them concerning the Neighbourhood policy), and the regions in the new ten were included in the zones of co-operation and the inter-regional networks.

In 2004.EUR 922 million were paid to the ten new Member States under the Structural Funds and EUR 328 million under projects that had started under ISPA and were transformed into projects under the Cohesion Fund after accession to the EU.

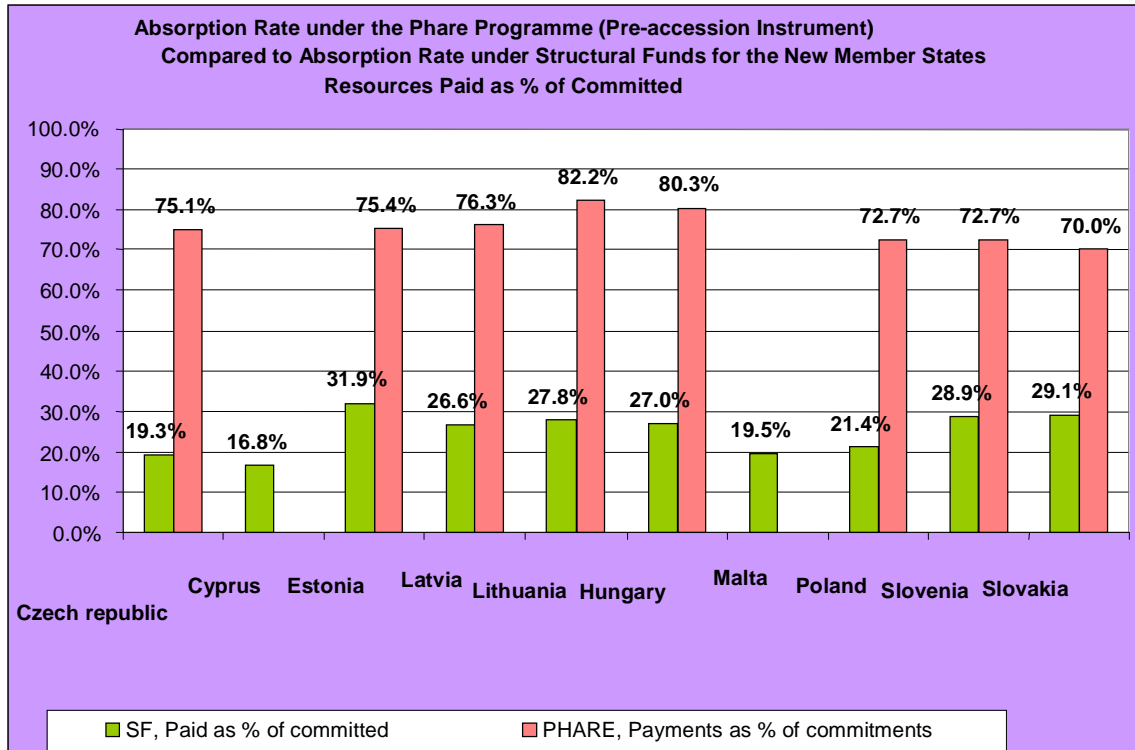
#### **Structural Funds Absorption Rate of New Member States by 2006<sup>6</sup>**

Member State	Decided	Committed	Paid	Structural Funds, paid as % of committed
Czech Republic	1,584,354,541	1,509,040,004	291,366,895.90	19.3%
Cyprus	49,968,004	49,968,004	8,406,408.93	16.8%
Estonia	371,363,452	334,422,765	106,744,398.40	31.9%
Latvia	625,568,826	565,752,826	150,373,715.10	26.6%
Lithuania	895,172,684	754,786,652	210,120,543.80	27.8%
Hungary	1,995,717,158	1,668,654,959	450,394,964.30	27.0%
Malta	63,192,639	60,147,969	11,755,060.09	19.5%
Poland	8,275,812,636	7,672,597,975	1,639,706,029	21.4%
Slovenia	237,509,597	236,739,507	68,439,812.05	28.9%
Slovakia	1,123,151,008	905,729,558	263,846,252.20	29.0%

**The chart below compares the absorption rate under the Phare Programme (a pre-accession instrument) and the Structural Funds on the part of the new Member States<sup>7</sup>.**

<sup>6</sup> The calculations are based entirely on official figures released by the European Commission: Brussels, 27.10.2006, SEC(2006) 1373 COMMISSION STAFF WORKING DOCUMENT Annex to the 17th Annual Report from the Commission on Implementation of Structural Funds (2005), COM(2006) 638 final

<sup>7</sup> The calculations are based entirely on official figures released by the European Commission.



**Regarding Cyprus and Malta, no data about the Phare Programme is available because this instrument was not active in those countries before their accession.**

## **6. The Structural Funds in Poland during the First Year of EU Membership (2004)**

The Community Support Framework was approved by the Commission on 22 July 2004 after in-depth discussions with the Polish authorities. The Framework proposes programmes to be financed by all four Structural Funds in a structure of four priority axes and seven Operational Programmes (OP). Total eligible expenditure was expected to exceed EUR 12,500 million in the period from 2004 to 2006, of which nearly EUR 8,300 million from Community sources.

*Transport Operational Programme.* The Programme includes EUR 1,163,384,465 of Community (ERDF) funding, out of a total of EUR 1,551,546,017. In February 2005, the funding decisions taken corresponded to 64 per cent of the funding. No reimbursements on expenditure were claimed during the first year of EU membership, and thus the only payment made for this OP was the payment on account of 10 per cent (EUR 163,384,465), transferred in July 2004.

*Improvement of Competitiveness of Enterprises Operational Programme:* The Programme budget combines EUR 1,251,098,419 of Community (ERDF) funding with

EUR 461,440,366 of funding from national public funds and an anticipated EUR 1,147,619,783 expected as a contribution from the private sector. During the first year, applications were received for almost all measures and the first grant decisions were taken. No reimbursements on expenditures were claimed during the first year of EU membership, and thus the only payment made for this OP was the payment on account of 10 per cent (EUR 125,109,841), transferred in July 2004.

The *Integrated Regional Operational Programme (IROP)* is the largest programme in Poland, and also the largest programme in all ten new Member States. EU co-financing is EUR 2,968 million, or 36 per cent of total Structural Fund assistance to Poland. The programme is the only multi-fund programme in Poland, with funding from the ERDF (85 per cent of the total funding) and the ESF (15 per cent of the total). The IROP is unique among the seven Polish Structural Fund programmes because of the role of the sixteen regions which are responsible for calls for proposals and the selection of projects in all measures of IROP except one (public transport in the major cities). First calls for proposals for ERDF measures took place in all regions in June and July 2004. As regards the ESF priority (Human Resources Development in the Regions), calls for proposals have been published by all regions only for Measure 2.2 (scholarships); for the remaining measures, the situation varies considerably from region to region. The calls for proposals for the first of the measures started to gain momentum by the end of 2004, albeit not in all regions. It is reported that implementation of some of the ESF measures encounters difficulties. Only 33.55 per cent of the budgetary allocation for Priority 2 in 2004 were committed, which amounts to 7.8 per cent of the total ESF 2004-2006 budget for this operational programme.

The final selection of the first projects to be assisted did not take place until after the completion of the Polish legal regulations concerning the implementation of the Structural Funds in mid-October 2004. Project selection progressed rapidly in the last months of 2004. At the end of December 2004, the budget of the ERDF applications submitted exceeded the whole allocation to the programme for 2004-2006 (cost of applications was over 60 per cent higher than the whole EU allocation to the IROP for 2004-2006), indicating the interest in the IROP at regional level. Interest was strongest in measures for development of rural areas and local infrastructure. No payment claims were submitted to the Commission in 2004. Only the first part of the advance (10 per cent of the total ESF allocation for the programme) was transferred to the Polish account.

The *Sectoral Operational Programme Human Resources Development* with an ESF budget of EUR 1,470 million is the second largest Operational Programme with a share of 18 per cent of total Structural Funds assistance for the period 2004-2006. By the end of 2004, calls for proposals for all the measures were launched. Implementation of projects supporting youth and long-term unemployed is regarded as the most advanced. At the end of 2004, 127 projects were being implemented. 123.01 per cent of the budgetary allocation for 2004 was committed, which amounts to 28.74 per cent of the total 2004-2006 budget. No payment claims were submitted to the Commission in 2004. Only the first part of the advance payment (10 per cent of the total programme budget) was transferred to the account of the Paying Authority.

The *Restructuring and Modernisation of the Food Sector and Rural Development Operational Programme* combines EUR 1,192,689,238 of EAGGF funding with EUR 591,459,823 funding from the State budget and budgets of local governments and an anticipated EUR 945,332,095 from the private sector. In 2004, applications were received for twelve measures (out of fifteen altogether). Largely due to long national legislative processes, commitments started late and only for two measures. No EU-co-financed payments to recipients were made, and thus the only payment made for this OP in 2004 was an advance payment of 10 per cent of the total EAGGF contribution, which was transferred in October 2004. Nonetheless, there was significant interest in the Programme, as evidenced by the more than 12,000 projects submitted, amounting to about 90 per cent of the total Programme allocation for 2004.

*Fisheries and Fish Processing Operational Programme*: the FIFG contribution amounts to EUR 201.8 million. In total, the Polish implementing authority had received around 700 applications, amounting to some EUR 85 million by 11 March 2005, since the application period opened in August 2004. 258 applications (80 per cent of the value) concern the scrapping of fishing vessels, whereas 338 applications (barely 4 per cent of the value) relate to socio-economic measures. Agreements were signed with 183 applicants for the sum of EUR 44.5 million. No requests for the first interim payment were received, and thus the only payments made for this operational programme are two advance payments on account totalling 17 per cent of the total contribution.

The *Technical Assistance Operational Programme* is the smallest of the Polish Operational Programmes, with approximately EUR 28.3 million (all ERDF) in allocations. Despite the fact that more than 20 projects were submitted by the end of the year, no payment requests were received during the first year of EU membership due to bottlenecks caused by the budgetary administrative set-up in Poland, and the advance of EUR 2,830,447 remained the only payment made for the year. Payments were expected to start during 2005. Support for the creation of an IT system to facilitate the submission of project applications, improve the evaluation, monitoring, and management of projects, and monitor financial indicators and results of Structural Fund support is one of the three priorities of this OP. Despite its importance for the implementation of the Structural Funds, by the end of 2004 the system was still not fully operational. While several project applications concerning the system were submitted, the main ones were not accepted by the Steering Committee due to quality issues.

## **7. The Structural Funds in the Czech Republic Immediately after Accession to the Union**

2004 has been a transfer year for the Structural Funds in the Czech Republic for two reasons: the need to absorb successfully all resources allocated for the current period and to start preparatory work in connection with the new programming period 2007-2013. All operational programmes were formally adopted by 2005, and the administrative organisation required for management of the funds was in place as well. Still, for the first half of 2005 activity on most Operational Programmes was rather low, with the number

of projects selected (and amount of funding) being satisfactory but implementation being delayed locally.

The second advance payment of 6 per cent of the total resources foreseen under the Structural Funds for each specific programme was made. As to the “n+2” rule, only the Operational Programme Industry and Enterprise reached the threshold for the end of 2006; absorption of a substantial amount of funding under the rest of the operational programmes was still needed by 2005 in order to avoid the risk of decommitment.

The Community Support Framework covers the period 2004-2006 with a total budget of EUR 1,954 million, of which EUR 1,454 million is contributed by the Structural Funds (63 per cent ERDF, 25 per cent ESF, 11.5 per cent EAGGF and 0.5 per cent FIG). Within the framework of the CSF, five Operational Programmes are implemented.

The *Joint Regional Operational Programme (JROP)*, the largest operational programme for the Czech Republic, with a share of 31.2 per cent of the total Objective 1 allocation (28 per cent ERDF, 3.2 per cent ESF), implementation of the measures was delayed: even though 67 per cent of the budget was approved (agreement between the final beneficiary and the Managing Authority), only 0.28 per cent of the resources were spent as intended and merely 0.01 per cent were certified. Performance was best in support for the regional transport infrastructure and the development of tourism infrastructure. Two interim payments were made at the end of 2005, representing 0.33 per cent of the budget for the 2004-2006 period.

The *Operational Programme Industry and Enterprise* is the third largest operational programme, with 17.9 per cent (only ERDF) of the total Objective 1 allocation. The Managing Authority organised a steady process of submission of project proposals, as a result of which 368 separate projects to the total value of EUR 144,109,144 (41.43 per cent of the total budget) were approved by the end of December 2005. The most popular measures are schemes aimed at support for small and medium-sized enterprises, innovation schemes and two loan schemes aimed at start-up for entrepreneurs and firms at the initial development stage, whereas schemes aimed at energy savings and renewable sources of energy lag behind for the moment.

The *Operational Programme Infrastructure* is the fourth largest operational programme for the Czech Republic, with almost 16.9 per cent (only ERDF) of the Objective 1 budget allocation. The start of the programme was delayed, and work on the priority of mitigating the harmful environmental impact of transport lagged behind. Despite a shaky beginning, the delay on some priorities was made up, especially on those related to improvement of roads, airports and the water supply infrastructure. Interim payment claims were submitted for EUR 2,486,528, or 1 per cent of the total allocation for the 2004-2006 period.

The *Operational Programme for Human Resources Development* is the second largest operational programme, with a share of 21.9 per cent (only ESF) of the total Objective 1 allocation. Implementation is slow; in particular, the measures for modernisation of the

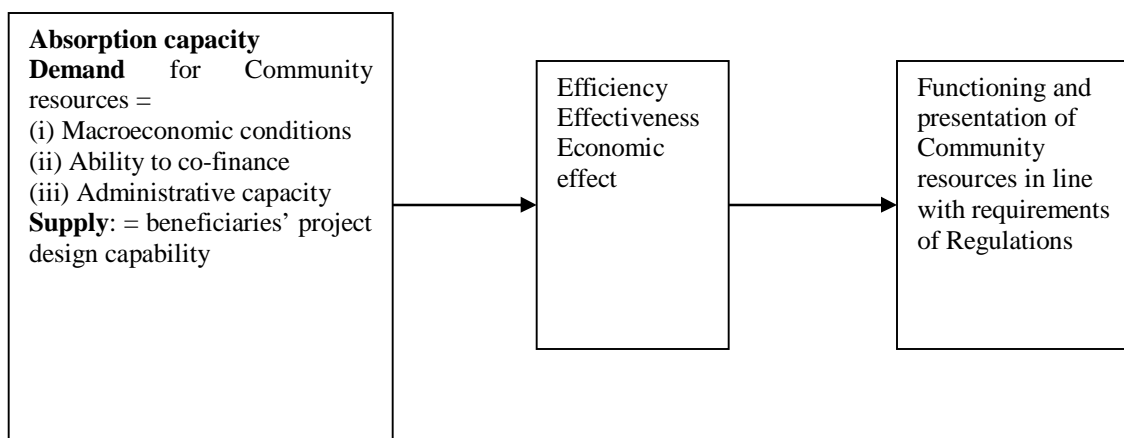
public system of employment services are lagging behind. The best implemented measures are improvement of the quality of education and infrastructure and development of systems in support of education, as well as the measures to build the capacity of providers of social services. A single interim payment claim was submitted, to the amount of EUR 2,132,788.80, or just 0.67 per cent of the ESF allocation for the 2004-2006 period.

The *Operational Programme Rural Development and Multifunctional Agriculture (RDMFA)* is the smallest operational programme, with almost 12 per cent of the Objective 1 budget allocation. Implementation of the programme continued in 2005 and calls for applications were launched in May, July, October and November. The tendency from 2004 persisted in the second year of membership, the most popular measure being investment projects in agricultural technologies.

The *Single Programming Document Prague Objective 2* received support of EUR 71.3 million from the Structural Funds (only ERDF). This programme was slower to start than the other programmes. After three calls for project applications, the amount of the budget approved was just 15.5 per cent of the entire allocation, and the amount of actual costs equals zero (0.04 per cent), covering just the costs incidental to provision of technical assistance.

The *Single Programming Document Prague Objective 3* received support of EUR 58.8 million from the Structural Funds (only ESF). Implementation was delayed, with the active employment policies measure lagging far behind. The best performing measure is for building capacity of the providers of social services (a grant scheme on the whole).

A study, commissioned by the Grant Agency of the Czech Republic and conducted in 2004 by the Prague University of Economics, arrived at the following conclusions about the capacity of the Czech Republic to absorb resources from the EU Structural Funds: Despite the substantial allocations for enhancement of the EU Structural Funds absorption capacity, this capacity remains insufficient both on the demand side (potential beneficiaries and their capability to design eligible projects) and on the supply side (the state of the administrative system for implementation, monitoring and auditing of these resources), benchmarked against the indicative amount of the allocation for the country. The absorption capacity is assessed according to the following formula:



On the part of the administration, the elaboration of Operational Programmes, Programme Complements and application manuals is considerably delayed, which gives grounds to forecast a lag behind the absorption pace countrywide.

The capability of the administration to recruit and retain highly qualified and motivated personnel, especially such with professional training in finance, law and economics, is singled out as an essential problem. This problem is directly related to the attraction of public sector employment but applies equally to the central government administration and to the regional and local authorities.

Within the context of Structural Funds, the human resources policy in the intermediate bodies, which play a key role in the whole process of implementation, monitoring and auditing of Structural Funds resources, is particularly important.

The existing monitoring systems, as well as the financial management and control systems, are viewed as indicators of the existence of an adequate administrative capacity. A clear definition of the responsibilities of monitoring bodies and maintaining a high level of expertise at the central as well as the regional and local level are crucial to the quality of monitoring.

Simplification of financial management and control procedures and concentrating activities in a single paying authority affects favourably absorption capacity and absorption levels, as does a clear delineation of responsibilities with the Managing Authorities of the Operational Programmes and with the internal and external audit bodies.

Harmonisation of national legislation on public procurement with the EU directives, the existence of a financial infringement review system, the publication of data on financial infringements committed and the measures taken against them, as well as the existence of a competent and active National Audit Office, are identified as indicators of a successfully functioning financial management and audit system.

The absorption capacity of potential beneficiaries is in a similar situation. With the exception of major cities and self-governing regions, the expertise for project design and partnerships development is exceedingly low. The rate of design of eligible projects is substantially higher in the regions experienced in the pre-accession instruments and in the pilot operational programmes. Beneficiaries' interest in infrastructure projects is manifold higher than in the rest of the project types. Readiness to apply for human resource development projects is lowest.

The readiness for Structural Funds projects is found to be, on the whole, low and unbalanced<sup>8</sup>. Beneficiaries' overexpectations of the possibilities to obtain co-financing and the levels of support for the activities they implement are identified as a problem. One possible reason for this are weaknesses in programming, say, a lack of clear indicators of the adequacies of programme interventions in relation to the actual needs and the non-application of the partnership principle, i.e. insufficient involvement of potential beneficiaries. This leads to an impossibility to identify with the Government-elaborated programmes and measures and a low motivation and interest to design and propose eligible and adequate projects.

## **8. “Absorption” of Community Resources: Concrete Quantitative Forecasts**

As noted above, the share of resources “absorbed” from the allocation for the relevant Member State is not the only factor that determines the effect of the EU funds. Nevertheless, “absorption” is a problem that is in the focus of attention not only of the general public and the media but also of public institutions and political authorities.

The “absorption rate” of the Structural Funds and the Cohesion Fund in the country in the long term defies an accurate forecast. Direct analogies with other recently acceded countries are of no much help because of the national specifics and the ambivalent tendencies in some of them.

The concrete forecasts given below are based on the hypothesis that the “absorption rate” of the Structural Funds and the Cohesion Fund depends directly on the success demonstrated by the respective country in handling the pre-accession instruments (Phare, ISPA, SAPARD). Since information is available on the experience of eight of the first ten new Member States (excluding Cyprus and Malta)<sup>9</sup>, both with the pre-accession facilities and with the structural instruments, the relation between these two types of experience is clearly identifiable. For Bulgaria, information is available only on experience with Phare, ISPA and SAPARD, and an absorption rate has to be identified.

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<sup>8</sup> Too numerous and high-value projects for infrastructure development and an insufficient number or inadequately developed projects for human resources development or non-governmental sector.

<sup>9</sup> Cyprus and Malta are excluded for two main reasons: the analogy with the pre-accession instruments that operated in Bulgaria is inapplicable to them, and the countries are rather different and analogies with them are unreliable.



**The forecast has been arrived at by reckoning with the relation between work on the pre-accession instruments of the eight new Member States and the place of Bulgaria, in terms of success rate under the pre-accession facilities compared to the rest of the countries.**

**The following method has been employed:**

1. Payments are calculated as a percentage of commitments<sup>10</sup> under each of the instruments listed<sup>11</sup>.

In respect of the experience with the pre-accession facilities, information on the period after the start of work with the relevant instrument and until 2004 is used.

Information on the experience of the eight new Member States with the Structural Funds is used as follows:<sup>12</sup>

- Cohesion Fund: for 2004 and 2005;
  - European Agricultural Guidance and Guarantee Fund and Financial Instrument for Fisheries Guidance: for 2004-2006;
  - European Regional Development Fund and European Social Fund: for 2004-2006.
2. The funds are divided into groups depending on their specifics:

Group	Structural Funds and Cohesion Fund	Pre-accession instruments
1	<b>Cohesion fund (CF)</b>	ISPA
2	<b>European Agricultural Guidance and Guarantee Fund (EAGGF)</b> Financial instrument for Fisheries Guidance (FIFG)	SAPARD
3	<b>European Regional Development Fund (ERDF)</b> European Social Fund (ESF)	PHARE

3. The absorption rate, as defined in Item 1, under the Structural Funds and the Cohesion Fund (for the first ten new Member States) is plotted along the x-axis.

4. The absorption rate under the pre-accession facilities, again for the first ten new members states, is plotted along the y-axis.

<sup>10</sup> An even more in-depth analysis is possible, dividing the resources into **decided**, **committed** (contracts have been concluded on their implementation), and **paid**. Such an analysis makes it possible, say, to particularize certain reasons for the levels of absorption. For maximum comparability of data regarding the pre-accession and structural instruments, only the essential relations between **resources decided** and **resources paid** have been used here.

<sup>11</sup> Only data from the official reports of the European Commission have been used.

<sup>12</sup> Information on such short spans spells certain risks: for example, they are influenced by factors beyond the “authentic” capacity of institutions to manage and utilize the resources, such as short-term political instability.

5. A **trend line** is built for each of the three charts, which intersects a line parallel to the x-axis, with an y-axis showing Bulgaria's absorption rate under the relevant pre-accession facility.

Ø A polynomial of the eighth power is interpolated for CF and ISPA, with the coefficients calculated through a linear regression of multiple variables, modified in the case of approximation with polynomials.

Ø A polynomial of the sixth power is interpolated for EAGGF, FIFG and SAPARD, with the coefficients calculated through a linear regression of multiple variables, modified in the case of approximation with polynomials.

Ø A polynomial of the ninth power is interpolated for ERDF, ESF and Phare, with the coefficients calculated through a linear regression of multiple variables, modified in the case of approximation with polynomials.

6. The point of intersection of the trend line with the horizontal corresponding to Bulgaria shows the probable absorption rate of Bulgaria under the respective EU fund. The probability of this forecast is the degree of determination with which the trend line approximates the observed points corresponding to the absorption rate of the eight new Member States under review. The idea is that it be as great as possible, with its values ranging from 0 to 1. We have achieved a rather high accuracy of 0.98.

#### **The results arrived at show as follows:**

- Projected absorption rate of the Cohesion Fund in the short term: 14.1 per cent of the decided resources (Fig. 1).
- Projected absorption rate of the Guidance Section of the European Agricultural Guidance and Guarantee Fund and the Financial Instrument for Fisheries Guidance in the short term: 20.1 per cent of the decided resources (Fig. 2)<sup>13</sup>.
- Projected absorption rate of the European Regional Development Fund and the European Social Fund in the short term: 21.6 per cent of the decided resources (Fig.3).

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<sup>13</sup> Although strictly based on existing data, the EAGGF, FIFG – SAPARD relation is the most unreliable of the three. The main reason for this is that EAGGF is transformed into two funds: **European Agricultural Guarantee Fund (EAGF)** and **European Agricultural Fund for Rural Development (EAFRD)**, which take over the “guaranteeing” and the management, respectively. Basing the forecast on one instrument and seeking conclusions in respect of a newly established instrument is rather conditional.

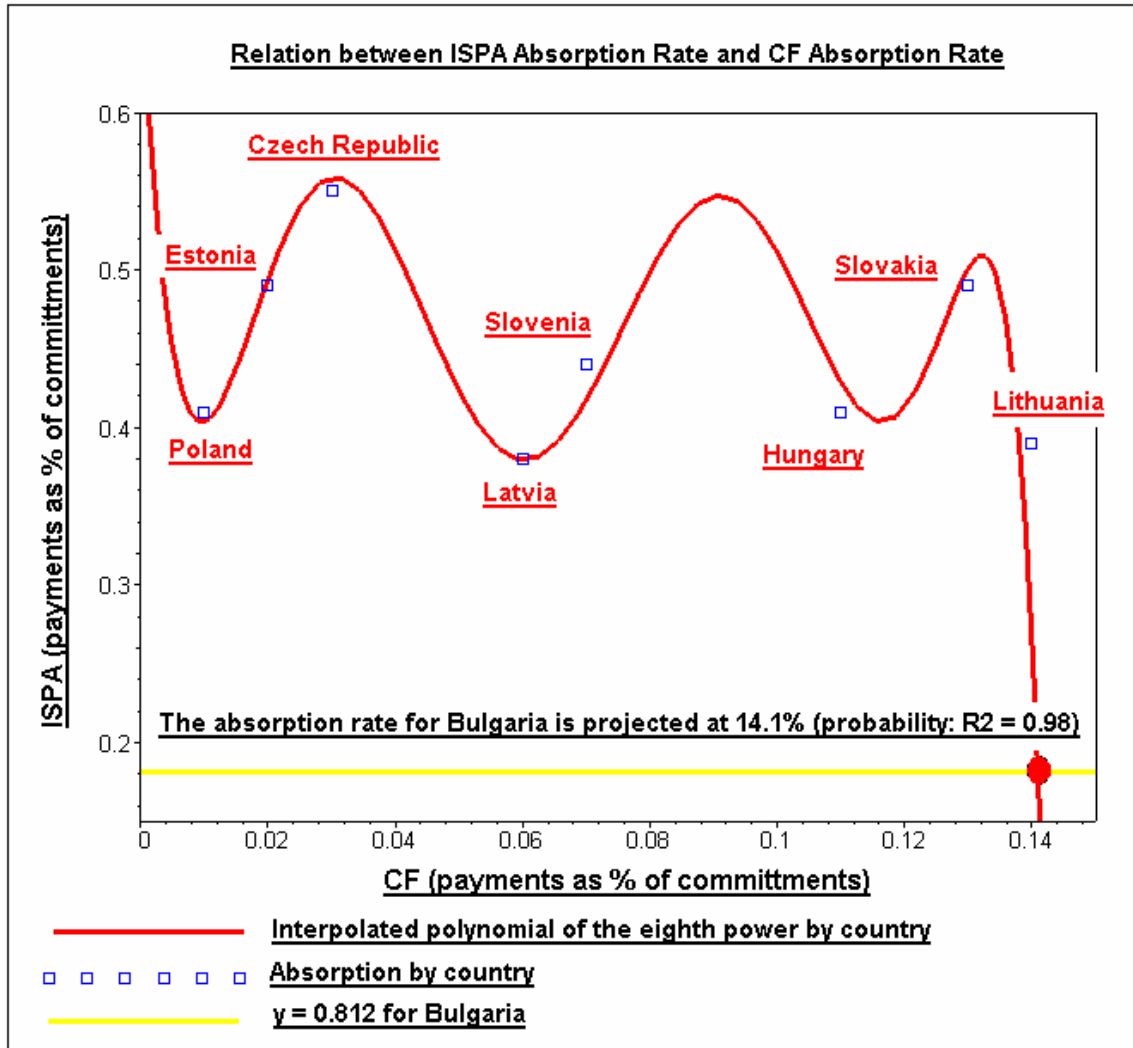
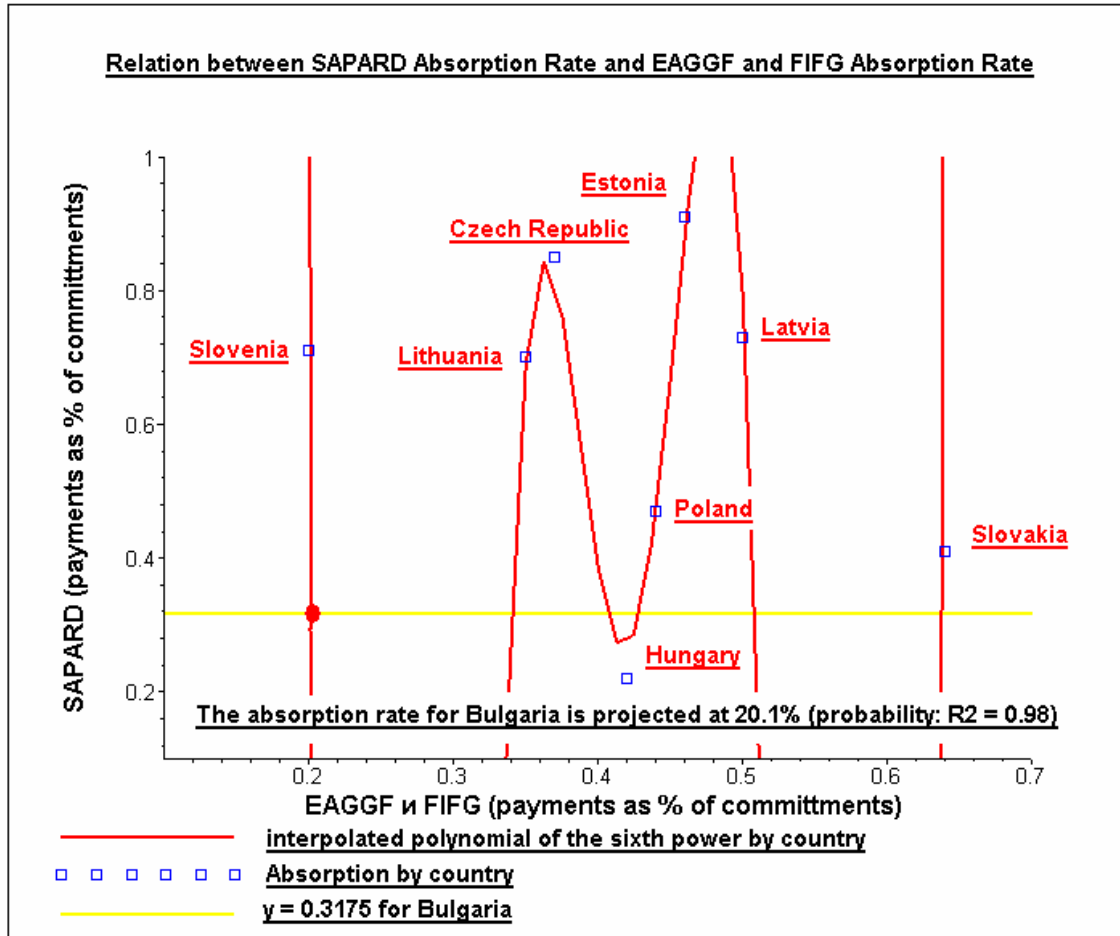


Fig. 1



**Fig. 2**

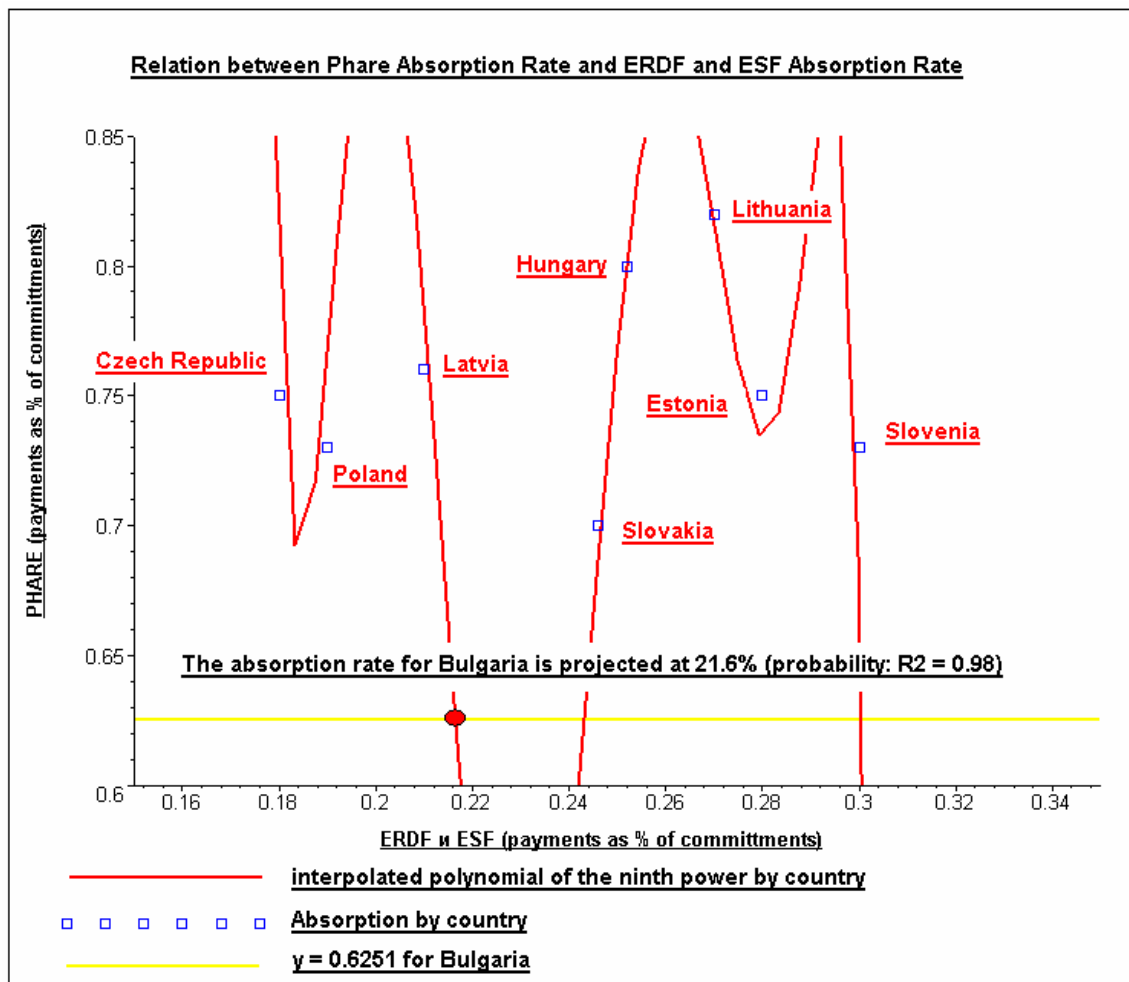


Fig. 3

If these relations are referred to the resources decided for a three-year period, we arrive at the following amounts<sup>14</sup>:

Fund	Financing from the fund (EUR, for the period)	Probable amount of resources absorbed (EUR, for the period)	Absorption rate, as projected (%)
<b>CF: 2007/2009</b>	747,715,455	105,427,879	14.1
<b>ERDF &amp; ESF: 2007/2009</b>	1,423,192,644	307,409,611	21.6
<b>EAFRD &amp; EDF: 2007/2009</b>	1,018,544,402	204,727,425	20.1
<b>Total:</b>	3,189,452,501	617,564,915	19.4- average for all funds for the period <sup>15</sup>

<sup>14</sup> For further information on the relevant financial instruments that will function after 2007, see Annex 1.

**The first essential specification is that this forecast is valid in the short term, i.e. for the next three years. The data refer to an averaged value for this hypothetical period rather than for some specific year within it. In all likelihood, the indicator for each of the year will be increased, at least because progress of the projects under the “N+2” scheme<sup>16</sup> takes time.**

**Another important specification is that the forecast is valid only provided that there are no radical changes in the capacity and behaviour of all institutions engaged in the allocation of resources. That is to say, if it is assumed that systematic and sustained efforts for successful handling of Community resources were made in the 2004-2007 period, the projected values may be considerably higher.**

The historic approach, i.e. the fact that the results of past periods are used to prepare a short-term forecast, will probably be debatable. The fact is that the scheme used takes account above all of the experience on the basis of results rather than the readiness on the basis of expert evaluations. It is a question of a future improvement of the method to make it sensitive to topical tendencies and events.

The method reflects **the national capacity as a whole**, i.e. it focuses on the results of the work of institutions engaged with resource allocation, the sub-contractors and the recipients of grant financing. This is an advantage as well as a disadvantage of this method.

The relatively low values of both the projected data for Bulgaria and of the data reported for the eight new Member States demonstrate the difficulties which the implementation of the new instruments involve.

In the medium term, the experience under the pre-accession facilities is indicative of the capacity of institutions in the respective country to handle the Structural Funds, but this

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<sup>15</sup> The average “absorption rate” percentage for all funds expresses the relation between the figures in the second and third column of the table, i.e. the total projected amount of resources that will be absorbed related to the amount of decided resources. The average “absorption rate” percentage is not an arithmetic mean of the percentages projected for the separate funds, which is easily explainable, as the funds differ in amount.

<sup>16</sup> N – the year in which the European Commission assumes a financial commitment to allocate the resources.

**Phare:**

N + 2 – two-year period, during which all contracts under the projects for which there is a financial commitment for the year N must be completed.

N + 3 – three-year period during which all projects for which there is a commitment for the year N must be completed.

**Structural Funds:**

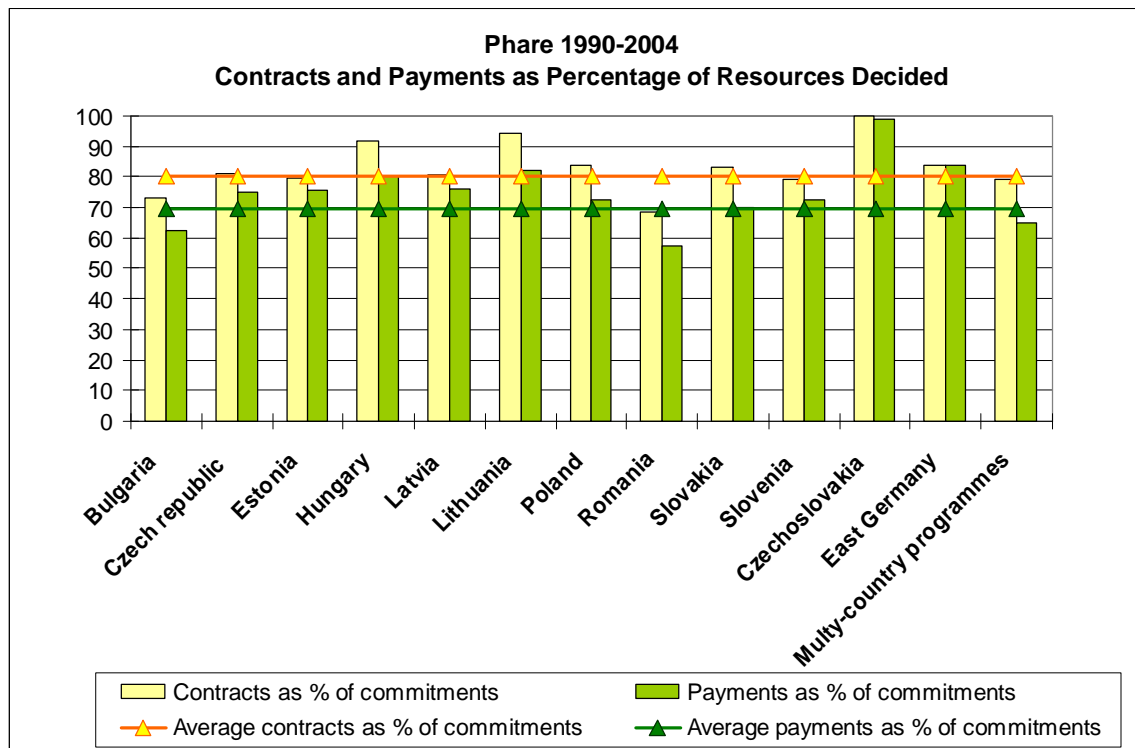
N + 3 – period during which the 12 new Member States must implement the projects approved in the year N (applicable to the 2008-2010 period).

N + 2 – period during which the old Member States and the 12 new Member States (after 2010) must implement the projects approved in the year N.

relation need not manifest itself categorically in the short term. The reason is the fact that the difficulties of mastering the new rules and responsibilities (above all in respect of the resource allocating institutions), as well as the challenges of handling an increased amount of funding (in respect of the intermediate bodies and the final beneficiaries of the resources), make themselves strongly felt in the short term.

Albeit low, the data for Bulgaria are consistent within the general context of the data on the eight new Member State which, too, have low values. The relation between the countries with regard to their handling of the pre-accession instruments is similar. This is categorically evident from Fig. 4, which draws a comparison between the percentage of Phare Programme commitments, contracts and payments for the respective country.

The percentage of commitments and payments for Bulgaria is categorically lower than in the rest of the East European countries, with the exception of Romania.



**Fig. 4**

The incredibly high percentages for some countries that no longer exist: Czechoslovakia and East Germany are due to the fact that the Programme operated in those countries for a limited period of time, and that a limited range of projects were successfully implemented during that short period (a maximum of two years).

The fact that Bulgaria has low values of absorption under the pre-accession instruments places it at the end of the interval in Figures 1, 2 and 3, which could lead to a certain distortion of the forecasts made.

The forecast shows that the resources which this country will receive for the first three years **will probably be less than the planned contributions to the EU budget EC**<sup>17</sup>. This does not mean that Bulgaria may turn into a “net donor” of the EU, for various reasons: during the period in question, apart from resources from the Structural Funds, Bulgaria will be receiving resources from the pre-accession instruments, temporary financial assistance in the form of a “Transition Facility”<sup>18</sup> etc., and there will be access to horizontal programmes as well. Provisions are also made for other mechanisms to protect Bulgaria’s financial interests.<sup>19</sup>

**The presentation above invites several key conclusions:**

- The expectations of certain institutions, as well as of the general public, **of a quick and sweeping effect of Community resources on the national economy are largely unrealistic.** All public policies that rely exclusively on these resources in the short term may prove temporarily underresourced.
- If we focus on the net amount of Community resources that will enter this country during the first three years, **the situation may prove less favourable than in the last years of the accession process**, during which Bulgaria absorbed a substantial percentage of the resources committed under the pre-accession instruments without owing a contribution to the EU budget;
- This situation is by no means unique. The experience of the “first ten” shows similar dependencies;
- Within the entire programming period 2007- 2013, the situation will most probably change radically, insofar it could be assumed that, as a result of various reasons, **the pace of “absorption” will be growing by the year.** After the end of the three-year period in question, or may be even during the last year of that period (2009), this country will absorb more resources than the amount of its annual contribution.

Certainly, the effect of Community resources goes beyond the difference between the contribution that Bulgaria owes the EU and the amount of “absorbed resources.” A number of the measures that will be financed with resources from the Structural Funds and the Cohesion Fund are of a supra-national significance, and the planning, management and control experience that the public administrations and all other

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<sup>17</sup> According to the 2007 State Budget Act (see *State Gazette* No. 108 of 29.12.2006), Bulgaria’s contribution to the budget of the European Union amounts to BGN 634,434,000. Even if we assume that this contribution will not change during the year, it will remain in a significant disparity with the projected amount of resources that will be absorbed.

<sup>18</sup> See Article 31 of the Protocol concerning the conditions and arrangements for admission of the republic of Bulgaria and Romania to the European Union, Brussels, 6 April 2005.

<sup>19</sup> According to Chapter 29 “Financial and Budgetary Provisions,” Point 3, in the event of temporary difficulties in connection with the cash flows available, temporary cash compensations are provided to the applicant countries. Article 31 and 32 of the Protocol concerning the conditions and arrangements for admission of the republic of Bulgaria and Romania to the European Union provide for other additional sources of assistance as well, which this country will be receiving in the first years of membership.



stakeholders gain should be taken into consideration as well. The long-term planning format (for a seven-year period), the partnerships that will develop, as well as the disciplining effect on the public administrations<sup>20</sup>, are just as important.

## **9. Key Problems, Challenges and Opportunities within the Context of the Main Factors Affecting the Absorption Process**

Despite the new Member States' experience in handling pre-accession instruments (Phare, ISPA and SAPARD), the initial experience of implementing the Structural Funds and the Cohesion Fund suggests the existence of a number of difficulties, most general related to:

- ***Improving co-ordination and administrative development***<sup>21</sup>

The last years before EU accession saw a strongly enhanced overall system of policy co-ordination, as well as the emergence of stronger horizontal management on issues such as human resource management, driven in part by the accession process. The review of the state of play two years after accession reveals a worrying trend, particularly in the aspect of co-ordination. Co-ordination capacity on core EU affairs has generally declined, but to different degrees. Overall co-ordination systems remain weak, and well below required level for advanced administrative systems, with human resource management co-ordination being at a particular risk.

European integration co-ordination has weakened. Moving from management of the accession process to managing membership requires a significant change of approach and the need to roll out specialised European integration capacity through the state administration. Most states remain well below desired co-ordination levels, at levels between “communication and information provision” (2) and “consultation” (3). Coherence in policy design and effective policy implementation in areas that involve several government institutions requires co-ordination systems at least at bottom-up

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<sup>20</sup> See Point 4.8 of **Opinion of the European Economic and Social Committee on the Impact and consequences of structural policies on EU cohesion** (2007/C 93/02), *Official Journal of the European Union*, 27.4.2007

As well as examining the financial element of structural policy, we must also consider other effects of cohesion policy:

- a seven-year financial framework is established, which provides a certain stability and enables planning;
- the grassroots partnerships that arise from Structural Fund projects (though these need further development);
- the discipline cultivated with local authorities when managing projects partially funded by the EU;
- projects carried out help raise the EU's public profile (even though governments sometimes stand in the way of this by ‘forgetting’ to mention the source of (at least part of) their funding.

<sup>21</sup> See Annex 2 **Capacity of Public Administrations Engaged in the Allocation of Community Resources**.

search for agreement or arbitration of differences. Of the four states reviewed in depth, only Lithuania and Latvia come close to this level, and none of the other four states which were reviewed based on desk research, fare better than Poland or Slovakia.

Human resource management co-ordination systems are rolling back, too. Horizontal management systems, “personified” by civil service agencies and central departments for human resource management, have been either watered-down or simply removed, the most extreme case being Slovakia, where there is currently no horizontal mechanism in place on virtually any aspect of civil service management. A similar situation may soon occur in Poland, where the abolition of the Civil Service Office has been planned, and also the Czech Republic, where the central department in charge of managing and monitoring the implementation of the (still not effective) Civil Service Law has also been abolished. In none of these cases has the previous central authority been replaced with at least a “light” co-ordination mechanism, thus basically burying the notion of a “professional civil service” as a concept. The situation in Estonia and Hungary is similar, with no central authority to guide civil service development in place. Latvia and Lithuania constitute a positive exception, as some central human resource management capacity remains in place in both states.

Effective co-ordination and co-operation remain on-going challenges for EU programmes, especially as this involves such a wide range of actors and institutions. The production of an enormous amount of instructions and regulations concerning Structural Funds funding created a situation where nobody really knew how to implement them efficiently or how to determine roles and responsibilities. Certain representatives of the NGO sector in Poland have warned that two basic structural policy documents (the National Development Plan and the Structural Operational Programme Improvement of the Competitiveness of Enterprises) are not well prepared due to the lack of participation of entrepreneurs in their creation. The NGOs are also dissatisfied with the way in which the financial is divided, i.e. too much of the available financial resources are spent for the business environment on the administration of the projects and not for the main purpose. Additionally, there is also no guarantee that the best projects will be chosen, because more attention is being paid to the formal requirements than to the analysis of whether or not a particular project really improves the competitiveness of enterprises. For those who applied for EU support, the biggest difficulty was to understand the hierarchy of the civil servants who are responsible for the administration of the funds in Poland. At the top of this hierarchy stands the Ministry of Economy, Labour and Social Policy. Then there are four institutions which are responsible for particular programmes: the Polish Agency of Enterprise Development, the Ministry of Education and Information, the National Environmental Protection Fund and the Water Management Fund. At the lowest level, there are the Regional Financing Institutions. These are already referred to in relation to the Phare Programme. The transfers from the Structural Operational Programme Improvement of the Competitiveness of Enterprises are supposed to be approved just at the central level, which means at the Polish Agency of Enterprise Development or at the Education Department or at the National Environmental Protection and the Water Management Fund. This differs from the Phare Programme, which operates on a regional

level. Since the beginning of the applicants, usually contractors, have warned that the government did not create the right system for managing the aid funds.

In the new Member States in general, Managing Authorities have co-ordinating functions, across ministries and levels of government. Inter-ministerial co-ordination committees have also been created. For example, in Malta and Slovakia, co-ordination committees are responsible for harmonising the activities of sectoral ministries in the field of regional policy. However, such mechanisms do not necessarily guarantee effective co-ordination. In practice, newly established co-ordination structures can be weak and face a number of obstacles:

- Co-ordination arrangements are not sufficiently formalised or well embedded. Following problems experienced by some managing authorities in the new Member States, national legislation is required to strengthen their co-ordination functions.
- Sectoral ministries have proved resistant to the idea of their activities being “co-ordinated” by an external committee or managing authority, as they are used to having their own distinct sphere of activity.
- The persistent lack of clarity over areas of responsibility compounds co-ordination problems. Inter-ministerial “wranglings” cause delays to programming activities and reduce the scope for integrated/co-ordinated policy making.
- Co-ordination across levels of government is weak. For example, in Poland, the co-ordination of implementation responsibilities has been complicated by confusion over the division of responsibilities between central government and the local authorities.

The absence of a well functioning human resource management system is generally seen as one of the most serious impediments to the creation of state-of-the-art public administration systems.

An overall review of administrative development in the new Member States yields a mixture of limited success stories in innovation, combined with an overall backslide in core issues of administrative reform. Success has been achieved mainly in the introduction of strategic planning and performance management systems, particularly in Lithuania and Latvia, and through innovation in service delivery through the use of e-Governance tools, mainly in Estonia. Some agency specific reforms, in particular in Slovakia, also stand out as best practice. Besides these innovations, the trend in the development of the Civil Service and the Public Administration systems is not positive on three core issues: co-ordination, politico-administrative relations, and incentive systems.

Politicisation is a key impediment to successful administrative development as it runs contrary to the principles of merit, professionalism and permanence that are essential ingredients of a functioning civil service. Two years after EU accession, a review of human resource management practices points to a return of politicisation, especially of top level appointments. Civil Service Agencies in Slovakia and Poland are being dismantled, and with this any checks and balances on politicians’ right to appoint senior

officials will effectively disappear. The Civil Service Law in the Czech Republic has still not become effective, and it may never work as initially planned, while the trend towards increased political interference in top level appointments in Hungary which had started with the Orban Government appears to have continued. Continued high levels of politicisation have been noted in Slovenia as well. The very idea of an impartial and professional civil service, based on merit and continuity, appears to have lost its appeal to the political leadership of most of the new Member States. Professionalism and expertise are key factors in the fiscal performance of states, as well as of performance in the context of the EU, and if the current trends towards dismantling of the civil service management systems will continue, effective participation in the EU, and the use of EU funds, will be at risk.

- *Drafting and updating of planning and strategic documents*<sup>22</sup>

Planning an effective absorption of resources from the Structural Funds and the Cohesion Fund in the 2007-2013 period will be a serious and essential test for the new Member States. This depends above all on the development of internal administrative capacity, which must be prepared to address challenges other than those posed by the process of harmonisation of national legislation.

An appropriate approach for strategic planning must be selected: top-down (as in the case of Lithuania) or bottom-up (as in Latvia). The top-down approach of Lithuania has led to faster results, as there has been a strong push for ministries to adapt to the new system, which has led to a relatively quick roll-out of the system. This is also reflected in improved budget management organised around strategic planning principles, led by the Ministry of Finance. The Latvian strategic planning system has developed at a slower pace, but is also expected to cover the whole Central State Administration by the end of 2006. These systems will be instrumental to both countries as they proceed to define their 2007-2013 Structural Funds and Cohesion Fund priorities and are likely to give them a major advantage over the other new Member States. The next step in the development of the performance management systems is to bring performance criteria to the level of individual officials, and link these to career advancement and possibly pay levels.

Poland and Slovakia have not introduced over-arching strategic planning systems. Slovakia has created a Central Policy Planning Unit in the Office of the Government, tasked with the design and implementation of policy impact assessment systems and policy planning guidelines. Deficiencies in the policy management process constitute a major risk in the ability of the Slovak authorities to effectively plan and use Structural Funds and the Cohesion Fund, and it is therefore crucial for the incoming government to re-launch the stalled process of public management reform.

The strategic planning process related to the 2007-2013 Structural Funds and Cohesion Fund programming provides a unique opportunity for governments to both define and

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<sup>22</sup> See Annex 3 **Quality of Planning and Adequacy of Regulation in Bulgaria Related to Absorption of Community Resources.**

follow through on an e-governance agenda as well as to generate some of the necessary resources. The importance of human resources is often underestimated. In principle all new Member States have a good human resource base on IT issues, moving from the availability of technical skills to their application in e-governance solutions is not an easy step.

Structural Funds and Cohesion Fund planning will provide a strategic opportunity for states to obtain the necessary counterpart funding and add to national resources. The fact that a capacity-building facility has been added to the programming cycle could also help address some of the human resource development issues. The importance of functioning public-private partnerships is not to be underestimated, especially when it comes to more advanced applications such as e-voting and other aspects of e-democracy. The use of secured systems developed in the private sector, especially in the banking system, would save governments significant resources and facilitate the broad roll out of e-services to the public.

The experience of the first ten new Member States shows that the traditional problems include: adoption of statutory instruments which are insufficiently consistent with national specifics, hasty drafting of planning documents and, as a result of this, insufficient co-ordination between them (even though co-ordination between documents is prescribed in a statutory instrument), formulation of objectives which do not conform to actual needs and capacities etc

The difficulty in balancing Union priorities with national priorities is often stressed as a problem. A balance that is far more important and far more difficult to achieve, however, is the one between **maximising the effect on the entire economy or on targeted investments in problem territories (spheres)**. Whether to plan investments in these key sectors, that will ensure a tangible impact on the national economy as a whole, or to attempt **to satisfy the needs of the broadest possible range of territories, spheres etc.** Obviously, there is no universal recipe, insofar as the resources are limited and cannot provide financial support to both approaches. The practice in this respect varies by Member State: from selection of priority sectors (generating maximum growth) to an attempt to disperse funding over the largest possible area (maximum number of assisted sectors and territories) to attempts to combine the two approaches.

Insofar as the process of drafting the planning and strategic documents in Bulgaria is nearing completion, it is already possible to try to identify the approach adopted. The Bulgarian model is rather an attempt to meet all needs and to activate all opportunities, which reflects the disparities in the levels of development of the relevant regions, the country's geographical location etc. This approach to a certain extent limits the possibilities to generate fast growth by focussing on specific economic spheres but, on the other hand, guarantees satisfaction of the needs of the various regions and problem areas.

## § *Generating good projects*<sup>23</sup>

Project generation is a core element of the whole programming process, since it is through individual projects that EU programmes are actually put into practice. There are, however, many problems that new Member States experience in this area. Some programmes, priorities and measures suffer from poor-quality applications and low application rates. Low-quality applications contribute to high rejection rates under some measures and place additional pressures on project appraisal and selection systems.

Despite concerns in the lead-up to accession of the new ten, problems with low application rates have generally failed to materialise during the first two years of membership. Project applications have come in from a wide range of applicants, with municipalities taking a particularly active role in many countries (e.g. the Czech Republic and Estonia). For some Structural Fund programmes, demand already exceeds the amounts available. For example, all EAGGF funding in Latvia has been committed for the 2004-2006 period. In Slovakia and the Czech Republic, the intake of project applications has had to be stopped under some measures.

However, high application rates are not universal. First, rates differ from country to country. In some countries demand for funding has been particularly high. In Hungary, all the Structural Fund programmes, except the Agriculture and Rural Development Operational Programme, which was delayed due to the parallel implementation of SAPARD, received applications for an amount of funding higher than the total funds available for the whole programming period. Second, some programmes have attracted higher application rates than others. So far, in the new Member States, Regional Programmes have generally shown the highest application rates: this is the case of the Integrated Regional Operation Programme in Poland, the Joint Regional Operational Programme in the Czech Republic and the Operation Programme Basic Infrastructure in Slovakia, which incorporates the regional programmes originally proposed by Slovakia to the Commission. Third, some priorities and measures have suffered from weak application rates and poor quality applications. Protracted approval processes have delayed the introduction of a number of grant schemes. In a number of cases, lack of experience on the part of applicants and administrations could be a factor. Finally, the number and quality of applications differs considerably between regions. Interestingly, some “lagging” regions, which have long standing experience of EU support through pre-accession aid, appear to be well placed for developing more innovative and robust project submissions, e.g. Moravia-Silesia Region in the Czech Republic, Silesia in Poland and Tartu in Estonia.

Despite the initially high project application rates, the pressure to continue to develop and implement high quality projects persists, particularly in light of the emerging disparity between financial commitments and payments. With this in mind, considerable efforts

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<sup>23</sup> See Annex 4 **Capacity of Intermediate and End Users of Resources in Bulgaria (Contractors/Subcontractors and Beneficiaries)**.

have been made to boost project application rates in the current period and to address these problems and develop absorption capacity:

- Projects aimed at building absorption capacity. In the Czech Republic, the so-called Absorption Capacity (ABCAP) project was highlighted as one of the most useful aspects of the country's pre-accession programme. Similarly, the Hungarian government has set up structures to assist partners and applicants, notably the Information Centre and the Training Centre (which provides training for organisations involved in Structural Funds management and implementation).
- Specialist consultancy companies play a part in helping potential beneficiaries to develop their project submissions (e.g. in the Czech Republic and Estonia). However, their services can be costly and may not be accessible to all.
- Awareness raising and marketing of the funding opportunities available, through various channels (e.g. Latvia has taken the innovative step of scheduling regular radio and television programmes, covering the opportunities and implementation of EU funds in the country).

- ***Delays in implementation***

In Poland, work on the Sectoral Operational Programme was supposed to be finished by the end of November 2003. However, new versions of the programme were still appearing by spring 2004. This in turn caused delays in the work on several specific procedures, training and organisational solutions. There were also delays in installing the computer monitoring and control software system allowing registration, monitoring and control of the implementation of EU projects.

- ***Lack of trained EU fund managers***

This problem affects both central and local government administration. Apart from inadequate training, an additional problem lies in the low wages paid to civil servants, which encourages experienced specialists to leave the administration for the private sector or the EU institutions in Brussels.

In Lithuania and Latvia, training and capacity development was provided through peer learning and through established civil service training institutes. Poland and Hungary have an established training infrastructure, this is lacking in both the Czech Republic and Slovakia, thus complicating the process. The complex nature of the politico-administrative interface, required for implementation of an administrative reform in respect of human resources, makes the formation of a pro-reform coalition between senior officials and politicians difficult. Slovakia and the Czech Republic have a weak Centre of Government (COG) institution, which means they lack the necessary institutional driving force to introduce the systemic reforms at the current time. The introduction of at least some of the aspects of the Latvian and Lithuanian reform process would appear to be perfectly feasible, provided there is sufficient political will to move forward on this issue.

- ***Scope for regionalisation: centralised allocation of financial transfers***

Over the past decade, there has been a progressive regionalisation of Structural Fund management in many of the 15 Member States. However, for the 2004-2006 period, the new Member States decided to implement most Structural Funds resources through a centralised system.

In a number of new Member States, regional administrations are in a weak political, financial and institutional position, which limits their capacity to participate in Cohesion policy. Accordingly, sub-national participation in the management and implementation of EU Cohesion policy is generally limited to a few key areas, including inputs during programme development and activities as end beneficiaries of funds. Notable exceptions in the respect are the Czech Republic, Hungary and Poland, which have some form of joint or integrated Regional Operational Programmes. In Slovakia, the Operational Programme for Basic Infrastructure also incorporates a regional element. In these cases, regional administrations have a slightly greater involvement in programming activities.

The Polish Government chose population rather than per capita GDP as the main criterion for allocating financial transfers among regions. This system for allocation of resources to the regions makes it possible for Poland's least developed regions to catch up. The European Commission plans to enable regions to directly negotiate the amount of financial aid from the EU. However, according to EU Regional Policy Commissioner Danuta Huebner, there is a risk that the strategies of two neighbouring regions will be completely different. A situation where one of these regions concentrates on industry while a neighbouring region concentrates, say, on ecological tourism should be avoided. Despite these implementation problems, there is some evidence that Poland will be able to fully use the European funds since the absorption of the pre-accession funds has substantially improved. According to some sources, Poland has successfully absorbed 97 per cent of the available financial transfers from Phare 2001 (around EUR 396 million).

In conclusion, it should be emphasised that the institutional infrastructure for implementing EU Cohesion policy is primarily determined by the Member States. The European Union lays down the principles of Cohesion policy: concentration, partnership, programming etc, as well as the detailed requirements for management and accountability, but the institutional structures and administrative systems are established according to national practice (or, in some countries, regional practice). In other words, the experience of any given Member State does not provide a categorically clear clue to the way of building an effective institutional system because the Structural Funds regulations leave it to the Member States to decide the manner of operation of their co-ordination systems. As a result, national implementation systems vary substantially.

- ***Partnership***

Application of the partnership principle is one of the mandatory requirements for provision and absorption of financial aid from the Structural Funds and the Cohesion



Fund. At the same time, the ability to apply the partnership principle, as well as partnership at large, are among the key aspects of the national capacity for effective and efficient absorption of Community resources.

Partnership implies not just consultation but also shared responsibilities for decision-making and performance.

For example, partnership in the older Member States is widespread and has become part of organisational culture. The idea of partnership is integrated in the overall process of policy development. Partnership is often informal, but in many cases it is also institutionalised and protected by a legal framework. Partnership between public bodies and private business is pronounced.

In the old Member States, partnership is part of governance culture and is part of co-operation among municipalities in the programming process.

In the Czech Republic and Poland, for example, partnership is often too weak and, in many cases, is not seen as important. It is limited to partnership in programming and to short-term partnership on projects. Partnership between the various levels of the state administration (especially in the relations between central and regional government) is still in embryo and seems better differentiated and regulated in Poland. Partnerships among municipalities, partnerships for development of backward regions, as well as public-private partnerships are weak.

In the older Member States, public partnerships function and an emphasis is laid on their effectiveness and on the resources required for achievement of effectiveness. In the new Member States, partnerships are often formal, created under the influence of external forces and not as a result of a clear understanding of the benefits they can bring.

In the new Member States “there is a substantial difference between the way in which the system is supposed to function and the way in which the system functions in reality,” studies on the matter often note. Partnership is important not only because the Structural Funds regulations require it but, first and foremost, because it adds value to the absorption of EU funds and contributes to a positive economic and social development at a national, regional and local level. When properly applied, partnership leads to remarkable results: improved quality of programmes, more expedient resource allocation to actual needs, more successful implementation through enhanced involvement and mobilisation of individual partners’ resources for attainment of more ambitious common goals, increased transparency of resource utilisation, as well as support for the weak links in addressing a lack of capacity and in capacity building.

Ultimately, partnership leads to an improved effectiveness and efficiency in the absorption of the Structural Funds and the Cohesion Fund: it is one of the factors contributing to the spending of resources according to the rules, in line with the needs, and with a view to achieving a substantial favourable impact on the development of countries, regions and local communities. The reports of the Member States differentiate

between three types of partnerships, corresponding to three different levels of participation:

- partnerships for planning and consultation;
- partnerships for access to resources through projects;
- partnerships for development, in which the partners support and finance activities of common interest.

- **VAT**

The experience of work with the pre-accession instruments showed that VAT levy is a problem area, mainly within the context of subcontracts on the part of recipients of grant financing. The organisations, which **are not registered for VAT** and implement a project financed by the Phare Programme, were confronted in some cases with the need to cover the tax due on subcontracts themselves, even though these supplies were exempt.

The European Union does not have an express policy regarding VAT and the resources from the Structural Funds and the Cohesion Fund. The Sixth Council Directive 77/388/EEC applies, and it has already been transposed in Bulgarian legislation. Supplies are exempt from VAT, and a VAT Committee has been set up for special cases, and more problematic cases can be referred to it.

According to a Council of Ministers Decree of 2007 on Adoption of National Rules for Eligibility of Costs under Operational Programmes Co-financed by the Structural Funds and the Cohesion Fund of the European Union for the 2007-2013 Financial Framework<sup>24</sup>, **VAT is not an eligible cost.**

§ 6 of the same document says that “Within three months after adoption of this Decree, the Minister of Finance shall issue a direction on the cases of treatment of value added tax as an eligible cost.” Even though this introduces a hypothetical of allowing VAT as an eligible cost, the general rule will apply in most cases.

Therefore, the contractors of grant-funded projects **will have to incur additional costs** in order to pay the VAT due on the subcontracts they will organize.

This matter is particularly relevant to large infrastructure projects with municipalities as beneficiaries, where the tax due will be of a large amount, considering the large value of the subcontracts.

It is a matter of national policy whether financial mechanisms will be established to compensate beneficiaries which are public institutions for these additional costs incurred.

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<sup>24</sup> Council of Ministers Decree No. 62 of 21 March 2007.

## *Summary of key points related to Structural Funds implementation*

### **Programming:**

- Making policy choices
- Policy trade-offs: tackling national economic growth and eliminating inter-regional inequalities
- Co-ordination with national policy

### **Institutions**

- Scope for regionalisation
- Improving co-ordination
- Deepening partnership

### **Implementation**

- Generating good projects
- Increasing the efficiency of project selection
- Building implementation capacity
- Monitoring progress

## **10. Conclusions, highlights and recommendations for Bulgaria**

Since the beginning of 2007, the administrative structures in Bulgaria engaged with management of the EU funds will come under added pressure owing to:

- (a) the substantial amount of resources made available to the country from the Structural Funds and the Cohesion Fund;
- (b) the different logic in the principles and mechanisms for implementation of structural instrument assistance, which requires acquisition of additional knowledge and skills, especially for work with regional and local structures, business partners and the non-governmental sector;
- (c) the mixing of different types of financial instruments, i.e. pre-accession facilities and structural policy instruments. This will require sustained efforts and maintaining the level of the existing administrative capacity and coping with the high turnover of trained and qualified employees<sup>25</sup>. The State has already developed and applies mechanisms providing extra incentives to civil servants in the central administration structures

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<sup>25</sup> The turnover risk is particularly relevant because of the heightened activity of the private sector and the demand for trained and qualified personnel for work with the EU funds. Besides this, a large percentage of the employees of the central government administration can realistically be expected to relocate to EU institutions.

engaged in EU funds management. Such mechanisms, however, have not been set up and are not yet planned for the employees at the regional and local administration structures. Reforms in health care, education, science and research must go on and create the legislative mechanisms and facilities that these sectors need in order to use actively Community resources.<sup>26</sup>

It is just as crucially important to press ahead with the processes of financial decentralisation and to clearly outline the role and competencies of local administrations and their relationships with the representatives of central government in the planning regions.

The full and effective absorption of Structural Funds resources requires supplementing the regulatory framework in respect of public procurement. The effective Public Procurement Act does not cover grant contracting and implementation procedures. If passed with the shortest possible delay, these supplementing provisions will make it easier for beneficiaries to prepare for meeting the new requirements.

The beneficiaries' relatively low project readiness and the lack of a sufficient number of adequately prepared projects may also give rise to a problem in the absorption of Structural Funds resources. One reason for this is the low level of skills for project preparation, above all in non-governmental organisations and the business community<sup>27</sup>. This risk cumulates with the lack of interest, above all on the part of business, in applying for Structural Funds financing with projects, due to the cumbersome and specific procedures (compared, say, to the requirements for extension of a bank loan or the eased options for investment credit, leasing and financial engineering).

(d) Good and high-quality planning will remain a major challenge to a full and effective utilisation of Structural Funds resources. There is a need of a clear definition of traceable absorption rate indicators<sup>28</sup>, as well as a selection of a system for instruments for development of national and regional policies and programmes. The existing of a working tool kit for benchmarking and technical assistance<sup>29</sup> is of great help for adequate

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<sup>26</sup> For instance, by revising the Higher Education Act to grant independence/autonomy to chairs/departments at the higher educational establishments, which will increase their opportunities to submit projects for financing from the pre-accession facilities and the Structural Funds. Yet another option is to prepare a national "map" of health-care facilities in Bulgaria and their inclusion as eligible beneficiaries of Structural Funds resources.

<sup>27</sup> A number of studies show that while municipalities do not necessarily have a better capacity than NGOs, municipalities have a better access to consulting and technical assistance than the other types of entities.

<sup>28</sup> Possible indicators of the effect of Community resources:

- levels of private and public investments;
- levels of unemployment;
- per capita GDP;
- number and types of services provided by public institutions to business and individuals;
- condition of infrastructure essential for economic development;
- economic structure (e.g. decline/recovery of traditional sectors, development of alternative activities).

<sup>29</sup> For instance, the FLAG Fund under the Ministry of Regional Development and Public Works for assistance to municipalities in preparing feasibility studies and analyses and project design.

planning, and this kit should meet the need of an integrated, interdisciplinary approach to governance decision development and decision making and, along with that, to contribute to increasing the attraction of the administration as an employer, i.e. the capacity of the administration to attract and retain high quality staff to manage programmes and projects. This will contribute to building skills for medium-term and long-term planning (of resources and activities) and their adequacy to the actual needs of economic and social development, as well as to integrating the sustainable development principle into the drafting and updating of planning and strategic documents (especially on urban areas, on special planning-mode areas such as protected areas and cultural and historical heritage sites). The development of policies and programmes brings to the fore the need of a periodic and sustained collection and analysis of statistics<sup>30</sup>, as well as a comprehensive improvement of the quality and quantity of the statistics gathered and broadening the spectrum of economic and social spheres surveyed, *inter alia* by expressly formed researcher teams.

To avoid a repeat of the mistakes made so far by the first ten new Member States in the absorption of resources under the structural instruments, Bulgaria should concentrate its efforts in several areas:

- full harmonisation of the legal framework;;
- flexibility of government decision-making;
- making up for delays in start of the programmes;
- timely design of projects;
- development of clear procedures and mechanisms for co-ordination and control of implementation;
- strong government incentive policy so as to end the turnover of skilled personnel;
- special attention to strengthening regional capacity for programme management.

## 11. Opportunities

The possible problems and challenges described open up a number of opportunities for their addressing. Sustained study of good practices and adapting of good solutions, especially by the “new” Member States, remains indispensable to this end.

It is just as essential to expand and maintain partner networks. This effect can be intensified through awareness raising and use of resources from Community Programmes.

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<sup>30</sup> It is on their basis that the eligibility of Structural Funds resources for use is determined: some of the measures are territorially focussed on regions of set parameters, which must be demonstrated by statistics.

Another way to meet this target is to encourage the use of public-private partnership to achieve an integrated economic and social effect, as well as to continue the actions for capacity building and upgrading and acquisition of practical skills by beneficiaries.<sup>31</sup>

The provoked interest of banks and other financial institutions in participating in the processes of absorption of resources from the Structural Funds and the Cohesion Fund is a positive factor. They will make good partners to project beneficiaries and will provide additional opportunities to cope with the co-financing requirement<sup>32</sup>.

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<sup>31</sup> This is particularly applicable to NGOs through their integration into the provision of social services. This is also a feasible way to generate financial resources for NGOs for which the requirement to provide own co-financing for projects is particularly difficult to meet.

<sup>32</sup> Banks contribute to improvement of the absorption rate of Structural Funds resources by providing information to beneficiaries (mainly companies) about the available opportunities for grants, training and information meetings/campaigns for their clients (this is especially useful for banks with a ramified regional network); through financial management of the projects approved for financing; advising their clients – through establishment and development of specialised units/departments in charge of financing from EU funds; through financial management of the projects approved for financing, issuing letters of intent to extend a co-financing loan; extension of loans (especially in the case of investment projects); issuing bank guarantees or implementing capital and financial lease schemes.

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## Annex 1

### *What the European Union Structural Funds Are*

The **Structural Funds** are the second largest part of the budget of the European Union, second only to the Common Agricultural Policy. Until 2007, there were five Structural Funds (though the last two were termed ‘financial instrument’):

- European Regional Development Fund (ERDF);
- European Social Fund (ESF);
- European Agricultural Guidance & Guarantee Fund (EAGGF, also called FEOGA Guidance);
- Financial Instrument for Fisheries Guidance (FIFG); and
- Cohesion Fund.

For 2007-2013, there will be only three Structural Funds: the ERDF, the ESF (the two main ones) and the Cohesion Fund. The EAGGF will become the European Agricultural Fund for Rural Development (EAFRD) and will operate separately from the Structural Funds. Although the Structural Funds date historically to the 1960s, they were reformed as a grouped package in the late 1980s and made part of five-year, then seven-year, programming periods. These were 1989-1993, 1994-1999, 2000-2006, 2007-2013. Broad budgets are set down for each programming period within the European Union’s overall budget, called the Financial Perspective (FP).

In addition to the above-mentioned Structural Funds, the **Cohesion Fund** operates in Member States whose Gross National Income is less than 90% of the European Union average. The Fund was introduced in 1994 for the four poorest Member States at the time: Spain, Portugal, Greece and Ireland. The Cohesion Fund focuses on transport and environmental projects and is important to NGOs concerned with these issues. The Cohesion Fund brings a much higher level of financial assistance: 85% of the costs.

Although the Structural Funds come from Brussels from money raised by the European Union, the actual spending of the money is negotiated between the European Commission and the Member State governments. Beneficiaries do not ‘apply to Brussels’ for Structural Funds. Most of the Structural Funds are allocated by national governments to their own departments and agencies, where they are co-funded.

There are some exceptions. First, the European Union has a small amount of money available for technical assistance at European level, money available for management, publicity, Europe-level evaluation and studies. Second, for the years 1988 to 2006, the European Union ran Community Initiative Programmes (CIPs), supporting themes of European interest in all the Member States. Unlike the main, ‘national’ part of the Structural Funds, Community Initiative Programmes were designed in Brussels. They also had their own regulations and functioned in accordance with agreements between the Commission and each Member State. The proportion of Structural Funds devoted to CIPs fell from 9% in 1994-1999 to only 5.35% in 2000-2006.

In 2000-6, there were four Community Initiative Programmes (CIPs):

- INTERREG, for cross-border co-operation;
- URBAN, for urban development;
- LEADER, for rural development; and
- EQUAL, for equality and human resource development.
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No money was allocated for 2007-2013, and the CIP themes and methods in cross-border development, equality, rural development and urban development are supposed to be mainstreamed.

For 2007-2013, the Community Initiative Programmes are transformed as follows:

- INTERREG is effectively upgraded to the level of a full Structural Fund objective. Here, the Commission proposed that a new legal entity, a European Grouping of Cross-Border Co-operation (EGCC), comprising regional and local authorities, be charged with responsibility for implementing cross-border programmes and Funds in each border area;
- In the case of URBAN, Member States are invited to submit more than 70 cities suitable for funding under a package of specific action, possibly through a global grant;
- LEADER becomes a priority axis in the new European Agricultural Fund for Rural Development (EAFRD) and continues under the new European Agricultural Fund for Rural Development;
- EQUAL disappears, but its principles must be mainstreamed.

In the period of Bulgaria's preparation for membership, the European Union was providing resources under the three pre-accession instruments: Phare, ISPA and SAPARD. After the country's accession to the EU, these familiar instruments of financial support are replaced by structural instruments, as shown in the table below:

*Transition from pre-accession instruments to structural instruments*

Pre-accession instrument	After accession to EU	
Phare	Sectoral programmes; Operational programmes; Regional operational programmes	Structural actions
ISPA	Cohesion Fund	
SAPARD	Rural development	Agriculture

**EU Structural Instrument Resources for Bulgaria, by Operational Programme/Year<sup>33</sup>**

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<sup>33</sup> **In addition to the resources included in the table:**

- In the 2007-2010 period, Bulgaria will finalize the implementation of the pre-accession programmes and will receive support to an indicative value of EUR 30.6 million under the Transition Facility.
- Bulgaria will also receive EUR 179 million from the ERDF for cross-border cooperation for the 2007-2013 period.

Operational Programme	Fund	Total	2007	2008	2009	2010	2011	2012	2013
ERDF and CF									
Development of the Competitiveness of the Bulgarian Economy	ERDF	987,883,218	71,844,538	105,171,139	143,202,668	150,898,409	161,551,329	172,263,692	182,951,444
Regional Development	ERDF	1,361,083,544	98,985,808	144,902,458	197,301,454	207,904,474	222,581,831	237,341,086	252,066,434
Transport	ERDF +CF	1,624,479,625	121,123,105	174,427,370	235,241,207	247,655,258	264,790,352	282,023,048	299,219,285
	ERDF	368,809,735	26,821,961	39,263,892	53,462,329	56,335,406	60,312,496	64,311,778	68,301,872
	CF	1,255,669,891	94,301,144	135,163,478	181,778,878	191,319,852	204,477,856	217,711,270	230,917,413
Environment	ERDF +CF	1,466,425,482	109,086,387	157,331,029	212,373,803	223,600,384	239,100,655	254,689,043	270,244,181
	ERDF	439,059,208	31,930,906	46,742,728	63,645,630	67,065,959	71,800,591	76,561,641	81,311,753
	CF	1,027,366,274	77,155,481	110,588,301	148,728,173	156,534,424	167,300,064	178,127,403	188,932,428
Technical Assistance	ERDF	48,296,513	3,512,400	5,141,700	7,001,019	7,377,256	7,898,065	8,421,780	8,944,293
ESF									
Human Resources Development	ESF	1,031,789,139	75,037,629	109,845,411	149,567,231	157,605,005	168,731,388	179,919,856	191,082,619
Administrative Capacity	ESF	153,670,723	11,175,817	16,359,955	22,275,971	23,473,086	25,130,207	26,796,574	28,459,113
,									
Total all funds		6,673,628,244	490,765,684	713,179,062	966,963,353	1,018,513,870	1,089,783,826	1,161,455,080	1,232,967,369
Total ERDF		3,205,132,217	233,095,613	341,221,917	464,613,100	489,581,504	524,144,311	558,899,977	593,575,795
Total CF		2,283,036,165	171,456,625	245,751,779	330,507,051	347,854,276	371,777,921	395,838,672	419,849,841
Total ESF		1,185,459,862	86,213,446	126,205,366	171,843,202	181,078,090	193,861,594	206,716,430	219,541,733
EAFRD		2,609,098,855	244,055,813	337,144,800	437,343,789	399,098,704	398,058,955	397,696,967	395,699,827
EDF		73,438,1	10,492,	15,734,	8,392,3	10,492,2	8,392,30	10,492,2	9,442,26

The distribution of the financial resources presented in the table has been elaborated as a result of a broad interactive process combining elements of the “bottom-up” and “top-down” approaches.

The distribution of resources shows that infrastructure renovation and extension is identified as one of the principal engines of growth in the medium as well as in the long term. Building road infrastructure is seen as a prerequisite for development of all economic sectors and branches, including the export-oriented ones, during the first programming period of Cohesion policy in Bulgaria. Certainly, the priorities also include improvement of the qualification levels of the labour force, support for competitiveness and macroeconomic stability, the social sphere, innovation, and research and development.

### ***Horizontal programmes and special instruments of the European Commission***

As a full member of the EU, Bulgaria will also continue to use the resources provided under the horizontal and multi-country European programmes.

These programmes are a set of actions and the resources allocated for them are provided by the EU for two principal objectives:

(a) to foster the implementation of European policies and initiatives which do not receive financial support within the framework of the pre-accession<sup>34</sup> or structural instruments<sup>35</sup> and whose implementation is, by definition, the responsibility of the national authorities of the beneficiary countries. These programmes cover training<sup>36</sup>, science and education<sup>37</sup>, culture,<sup>38</sup> and the media<sup>39</sup>, research<sup>40</sup> and information technology<sup>41</sup>, public health<sup>42</sup>, energy and environment, social protection, gender equality, and combating discrimination<sup>43</sup>;

(b) to support projects of common interests, as well as actions and measures of horizontal, pan-European impact (e.g. building information networks between the administrations of various states).

The effect of participation in these programmes can be sought in several areas:

- enhancing transnational co-operation and, as a result, the effect of measures or initiatives of pan-European impact, say, in environmental protection;

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<sup>34</sup> The programmes Phare, ISPA and SAPARD.

<sup>35</sup> The Structural Funds and the Cohesion Fund.

<sup>36</sup> LEONARDO DA VINCI II Programme (until 2006), Lifelong Learning Programme (2007-2013).

<sup>37</sup> SOCRATES II Programme (until 2006).

<sup>38</sup> CULTURE 2000 Programme (until 2006), CULTURE 2007 (2007-2013).

<sup>39</sup> MEDIA Plus and MEDIA-Training Programme (until 2006), MEDIA 2007 Programme (2007-2013).

<sup>40</sup> EU Framework Programmes for research, technological development and demonstration activities.

<sup>41</sup> E.g. eContent Programme (2004-2008), eSafe Programme, IDA Programme.

<sup>42</sup> Programme of Community Action in the field of public health (2003-2008).

<sup>43</sup> European Community Programme to combat discrimination (2001-2006).

- enhancing mobility with the EU;
- raising awareness of EU policies, popularising ideas, policies and initiatives;
- identifying and encouraging good practices in the relevant socio-economic sphere;
- networking similar organisations;;
- giving disadvantaged people or groups broader access to socio-economic life and improving their social integration opportunities;
- improving skills for development of national strategies and policies through exchange of knowledge and practical skills among various partners.

Twenty-six revised and five new proposals for EU programmes have been proposed for the next programming period 2007-2013. In the spirit of the Lisbon Strategy, the principal accent is put on improving the competitiveness of the European economy and creating conditions for sustained growth through investment in research and innovation (Seventh Framework Programme for research, technological development and demonstration activities, Competitiveness and Innovation Framework Programme), human resource development (Lifelong Learning Programme), building trans-national transport networks (Trans-European Transport Networks Programme), and support for environmental protection (Life Plus Programme).

Unlike the resources of the Structural Funds and the Cohesion Fund, the EU does not pre-determine a quota for Bulgaria from the common budgets of the programmes and instruments listed above. The resources under them are allocated on the basis of projects approved and paid or auctions and tenders won.

## **Annex 2**

### ***Capacity of Public Administrations Engaged in the Allocation of Community Resources***

The new Member States' experience shows that Structural Funds absorption requires solid preparation of the central administration, in the form of strong national policy frameworks, co-ordination of legislative initiatives, inter-ministerial co-ordination, well designed national programmes, and implementation capacity.

The administrative structure of a state is undoubtedly among the most important criteria considered in management of the Structural Funds and the Cohesion Fund. All procedures for management and implementation of the Structural Funds and the Cohesion Fund are cumbersome, time- and human resource-consuming. At the same time, the success of national development policy depends on the successful implementation of the EU structural policy. The complexity of management affects both the Member States and the European Commission. Improvement is possible only through close co-operation between them.

The role of the European Commission is to guarantee the strict observance of the common Structural Funds and Cohesion Fund regulations. Member States must guarantee an adequate administrative capacity for absorption of the funds.

The administrative capacity required for effective management of Community resources should be seen as part of a larger challenge - the effective and efficient utilisation of the Structural and Cohesion Funds. Economic and social cohesion will thus be maximised through the available resources.

Administrative capacity can be described as one of the three elements of a country's capacity to absorb the funds, identified as an ability to comprehend outside investment aid effectively and efficiently.

Administrative capacity includes a number of abilities and skills of central and local government, such as:

- generating appropriate plans, programmes and projects in due time;
- selection of/decision on programmes and projects;
- co-ordination among key partners;
- coping with administering and reporting requirements;
- proper financing and monitoring of implementation;
- avoiding wrongful actions.

The prerequisites for building an appropriate administrative capacity are determined by the following five factors:

*(1) Building structures according to the *acquis communautaire*:*

According to Article 59 of Regulation (EC) No 1083/2006 of the European Parliament and of the Council, the institutional framework for management of resources under the Structural and Cohesion Funds in each Member State must include:

- 1. Central Co-ordination Body:** responsible for co-ordination of structural instruments at national level;
- 2. Managing Authority:** responsible for the effective and appropriate management and implementation of an Operational Programme in a relevant sector or region;
- 3. Intermediate Body:** an organisation assisting the Managing Authority;
- 4. Beneficiaries:** structures of the state administration and local government, non-governmental organisations, public and private companies, which implement the projects financed under the Operational Programmes;
- 5. Certifying Authority:** responsible for payments;
- 6. Audit Authority:** ensures that the Community resources management and control system of the operational programme functions effectively and efficiently;
- 7. Monitoring Committee:** satisfies itself as to the effectiveness of implementation of the Operational Programme.

*(2) Development of criteria for staffing of the structures engaged in management of Community resources*

Developing objective staffing criteria requires the existence of a legal framework defining the status of civil servants in a way compatible with the existing European standards; observing and guaranteeing the principle of legality and accountability, impartiality and integrity.

The special requirements and competencies for staffing the state administration engaged in management of Community resources include: good knowledge of the EU Structural and Cohesion Funds Regulations and the scope of operational programmes. Specific personal skills in respect of planning, organising and controlling own work so as to achieve the objective set, analytical skills, practicality, innovative approach, flexible decision-making, excellent command of Community languages and computer skills, considering the need of daily handling of information systems and databases.

To ensure the staffing of the civil service with the most qualified experts, a rigorous competition procedure is conducted at several stages: checking the candidate's compatibility with the mandatory requirements, a written procedure and an interview.

*(3) Tapping pre-accession experience*

The new Member States that joined the EU in 2004 and Bulgaria and Romania have built a good capacity for management of the pre-accession facilities. This should be the principal target group in recruiting civil servants for management of the Structural and Cohesion Funds, because in both cases they are supposed to manage Community resources, to develop programmes and projects under similar financial conditions, and they can rely on experience gained in negotiations with the European Commission.

*(4) Target training at all levels of public administration*

Training of civil servants at all levels is an important means of upgrading administrative capacity at all levels. Maximum use should be made of the opportunities for training provided by the projects under the pre-accession programmes. The role of the Institutes of Public Administrations, the Schools of Public Finance etc. play a particularly crucial part, as they prepare annual training programmes; deliver systematically continued training of civil servants; offer short-term internships at foreign state administrations; provide training materials; ensure the implementation of projects for strengthening managerial skills in the state administration and organised specialised training.

*(5) Inclusion of non-governmental sector in management of Structural and Cohesion Funds resources*



The effective absorption of the Structural and Cohesion Funds required a clear interconnection between the needs and priorities of the various participants engaged in their management, including partnership between government, municipalities, non-governmental organisations and public and private companies.

The partnership principle is of great importance both in the elaboration of programme documents and in the implementation of the Structural and Cohesion Funds.

Well organised, the non-governmental sector is indispensable with its expertise, specific knowledge, experience of participation in various international programmes.

In this connection, representatives of the non-governmental sector must necessarily be included at all stages of management of the Structural and Cohesion Funds. Attention should be paid to the need of adequate training of partners in respect of the requirements and rules for management of Community resources.

### **Annex 3**

#### ***Quality of Planning and Adequacy of Regulation in Bulgaria Related to Absorption of Community Resources***

The administration of the European Union represents a chain of national administrations which is “as strong as its weakest link.” Therefore, the EU relies on each of the Member States to implement its policy and legislation. This requires an administration whose separate units and levels function in co-ordination. Horizontal integration is implemented at the national level (co-ordination among the separate ministries) and at the EU level (the Member States co-ordinate their policy objectives and their plans for attaining these objectives). This integration is a prerequisite for effective and efficient participation in the decision-making process at the EU level and makes it possible to formulate and co-ordinate a uniform policy through **strategic planning benchmarks**:

1. A high-level decision making forum;
2. Consistency and coherence reflected in the key public vehicles through which the government announces its policy and financial goals;
3. An approved publicly-released document links government strategic plans to the relevant budget;
4. Codified procedures and standards, which guide government decision makers;
5. Establishment of Central Units/Agencies to provide a quality assurance rule for governance;
6. Policy and impact assessment instruments are used to precede and/or accompany the review of complex legal instruments;
7. Co-ordinated policy and financial review procedures;
8. Co-ordinated policy and legal impact reviews;
9. Active agenda management for cabinet and sub-committee meetings: progress is monitored and significant delays in the preparation of reviews rarely occur.

Good planning presupposes a working and effective policy co-ordination system which, in most general terms, includes: independent organisational decision-making; information and experience exchange with other organisations so as to avoid controversies and conflicts; consultation with other organisations so as to avoid divergences; search for agreement on policies; setting parameters for action; establishing key priorities; overall strategy.

The European Union sets four requirements to a Member State to benefit from resources under the structural instruments:

- Clearly drafted programming documents;
- Effective regulation and institutional framework throughout the programming cycle;
- Effective administration;
- Effectively functioning financial management mechanisms and financial control procedures.
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The quality of the European and national regulatory environments is a matter of joint commitment and shared responsibility at both the EU and Member State level. When preparing or revising legislation, Member States should systematically assess the costs and benefits of their legislative initiatives, consulting all relevant stakeholders. The economic, social and environmental impacts of new or revised regulations have to be assessed. Existing regulation is screened for its impact on competitiveness. The administrative costs of new and existing legislation should be measured, giving full consideration to all appropriate alternatives to regulations with a view to simplifying procedures. This is especially important for small and medium-sized enterprises, which usually have only limited resources to deal with the administration imposed by both Community and national legislation.

Better regulation has a substantial favourable effect on the overall conditions for economic growth, employment and productivity. An improved quality of legislation helps provide suitable incentives to business, to eliminate needless costs and to eliminate obstacles to adaptation and innovation.

At the stage of preparation for Bulgaria's EU membership and the conduct of negotiations on Chapter 21 Regional Policy and Co-ordination of Structural Instruments, the Bulgarian Government took a number of measures that led to harmonisation of legislation and preparation of the administration for the new responsibilities. An analysis of the legal framework and ensuring its alignment to EU requirements in the financial sphere; improvement of budget procedures oriented at multi-annual funding and creation of mechanisms for co-ordination of public-private funding; adoption of revisions of the State Budget Act; Legislation on public internal financial control; a new Public Procurement Act; an analysis of the legal framework and ensuring its alignment to EU requirements in the sphere of social policy and the environment; new legislation on the procedures for preparation of environmental impact assessments of plans and programmes; an analysis of the legal framework and ensuring its alignment with EU requirements in the sphere of secondary legislation; a new Regional Development Act;

elaboration of manuals, directions and procedures regarding the responsibilities of institutions in connection with the preparation for absorption of resources from the Structural and Cohesion Funds.

The target sectors for resources under the structural instruments were identified as a result of prolonged discussions of the country's needs and the Community Strategic Guidelines, observing the principle of partnership between state, socio-economic partners and other non-governmental organisations.

## **Annex 4**

### ***Capacity of Intermediate and End Users of Resources in Bulgaria (Contractors/Subcontractors and Beneficiaries)***

Effective utilisation of Community resources is a collective process which involves the executive authorities, as well as the municipalities, the NGOs and many other types of institutions, which are supposed to participate in the absorption of resources, i.e. to propose projects for financing, to apply for procurements/contracts. **The capacity of these organisations to participate in the process of utilisation of Community resources is as important as the capacity of the institutions that plan and manage these resources.**

The capacity of the end users of these resources has numerous dimensions. In the first place, there is the important differentiation of end users as beneficiaries (organisations which apply for/use grant financing) and subcontractors (organisations applying for/implementing procurements for construction, supplies or services).

The different relations with the resource managing authorities, as well as the different types of procedures, presuppose different technical skills and expertise, even though there are a number of common requirements applicable to these two groups.

The specific capacity of the above-mentioned types of entities also has numerous layers: planning capacity, management capacity etc.

We also differentiate between institutional capacity, technical capacity, expert capacity and other types of capacity, each of which is, in its own way, relevant to an adequate participation in the process of utilisation of Community resources.

Since allocation of public financing is involved in this case, with protection of the public interest being a mandatory requirement, **administrative and technical capacity** is critical to handling Community resources. It includes a capacity of the organisation itself to know and apply requirements to the specific programme, to assign, managed and control tasks etc. Administrative and technical capacity could be measures by employees'

experience of handling public financed projects, the existing control and reporting procedures, the existing operating rules and mechanisms etc.

**Financial capacity** is the capability of an organisation to **co-finance** (in the grant financing schemes), to **pre-finance** the implementation of specific activities, or to **guarantee** adequate contract performance. Financial capacity can be proven by the volume of resources that the organisation has managed in previous periods: turnover, profit (for business entities) etc.

**Expert capacity** is related to the organisation's sectoral experience and expertise to implement projects/fulfil procurements in the problem area. This type of capacity can be proven by size/qualifications of the organisation's staff, holding of specific licences and certificates, technologies mastered by the company, availability of internal know-how etc.

Various studies conducted in recent years show that the capacity of the various types of organisations that will participate in utilisation of Community resources is limited in a number of respects.

Regarding **administrative and technical capacity**: a number of the potential users lack sufficient awareness of the specific procedures and documents for work under the Structural Funds (as far as drafted) but also of the logic of work of the grant financing programmes. This is a hurdle not only to applying for and obtaining financing, but to project implementation as well. Administrative and technical understanding of procedures, even though without a direct bearing on the quality of services provided by the relevant organisation, is of key importance to the ability to participate at all in projects financed by the Structural Funds.<sup>44</sup>

The administrative and technical difficulties are not unique to organisations in Bulgaria. The countries of the previous enlargement wave, as well as organisations of the "old" Member State, have also experienced and are experiencing similar difficulties. Although limitations of administrative and technical capacity are a serious obstacle, the favourable impact of factors like simplification of rules and procedures compared to those under Phare (including admissibility of documents in Bulgarian) and the experience gained in each attempt to apply should not be underrated.

On the whole, in the medium term, administrative and technical limitations will not play a greater role than they did under the Phare Programme. The effect of the favourable factors mentioned above will probably be minimised by the larger number of new

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<sup>44</sup> 70% of NGOs and 72% of business see "the complex bureaucratic requirements and procedures" as a difficulty seriously affecting their work (Assessment of the Capacity of Non-Government Organisations and Businesses to Participate in the Absorption of the EU Structural and Cohesion Funds, Vasil Marinov, Vasil Garnizov, Georgi Georgiev, Sofia, April 2006, UNDP-Bulgaria); the same understanding is demonstrated by 46% of municipalities and 29% of regional administrations (Assessment of Municipal and District Capacities for Participation in the EU Structural and Cohesion Funds Absorption, Vasil Marinov, Vasil Garnizov, Sofia, July 2006, UNDP-Bulgaria).

applicants (because of the larger amount of resources and the more tenders), including totally inexperienced ones.

**Financial capacity** had a limited impact in the tenders for grant financing under the Phare Programme. The main reason for this was that most tenders required co-financing on a limited scale (up to 20 per cent)<sup>45</sup>. In some of the cases, there was a requirement for pre-financing of activities with resources in hand (predominantly in the last phase of the project, before disbursement of the final payment). In the tenders and auctions under the Structural Funds, however, financial capacity will be a greater challenge, considering the increased amount of resources that will be allocated as grants (i.e. more money will be needed in absolute value). In a number of cases, the co-financing requirement will be increased, too, as well as the need to pre-finance activities for long periods.<sup>46</sup>

Regarding subcontracting auctions, financial capacity is critical for the company's ability to win subcontracts, insofar as the company turnover is one of the selection criteria.

**Expert capacity** is probably the most substantial among all other types of capacity, since it is directly related to adequate planning/performance of the grant contract, as well as of subcontracts. Unlike the rest of the types of capacity, expert capacity should be the most authentic one, i.e. NGOs, companies and others should be expert in the spheres in which they operate, in their methods of work even outside the context of EU financing.

In a number of cases, however, Community resources are allocated for activities or in tenders requiring specific methods, technologies and licences. Although it is difficult to cite hard evidence, Bulgarian business is better positioned than NGOs in the implementation and use of modern tools for work in specific problem areas.

Significantly, a substantial proportion of NGOs in Bulgaria identify themselves as operating in spheres for which priority financing from the EU is not expected<sup>47</sup>.

As to the prospects, it should be borne in mind that handling Community resources in most cases leads to accelerated implementation of up-to-date practices and technologies. **In other words, those organisations and companies which participate in EU-financed projects naturally tend to strengthen their expert capacity.**<sup>48</sup>.

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<sup>45</sup> With the exception of the grant financing schemes for small and medium-sized enterprises, which require a minimum 50 per cent co-financing.

<sup>46</sup> One of the reasons for this are the delayed payments (initial and final), a frequently occurring problem with the new Member States.

<sup>47</sup> According to a survey conducted by the Open Society Institute – Sofia in 2006, some 25 per cent of NGOs in Bulgaria identify themselves as Think Tanks, around 13 per cent as Policy Makers, and 1 per cent as Research Units. It should be emphasized that financing for such type of activities will be limited, compared to financing for provision of specific services (37 per cent of Bulgarian NGOs identify themselves as Service Providers).

<sup>48</sup> An elaboration of such a thesis does not imply the appearance of a “demarcation” line between NGOs that attract financing from the EU and such that do not. In other words, the former will not only be better financed, but will also have a chance of mastering a modern tool kit etc. There is no reason to presume such a dichotomy in business.

In respect of the types of capacity described, there are considerable differences between the various types of entities: business, NGOs, municipalities etc.

**Business.** The experience with Phare shows that business successfully offsets its capacity deficiencies by work in consortia with large companies of the Member States, which makes it possible not only to meet the requirements but also to amass technical and sectoral experience.

On the whole, in respect of applicants for participation in subcontracts there are no serious threats and restrictions. First, because this is a pan-European market and companies of all EU countries can participate there, i.e. if Bulgarian companies lack sufficient capacity, the contracts will be won by companies of the other Member States, while the Bulgarian entities will play the role of, say, subcontractors.

This situation merits a separate comment. Actually, this will not lead to difficulties in absorption of Community resources, but Bulgarian business will lose a number of opportunities in such situation.

Insofar as the Common Market presupposes avoiding the creation of any kind of advantages to national business<sup>49</sup>, especially within the context of public financing from the EU, it is impossible to provide any special advantages to Bulgarian business.

The experience of the “first ten,” as well as the Bulgarian experience with Phare, shows a substantial presence of EU companies in all types of subcontracts and, along with that, a gradual increase in the number of local companies which partner with them and become consortium leaders. This is a natural market reaction, insofar as local companies hold a number of advantages: familiarity with the environment, possibility to optimise the costs of implementation<sup>50</sup>. On the whole, the large companies which attach importance to work with public companies have the requisite capacity to plan and provide services, as well as to establish partnerships for work on the larger projects.

The capacity of most SMEs is limited not only to their role as subcontractors but also as users of grant financing, where deficiencies in all types of capacity have an adverse impact. Deficiencies in administrative and technical capacity not only impede successful application for financing but also lead to administrative difficulties in implementation, including non-recognition of expenses incurred. The intense interest of SMEs in the tenders for grant financing, the simplification of procedures, as well as the increased amounts of financing, which will ease access to a more interested companies, are factors that will have a favourable effect.

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<sup>49</sup> This is one of the key prerequisites for strengthening the competitiveness of the single market. An elimination of all protectionist mechanisms makes it possible for the most competitive companies to survive and grow in the single market whereas, under different circumstances, such companies would be limited by the national economies.

<sup>50</sup> Thanks to their ampler experience in the specific local environment. The ampler experience of the large European companies, the improvement management and control systems and the possibility to realise economies of scale, however, may prove a more substantial factor of cost optimization than familiarity with local specifics.

**NGOs.** To NGOs, financing from the EU is a critical factor of their future existence and development. While business and the public bodies (municipalities, public educational institutions) could continue to operate even without receiving financing from the EU funds, the NGOs in most cases have very limited alternative funding sources. For this reason, the Third Sector is the sphere which will be most affected by the success or failure of work with the EU Structural Funds.

Bulgarian NGOs largely (including compares to business and municipalities) develop their administrative and technical capacity and amass expertise. A number of them will find dramatic the reorientation from the activities that are now typical of NGOs to provision of concrete services, for which not all have the required experience, personnel and, last but not least, the requisite licences etc.

NGOs' financial capacity, too, is another likely weakness. With an increase amount of projects, a number of them will find it difficult to co-finance and pre-finance activities, as evident from the experience of the "first ten."

The weak horizontal links with other NGOs of the Member States and their networks<sup>51</sup> will also have an adverse effect, and opportunities for exchange of experience, search for partners and experts, as well as impacting European policies, will this be missed.

**Public bodies.** The municipalities, as well as certain specialised public bodies, are among the principal users of resources of the EU Structural Funds and Cohesion Fund. The situation in respect of the different types of capacity here is not radically different from the rest of the types of organisations.

Along with the administrative and technical capacity and expert capacity gained so far, there are still a number of limitations.

Notably, there are substantial disparities between municipalities depending on their size.<sup>52</sup>

Similar to NGOs, here, too, there are risks of deepening the disparities between large and small as a result of work under the Structural Funds.

Despite the apparently larger opportunities to pre-finance and co-finance activities, Bulgarian municipalities are strongly limited in this respect, too. The processes of financial decentralisation will have a favourable impact on this limitation. Part of the financial limitations of public institutions can be overcome through such instruments as public-private partnership (PPP).

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<sup>51</sup> With minor exceptions, Bulgarian NGOs are not members of the large European networks. This fact is not directly attributable to the country's recent admission to the EU, considering that the presence of Romanian organizations is far more significant.

<sup>52</sup> Assessment of Municipal and District Capacities for Participation in the EU Structural and Cohesion Funds Absorption, Vasil Marinov, Vasil Garnizov, Sofia, July 2006, UNDP-Bulgaria.