

BULGARIA'S PARTICIPATION IN THE STRUCTURAL POLICIES OF THE EUROPEAN UNION



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1 Lazar Stanev Str., 1113 Sofia

phone: (+ 359 2) 971 3000, fax: (+ 359 2) 971 2233

www.csd.bg, csd@online.bg

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INTRODUCTION

Bulgaria's accession to the European Union is the foremost strategic objective of the country. This goal both serves the national interest of the establishment of a developed, democratic state and coincides with Bulgaria's readiness to actively participate in the realization of a united Europe.

The conclusions of the European Council in December 1997 in Luxembourg opened the way for the active involvement of the 10 countries of Central and Eastern Europe in the preparations for their accession to the EU. It should be noted that the inclusion of Bulgaria in the next enlargement of the EU is an expression of the highly positive assessment of the democratic processes taking place in the country. At the same time, these conclusions specify requirements which need to be fulfilled by Bulgaria as a condition for Bulgaria's accession to the EU. Further, meeting the second and the third group of the Copenhagen criteria requires the complete restructuring of the national economy, the construction of modern infrastructures, the introduction of competitive principles of fair competition and increased social activities with the goal of accession to the policies and the principles of the EU.

The present report examines the preparation of Bulgaria for future participation in the structural policies of the EU with the purpose of achieving economic and social harmonization on the basis of the introduction of principles of regional and social policy and the development of infrastructures in the area of transport and telecommunications. Structural funds are among the instruments used to achieve the aims of economic and social harmonization, and thus the preparation for their most effective and efficient use during the pre-accession period is very important. Within this context, the report examines the necessary organizational, administrative, legal and financial measures which must be undertaken in the pursuit of successful future participation in the structural funds of the EU.

1. THE STRUCTURAL FUNDS: A EUROPEAN UNION POLICY INSTRUMENT FOR ECONOMIC AND SOCIAL HARMONIZATION

1.1. POLICY INSTRUMENTS

Strengthening of the economic unity of the European Union is connected with the achievement of sustainable economic development through balanced development of the member countries and the European regions.

EU policy for assistance and the success of the economic and social harmonization is defined in two main amendments to the European Communities Treaty, the Single European Act (1987) and the Treaty on European Union (1993):

- the section on economic and social harmonization in the Single Act in 1987 introduced the fundamental reform of the Structural Funds;
- Art. C of the Treaty on European Union raises the consolidation of economic and social harmonization to the level of one of the three main priorities of the EU, along with the economic tasks and objectives related to the single market and the economic and monetary union.

In order to fulfill the objectives of this policy, the European Union has provided significant financial support through a series of mutually connected funds known as the Structural Funds of the European Union. The national regional policies of the member states are also oriented towards a differentiated approach in assisting the regions with a lower level of economic and social development.

In the area of economic and social harmonization the primary instruments are the national policies of the member states. The accepted motto is "Solidarity in the EU begins at home". This idea is also reflected in the allocation of funds. While in a number of countries the funds provided vary between 40 and 60% of GDP, as a percentage of the budget of the EU this amounts of approximately 1.2% of the GDP of the EU (1996 figures).

In addition to policies which have been specially developed to fulfill national goals, greater significance has been attached to inter-regional cooperation. Special studies of seven countries including 80% of the population of the EU shows that the net transfer of funds from one region to another within the region is approximately 4% of the GDP of the donor regions and about 8% of the GDP of the recipient regions. This has allowed for the reduction of differences between income in the different regions by 20-40%.

European policy for regional development is based on the subsidiarity principle and the suitable combination of different financial instruments. The financial instruments used to implement structural policies in the EU are:

- **The European Regional Development Fund (ERDF)** concentrated mainly on achieving economic and social harmonization in less well-off regions;
- **The European Social Fund (ESF)**, concentrated primarily on professional training, re-training and job creation;
- **The European Agricultural Guidance and Guarantee Fund—Guidance Section (EAGGF)** assists and encourages the integrated development of agricultural regions and the adaptation of agricultural structures and private enterprise to the conditions of the market;
- **The Cohesion Fund** (created in 1993) encourages the harmonization of the European countries and regions whose GDP is less than 90% than the average for the EU;

- Financial instruments in the area of fish and fish products;
- Loans from the European Investment Bank;
- Initiatives of the Community implemented through special programs and pilot projects.

The financial support from structural funds is directed at the achievement of specific objectives which, for the period 1993-1999, are determined by the Council of Ministers in the following way:

- Objective 1—furthering the development and the structural adjustment of regions which are underdeveloped;
- Objective 2—adjustment of the regions, the border districts and district areas (including districts of employment and municipalities) which are hard hit by industrial decline;
- Objective 3—struggle against long-term unemployment and the improved integration of young people and people under threat of exclusion from the labor market;
- Objective 4—improved adaptation of workers of both sexes to changes in industrial manufacturing and manufacturing systems;
- Objective 5a—more rapid adaptation of agricultural structures within the framework of the reform of the common agricultural policy;
- Objective 5b—improved development of structural adaptation of the agricultural regions.

The bulk of the structural funds is concentrated in the ERDF – approximately 50% of all funding. Priority in the use of the funds is given to technical infrastructure, investment with good return and services.

The bulk of the structural funds are concentrated in the Regional Development Fund which receives approximately 50% of all funds. The main priority in the use of these funds are technical infrastructure, investments with the possibility of return, and services.

The ERDF assists the member states which have a GDP of less than 75% of the average level for the Community. The main regions to be assisted are:

- The greater part of Greece, Portugal, Northern Ireland, Southern Italy, Southern Spain, Corsica, French Guadeloupe and Martinique;
- The economic restructuring of zones with problems of industrial reconstruction, such as the Ruhr, the region of Liege, Birmingham etc., which have experienced an increased growth of unemployment as a result of economic reconstruction;
- Economic diversification of agricultural regions.

It is very important that the Bulgarian authorities become familiar with the mechanisms, procedure regulations and requirements for the intervention of the Community through the policies being conducted in countries in connection with Objective 1 and financed by the Cohesion Fund. Within the framework of the Cohesion Fund, the European Union has developed a program for the period 1993-1999 with a value of 15 billion ECU. The aim of the program was to assist Ireland, Spain, Portugal and Greece, which had to fulfill the requirements of macro-economic convergence outlined in the program for the implementation of the monetary union.

In contrast to the structural funds, the implementation of projects financed by the Cohesion Fund depends on the achievement of specific financial progress requirements by the beneficiary countries (competition principle). Money from the Cohesion Fund is used to finance large infrastructure projects and projects in the area of environmental protection and a number of individual projects for regional programs.

In addition to the structural funds, approximately 13.9 billion ECU will be used for Community initiatives. These are a specific set of instruments of EU structural policies. The Community proposes its own initiatives to the member states with the aim of supporting significant activities in the area of transnational, trans-border and inter-regional cooperation. One of the primary programs aimed at addressing program these initiatives is the Interreg II program with a total level of finance of 2.9 billion ECU. Other similar programs within the framework of these initiatives are Leda 2, Redic 2, Adapt, Conver, Retex, Urban, MSP, Jobs and Human Resources Development, Textile and Clothing etc.

For the period 1997-1999, the structural fund have allocated 140 billion ECU and a further 15 billion for common initiatives.

1.2. PERSPECTIVES IN THE DEVELOPMENT OF THE ECONOMIC AND SOCIAL HARMONIZATION OF THE EU MEMBER STATES

The Edinburgh European Council resolved to continue the efforts to achieve unification by providing financial support at a more significant level to the member states. The established guidelines for economic and social harmonization will be implemented via broad programs of partnership with member states and the regions, both for the least well-off (Objective 1) and for those regions with industry in decline (Objective 2) as well as the rural regions (Objective 5b).

The volume of financing as a percentage of GDP will remain at the level envisaged for 1999 0.46%. Despite this, forecasts for GDP growth show that the total value of assistance set aside for structural activity for the period 2000-2006 will increase and total 275 billion ECU (1997 prices), which is by 75 billion ECU more than in the period of 1993-1999. Of the 275 billion ECU, it is envisaged that approximately 45 billion will be allocated to new member states and 20 billion to the Cohesion Fund.

The Commission proposes the consolidation of the budget efforts of the structural funds during the period 2000-2006. As a result of this measure, in comparison with the level of 1999 the average annual subsidy for member states will be significantly reduced. In connection with this, the goal is to reduce the operating objectives and achieve greater effectiveness and transparency.

After the year 2000, re-structuring in the regions of the EU with the aim of accelerating the internal integration in the Community will be enhanced. The proposals of the European Commission in Agenda 2000 envisage the orientation of structural cooperation towards the achievement of the following objectives:

- **Objective 1 (new)**—encouragement of the development and the structural adaptation of the regions whose development is lagging behind in terms of income, employment, manufacturing systems and technical infrastructures (this objective is considered a priority);
- **Objective 2 (new)**—achievement of economic and social restructuring of the regions with serious structural problems, high unemployment and trends towards depopulation;
- **Objective 3 (new)**—implementation of a strategy for development of human resources, adequate for the new conditions in the EU.

The current seven objectives will be reduced to three, i.e. the objectives will be joined together, as follows:

Objective 1 with Objective 4, i.e.:

The economic adaptation of those regions which are lagging behind in their development (Objective 1) with the adaptation of workers in industrially

restructuring manufacturing activities and assistance in preventative measures against unemployment (Objective 4).

Objective 5a with Objective 5b and Objective 6 , i.e.:

The adaptation of structures connected with agriculture and fishing within the framework of the common agricultural policy (Objective 5) with economic diversification in vulnerable rural areas (Objective 5b) and the special measures in poorly populated northern areas and regions (Objective 6).

In essence, the proposed objectives, which will be financed during the next period (2000-2006), envisage the consolidation of the regional and global objectives of the EU and will allow the structural funds to provide financial support for programs targeted at the development of various regions. The Cohesion Fund will retain its present objectives of financing projects connected with the protection and restoration of the environment and measures for the development and rationalization of the transport infrastructure.

Beneficiaries of structural assistance provided to achieve Objective 1 are the regions with per capita GDP of less than 75% of the average level for the EU. In the future about 2/3 of the total finance for the 15 member countries will be directed specifically at this type of region, i.e. about 70% of the funds allocated under the structural funds, will be accumulated in disadvantaged regions. Additional attention will be paid to indicators connected with income, employment and the industrial and technical infrastructure of the region. For example, the average level of unemployment would be about 60% higher than the average for the Community.

In order to achieve Objective 1, emphasis has been placed upon:

- direct investments in manufacturing aimed at the creation of new jobs;
- infrastructure which contributes to economic development, including the development of Trans-European networks, (transport, telecommunications, energy) and environmental protection;
- provision of services for small and medium enterprises (consultations, equipment, financial management) in the aim of increasing local and regional potential as well as encouraging research and development;
- investments in educational and health infrastructure;
- professional training, including the following sectors: training, research, administration, employment assistance;
- various measures connected with the development rural areas adaptation of agricultural structures, tourism, cultural and historical heritage, encouragement of the development of local manufacturing (trade marks) etc.

The reduction of economic and social imbalances in the EU depends on the achievement of positive results within Objective 2 in the area of economic restructuring of the regional zones in industrial decline (intensive restructuring).

Actions within this objective are concentrated upon:

- the creation of a suitable environment for the localization of new enterprises;
- investment in new manufacturing capabilities;
- infrastructure development, primarily connected with the revival of industrial activities and the protection of the environment;
- the provision of services for small and medium-sized enterprises; research and development; including the creation of research centers, technological centers, business incubators, etc.

The re-definition of Objective 2 will encompass economic and social restructuring and will unify actions in favor of the other regions and zones which are

experiencing difficulties as a result of structural reform. This is concerned with the issue of assisting the economic and social restructuring of:

- Areas in the process of economic change in industrial development and services. Particular attention should be paid to those regions and areas which are dependent on a single structural sector which is in recession. In these cases support will be increased for:
 - small and medium enterprises;
 - professional training;
 - innovation;
 - encouragement of private enterprise;
 - development of local potential;
 - conservation of the environment;
 - prevention of social isolation;
 - special strategies aimed at the labor market;
- linkage of village development with that of the small towns in the aim of diversifying industrial, cultural and service activities;
- Rural areas in decline;
- Regions and zones dependent on the fishing industry;
- Problematic urban areas suitable for public works and renewal.

In order to facilitate and simplify procedures, the different funds will be able to participate in the integrated development of only one region in relation to a single program.

The percentage of the population in the regions of the 15 member states which corresponds to the conditions of Objectives 1 and 2 should be reduced from 51% to 35-40%. The activities relating to the regions which will temporarily continue to enjoy assistance from the structural funds, must be compatible with the regulations of the policy for competition in the area of state assistance.

Regions lagging behind in their development but fulfilling the requirements of Objective 1 yet still experiencing great difficulties in the areas of income, employment, industrial and infrastructure policy, will be able to make use of this policy in the future.

For those regions which at the moment fulfill Objective 1 but in the future will be removed from this group, a number of temporary interventions for a specific period of time have been developed. There is the opinion that a special regime of assistance for Objective 1 should be introduced for the peripheral regions of the Community.

The European Union places emphasis on the following key issues which have, even at this point, to be accepted by the Objective 1 beneficiary regions:

- to accept the **integrated** approach to the development of structurally poorly developed regions;
- to **co-ordinate** all elements of the structural assistance the ERDF, the EAGGF, the ESF and the framework instrument for assistance to the fishing industry;
- definition of those **regions and areas** which are the recipients of assistance and which fulfill the generally accepted criteria and requirements for selection;
- understanding of the **specific nature of each region and zone** which means that they be examined in connection with the potential for local development taking into account the needs of the Community;
- programming based on the **regional plans** developed by the regional and local agencies with clearly formulated priorities for assistance;
- assessment of the **measures** for which assistance shall be provided for each priority;

- allocation of the **financial funds** for each priority and the measure (determination of quotas from which specific projects are financed);
- improvements to the **system of selection** and assessment of the projects;
- calculation of the size of the **non-returnable assistance** in accordance with the type of project;
- requirements for the **administration**, financial control, monitoring and assessment of the programs.

Special attention will be paid to the improvement of the competitiveness of the regions which is a necessary condition for the improvement of the level of employment. In connection with this, particular attention shall be paid to the measures directed at infrastructure, innovations, small and medium enterprises and human resources.

In addition to the financial support provided by the structural funds, the European Union provides another type of assistance via initiatives of the Community. It is recognized that reform is needed not only in the structural funds but in the initiatives as well taking into account their objectives and innovative nature. To this end, it has been proposed that their number be reduced to three areas in which the added value for the Community will be evident, namely:

- trans-border, trans-national and inter-regional cooperation, the objective of which is to stimulate the harmonious and balanced development of the territory (Interreg-IIC has already begun);
- Agricultural development;
- Human resources in the context of creating equal chances for development.

It is expected that the proportion of funds set aside for Community initiatives will reach approximately 5% of the level of the structural funds.

Serious attention will be paid to innovation actions and pilot projects for which, at the moment, 1% of the funds available from the structural funds are being allocated. This approach improves experimentation and also serves as an instrument directed at the development of partnership.

2. PERSPECTIVES FOR THE PARTICIPATION OF BULGARIA IN THE STRUCTURAL FUNDS OF THE EUROPEAN UNION

2.1. POSSIBILITIES FOR ACCESSION TO THE PRACTICE AND APPROACHES OF THE EUROPEAN UNION OF BULGARIA' REGIONAL POLICY

2.1.1. GENERAL PRINCIPLES

In discussing regional issues it is important to clarify the essence and content of the terminology used. To this end, the term "region" needs to be defined.

2.1.1.1. The concept of "region"

The concept of region has a manifold meaning, but in this study it will be considered in the following manners:

- **natural and geographic** these are regions and areas which are typified by similar natural and geographic features. In accordance with the European Regional/Spatial Planning Charter adopted in 1983 this category comprises coastal and mountainous regions;
- **social and economic** these are typified by similar economic features and problems, infrastructure development, competitive abilities and population income. A more popular classification is the common one accepted by the EU which divides these regions into poorly developed (or less well-off), agricultural and in decline. These are primarily regions and zones with mono-functional economic structure and actively restructuring branches;
- **administrative/management** these are administrative—territorial communities established on the basis of the relevant regulatory act in which state management functions are carried out; e.g., districts (oblast) of the Republic of Bulgaria.

It should be noted that the concept of region is also used in an international context. In the process of Bulgaria's accession to the European Union, it has become increasingly necessary for the territory of the country to be seen as part of a Greater Europe. According to this interpretation of the word, region has another meaning which signifies other mechanisms and instruments for action.

It is important for the management practice to provide an accurate definition of regional development, regional planning and regional policy. Special attention was paid to this at the conference organized by the European Union and the Council of Europe which took place in October 1995 in Prague and was dedicated to the theme, "Regional Planning for Greater Europe—Cooperation with the Countries of Central and South Eastern Europe."

In keeping with the opinion of a majority of experts, the following viewpoints were advocated:

2.1.1.2. Regional development as a process of re-allocation of national income to different regions within a specific country or the member states of the European Union.

This process of re-allocation is carried out by means of different instruments and mechanisms. In general they include:

- cooperation between different types of common structural policies carried out by the states in the territory of a given region (see Chart 1);
- partnership between institutions working for the social and economic prosperity of a given territorial community (see Chart 2);

- integrated social and economic policy based on the development of economic infrastructure and a defined system of regional economic mechanisms (see Chart 3).

2.1.1.3. Regional planning as a process of coordination of the sectoral policies in the territory of the country.

This is carried out by a system of strategies, forecasts and territorial structural plans, developed and approved by a certain procedure. The process is regulated by the Territorial and Regional Organization Act.

At a regional level, there is a system of medium- and long- term territorial development plans which determine the main directions, concept and program for the development of the region.

2.1.1.4. Regional policy: instruments of action upon regional differences including:

- budget instruments;
- financial decentralization;
- indirect intervention in the processes of market development with the aim of achieving a balance in the social and economic development of the regions;
- investment subsidies under certain conditions and for certain regions;
- premiums for the development plans in the territory;
- premiums for the creation of jobs;
- accelerated depreciation calculations;
- subsidies for innovation and modernization of industrial capabilities;
- grace period for investment projects, etc.

It should be noted that before 1991 there had been a number of attempts made to resolve the problems of peripheral regions with social and economic imbalances through the implementation of a system of measures and economic regulators.

Although not immediately apparent, at the moment Bulgaria continues to conduct sectoral regional policy. Examples of this are:

- annual subsidies approved by the State Budget Act to cover the losses of transport companies which operate in the poorly populated and mountain regions;
- subsidies to provide services of prime importance for the small, remote mountain population centers;
- preferential taxation for foreign investors in regions with a high level of unemployment, in accordance with the Foreign Investment Act. (A decision of the Council of Ministers identified 94 municipalities with a high level of unemployment where foreign investment is encouraged every year through preferential taxation.)
- financing of regional programs and pilot projects from the national environmental protection funds and Professional Training and Unemployment aimed at the creation of alternative employment in regions affected by the restructuring of mines (Madan and Rudozem);
- assistance in the development of environmental agriculture in the mountain regions via the national Environmental Protection Fund, etc.

2.1.2. ACCESSION PREPARATIONS AND REGIONAL DEVELOPMENT

2.1.2.1. Principles of cooperation between Bulgaria and the EU in the area of regional policy

For Bulgaria, which accelerated its EU accession preparations after 1997, it is of key significance to develop its regional policies in accord with

The starting point for correct orientation is the implementation of obligations directly and indirectly connected with regional development which are set out in the Europe Agreement. The main elements are:

- Art. 88 concerning regional development which sets guidelines for mutual efforts in this area, in particular:

The parties shall strengthen cooperation between them on regional development and land use planning; To this end, any of the following measures could be undertaken:

- the exchange of information by national, regional or local authorities on regional and land-use planning and policy, and where appropriate, the provision of assistance to Bulgaria for the formulation of such policy,
- joint action by regional and local authorities in the area of economic development,
- study of a joint approach for the development of regions situated on Bulgaria's border with the Community,
- exchange of visits to explore the opportunities for cooperation and assistance,
- the exchange of civil servants or experts;
- the provision of technical assistance, with special emphasis on the development of disadvantaged areas,
- the establishment of programs for the exchange of information and experience, by methods including seminars.
- Art. 78, in particular the section on agriculture and the agro-industrial sector, which concerns the following areas of cooperation directly related to the policy for regional development, including:
 - modernize the rural infrastructure (transport, water supply, telecommunications),
 - improve land use planning, including construction and urban planning,
 - develop ecologically clean regions, technologies and crops.
- Art. 81 concerning the environment, including:
 - land use planning, including construction and urban planning,
 - coastal zone management,
 - implementation of regional international programs, inter alia those that concern the Danube Basin and the Black Sea.

The resolution of this wide range of issues involves the system of common policies and is directly related to regional policies, measures and action initiatives.

2.1.3. REGIONAL POLICY IN BULGARIA IN THE CONTEXT OF TRANSITION AND REFORM

2.1.3.1. Main objectives and tasks

Adhering to the essential concept of the regional policy as set out above, in the coming years Bulgaria will have to develop *a system of instruments for overcoming the imbalances in the development of various regions and areas* in order to achieve specific objectives.

Objective 1: To ensure balanced and sustainable social and economic harmonization of the regions within the country and in the entire territory of Europe.

This objective may be achieved via the implementation of the following tasks:

- The Bulgarian government should create the institutional infrastructure and inter-institutional coordination, and should mobilize the non-governmental sector to expand the basis for partnership in the area of regional development;
- Create a new and improve the existing regulatory and management framework for the provision of resources, including the budget for the implementation of regional policies;
- Improve the methods for planning, forecasting, management, control and monitoring of the processes connected with the physical planning and regional economic development.

Objective 2: Bringing the national regional policy in line with the approaches implemented by the member states of the European Union via the implementation of the main principles of subsidiarity, partnership, forecasting, concentration, and a differentiated approach to assisting the various types of regions.

Key tasks related to the implementation of the main objectives are:

- increasing the financial capacity related to the implementation of the integrated regional programs, and defining the mechanisms for the proportional participation of national funds and local sources of financing;
- providing resources for additional financing of the programs from the European Union;
- creating a system of regional plans for the development of a feasibility study, an analysis of the conditions, a strategy for achieving the noted objectives, an assessment of the envisaged effect in the medium and long term, and an assessment of the priorities and the effect on the environment;
- defining regional priorities, investment, and operation programs and schemes for the encouragement of business, projects, and academic and research programs which need the support of the EU;
- developing an indicative common financial plan which brings together resources from national sources and those of the Community in relation to each priority;
- implementing the priority requirements of the EU in relation to the introduction of regional programs, including forecasting, planning, financial control and auditing;
- improving the system of collating the data bases needed for the study of trends in the development of regional institutions and infrastructure and for the analysis of the progress in the development of the program.

2.1.3.2. Institution and administrative capacity building and distribution of competencies between the central and regional authorities

The leading principles used in the new approach to regional development which correspond to the generally accepted European practice are: subsidiarity, partnership and differentiated approach in the encouragement of the development of the regions. The practical actions of the Bulgarian administration should be directed at increasing the administrative capacity, in particular:

- institutional strengthening of the public administration, including the regional administrations;
- improving inter-institutional coordination and inclusion in the common aims of the branch ministries and institutions;
- creating, strengthening and mobilizing the non-governmental sector directly and indirectly involved in regional and local development.

Expansion of the institutions involved, re-allocation of competencies between them, and creation of a basis for partnership are of great significance to the implementation of an effective regional policy. The re-allocation of competencies should be examined in several ways :

- between the state administration agencies at a central and regional level;
- between the regional and the local authorities;
- between the regional and the local authorities and the non-governmental sector.

2.1.3.3. Central administration

The central level of regional development management is carried out by the Ministry of Regional Development and Public Works. The Minister of Regional Development is also Deputy Prime Minister responsible for technical infrastructure. This is also an indication of the political will of the government to raise the regional development policy up to the level of the developed European countries. The main functions and tasks of the Ministry of Regional Development and Public Works are in the area of:

- Regional development and planning;
- Administrative-territorial development;
- Territorial and population center development;
- Technical infrastructure, including water supply and roads of national and regional significance;
- Registration and management of state property;
- Construction and the construction industry.

Considering the concept of regional development from the point of view of the definition above, the following problems can be emphasized:

Firstly, at this stage, there are a number of unresolved issues related to the realization of integrating the instruments for regional policy implementation and the entire range of economic mechanisms for sector policy implementation. These unresolved issues are in the areas of industry, agriculture, social taxation, credit, research and technology, and the policy for foreign investment.

Secondly, there is a lack of dialogue with important support structures such as the National Agency for Small and Medium Enterprises, the Chambers of Commerce, financial companies and a number of important scientific research centers.

The Ministry of Regional Development and Public Works is the central state institution involved in the development of the **National Strategy for EU Accession in the Area of Regional Development**. The main short-term tasks are the creation of a regulatory system in the area of regional development, local government, land use, cadastral plans, state and municipal property, and technical infrastructure. The Ministry is expected in the future to undertake a coordinating role and main responsibility in creating the necessary instruments for the use of the pre-accession and structural funds aimed at implementing regional policy.

Third: In 1994, the process began of training the administration at the Ministry of Regional Development in the use of funds from EU structural policies via the **Phare cross-border cooperation** program . This program covers the territory of 46 Bulgarian municipalities which are in direct proximity to the border with Greece.

It is important to note the main principles of the Phare cross-border cooperation program which underline the procedural requirements for starting, approving and implementing such types of programs. These are mainly:

- the program should be **regional** and aim to assist in the development of peripheral regions of the member states;
- it must reflect a process of **strategic planning** which includes: definition of the territorial range, the main priorities of structural development (structural policies), measures which correspond to the priorities and specific projects for financial resources, including Bulgarian co-financing;
- **approval of the government program** is an important condition for future support and provision of additional financing;
- creation of a Joint Committee (usually with representatives of the beneficiary and the donor) for the planning, control and negotiation of the annual operative programs and projects is an important condition for the achievement of coordinated action, intentions and future implementation;
- certain state institutions should incorporate a main coordination unit. The primary function of this unit would be to serve as **technical secretariat for the coordination of the sector projects**, to follow the implementation of the projects and inform the Joint Committee, and to enter into agreements and announce tenders;
- the creation of an **operational management unit** to prepare the projects and tender documents for the beneficiary institutions is an important condition for achieving the necessary experience and knowledge required for the operational management of the projects;
- the creation of **consultative working groups** on various issues at a regional level. These should include specialists from the regions or specific areas (group of municipalities) which have similar issues to resolve;
- **reliable forecasting** of matching Bulgarian participation in the funding. The relative size of the planned Bulgarian sources of finance should be no less than 25 % of the total investment;
- meeting the deadlines, procedural requirements, methods of **accounting, analysis and control** defined by the EU in the use of the funds;
- accumulation of expertise in the area of planning, forecasting, projects, implementation, financing and approval of projects on the basis of procedures established by the EU. In a number of cases there may be procedural conflicts since a large number of incomplete projects are being proposed for which there are already definite investors and implementing organizations which do not follow the requirements of the EU but fall under the jurisdiction of Bulgarian legislation;
- the preparation of highly qualified personnel with good foreign language skills and specialized training who can quickly understand the procedural requirements of the EU.

2.1.3.4. Inter-institutional coordination

Improvement in inter-institutional (horizontal) coordination is a basic condition for improvement of the process of managing common policies in the regions. In order to achieve progress in this area, and in accordance with the model accepted by the EU member states, it will be necessary to regulate the relations between all the partners involved in the process of implementing the national, regional and local objectives for the development of the regions.

Therefore, the primary objective should be **the creation of an inter-institutional body for the management of regional policy**.

In 1993 an attempt was made to create an inter-institutional consultative body of the Council of Ministers in relation to issues of regional policy. Due to the lack of clearly regulated powers of authority and the absence of the other components necessary for the implementation of regional policy, this body did not fulfill the role of an integrating management institution for the development of the regions.

The reasons for the insufficiently effective work of the consultative inter-institutional council for regional policy can be summed up as follows:

- the absence of political will to approve a National Strategy and Program for Regional Development as a necessary instrument for the management of different types of regions;
- the lack of recognition, on the part of the Parliament and the Government, of regional priorities, criteria and principles for the regional distribution of the country and the implementation of differentiated policy;
- the lack of economic instruments aimed at assisting those regions which need special state support;
- the absence of a single budget mechanism for the implementation of regional priorities and projects;
- insufficiently defined national and regional authority for managing social and economic processes in the districts;
- ignoring the need for a partnership between the government and non-governmental institutions in relation to matters of regional development, etc.

2.1.3.5. Regional and local authorities

- Since 1990 there has been a strong thrust towards reform in local government. A number of laws have been passed relating to:
- the creation of administrative-territorial units (municipalities and districts) in Bulgaria and the implementation of administrative and territorial changes (Art. 1 of the Administrative and Territorial Development Act of the Republic of Bulgaria, adopted in 1995);
- issues of local government and local administration as well as the functions and tasks of the local authorities (Art. 1 of the Local Government and Local Administration Act—1991, amendments and additions, 1995);
- acquisition, management and disposal of immovable and movable property which is municipal property, as well as the type of municipal property (Art. 1 and Art. 2 of the Municipal Property Act 1996).

The issue of the financial decentralization of municipal development has not been resolved yet. The Formation of the Municipal Budgets Act which was passed by the National Assembly (March 1998) will resolve a number of issues connected with increased rights of the local authorities concerning municipal financial policy.

Structure, functions and authorities of the regional administration

The passage of a package of laws which regulate the various aspects of local government led to significant progress in reforms connected with decentralization at a local level. At the same time, though, there has been a delay in the process of re-allocating power between the central and regional authorities.

The district governor is appointed by the Council of Ministers. The Council of Ministers defines the structure and the size as well as the functions and the tasks of the district administration. The last changes in this area (Decree of the Council of Ministers No.431, 19.11.1997) defined the structure of the regional administration, the rights and obligations of the district governor, and the structure of the district administration. Three directorates and three departments which fulfill the following main functions were created:

Department for State Policy and Territorial Development

This directorate is responsible for the development, organization and coordination of the regional strategies and development programs. It is important to note that the district administration is responsible for implementing the coordination of the deconcentrated state administration in the area of employment,

unemployment, health care, education, culture, social programs and price control. It is clear that these powers cannot be fulfilled without the creation of an effective instrument for administrative and financial intervention .

The Department for **State Property** is mainly involved with the application of the powers of the district governors in relation to the registration, management and disposal of state property within the territory of the district.

The **Legal Department** has the following primary functions: monitoring the lawfulness of the acts of the local authorities and administering legal processes before the judicial authorities.

The Department for **Defense and Mobilization Preparation** has the specific function of bringing the state and local administrations from a state of civil to military preparedness in the case of the need to work under conditions of war.

The Department for **Civil Defense** manages the protection of the population and the national economy in the case of disasters, emergencies and catastrophes.

Department of Administrative and Economic Service and Finance.

Deconcentrated public services and regional policy

One of the most complex problems of current regional administrative structure and management is the continued functioning of deconcentrated state services at a regional level. Apart from the 28 regional district departments of health care, cadastral plan and land regulation, education, statistics, unified registration of citizens, etc., created prior to 1987, the lack of a clear conception for the transformation of the district level of administration into a real, effective administrative organizational structure has led to the appearance of a number of new regional structures which have no connection with the district or the former regional level of government.

The district governor, who, in accordance with Art. 68 of the Local Government and Local Administration Act, is obliged to implement regional policy within the district does not possess the instruments for implementing the coordination of public services. This indicates that the matter of the powers and the management of the second level has to be resolved from a regulatory point of view on the basis of changes in the Local Government and Local Administration Act, the draft act on regional development, the Administrative and Territorial Development Act and other accompanying acts.

The reforms needed at the regional level should include:

- acceleration of the process of reforms of the existing acts and the adoption of new acts, including: amendments to the Local Government and Local Administration Act and the clear and accurate definition of the powers of the District Governor;
- the introduction and the legislative regulation of decentralized powers via the free election of the District Councils. The District Governor may be elected by members of the District Council or appointed by the Council of Ministers;
- the definition of the functions and powers of the District Governor and the District Council in accordance with the requirement for the implementation of an effective regional policy;
- the transformation of the district into a juridical body with an independent budget and legal power to enter into relevant agreements and contracts for regional development and regional policy;
- the division of the country into regions on the basis of problem issues, in accordance with the main criteria and requirements designated by the European Union, and the creation of reliable mechanisms for realizing the objectives for economic harmonization and sustainable development of the regions;

- the achievement of national solidarity on the issue of assisting the poorly developed and less well-off regions in order to overcome critical imbalances;
- the implementation of a new policy aimed at resolving the problems of the poorly developed border regions with the possibility for implementing active trans-border cooperation. Such implementation would require legislative regulation of the power of the regional and local authorities to enter into contracts and agreements for cooperation with the relevant territorial communities or with municipalities on the other side of the border (the neighbor criterion). This would lead to the acceleration of the real process of opening the national physical and economic territory between neighboring countries, regions and communities. As a member of the Council of Europe, Bulgaria signed the European Outline Convention on Transfrontier Co-operation Between Territorial Communities or Authorities on 2 June 1998.

The ratification of this convention will be a sign of the strong political will and desire to achieve accession to European norms and standards. The Convention opens the way for the development of agreements between the regional and local authorities in the border regions. Examples of well implemented practice in this sphere are the agreements achieved in the fields of environment, development planning, economic cooperation, the use of natural resources, training, mutual information, etc. These achieved agreements will give a real boost to economic development and increased trust between people living in one European region.

2.1.3.6. The non-governmental sector

Successful reforms in the area of regional development could be achieved by targeting support for the development of non-governmental organizations as well as persons who can contribute to the real implementation of regional development. A key role in this process should be played by the Agency for Regional Development, associations of municipalities formed on regional principle, consulting companies working on matters of regional planning and programming, etc.

2.1.4. Regional Development Agencies

2.1.4.1. Background

Clearly, without institutional reform at the regional level, it will be difficult to implement a process of regional development. For this reason, the process of creating regional agencies should be initiated. The purpose of these agencies would be to mobilize persons and organizations for regional development through the promotion of political and social consensus and partnership.

To this end, the Agencies for Regional Development can be seen as specialized institutional structures of regional or local authority created both to implement economic development directly and to cultivate an environment favorable to social and economic revival in the communities. These agencies will be institutional structures which can coordinate and create links with the other regional and local authorities through management, financing, planning and control.

The following is a summary of the general conclusions of the European Association of Regional Development Agencies, in which more than 100 agencies of EU member countries participate.

2.1.4.2. The main objectives of the agencies for regional development are:

- the encouragement of regional economic development for the member countries support for the implementation of Objective 1;
- development of the homogenous potential of the territory of the region;

- protection of the common interests of the population in the region;
- provision of partnership and cooperation with the deconcentrated state structures for the practical implementation of the objectives of state regional policy.

2.1.4.3. Legal status

The most common cases are:

- limited liability legal entities guaranteed by the regional and local authorities (Belgium, Germany, Greece, Italy, Ireland, Holland);
- non-profit organizations (Bulgaria, France, Denmark, Hungary, Portugal, Poland, Ukraine);
- joint stock companies (France, Estonia, Poland, Slovakia).

In a number of member states the initial concept for the agencies has changed in recent years. For example, in the UK the deconcentrated state structures have been transformed to become more independent from central authorities. At the same time, the agencies for regional development which were created by the municipalities have been privatized. Nevertheless they continue to maintain a close link with the territorial authorities.

2.1.4.4. Management

The agencies are normally managed by a board of directors including:

- elected staff from the agency;
- representatives of unions and associations;
- representatives of employers' organizations;
- representatives of private enterprises;
- representatives of banks and other organizations.

2.1.4.5. Main tasks of the agency

- consulting and assistance to firms and commercial associations established in the region;
- consulting and technical assistance for the creation of new enterprises;
- economic and sector research;
- creation and maintenance of data bases for local enterprises;
- provision of information on market relations concerned with land and funds;
- preparation and consultations for participation in commercial exhibitions and fairs;
- consultation relating to technological transfer between similar enterprises;
- re-structuring of problematic enterprises;
- provision of consultation services to the local authorities.

2.1.4.6. Auxiliary (accompanying) tasks:

- provision of specialized assistance for the use of subsidies and loans;
- provision of credits for immovable industrial property;
- management of housing property;
- management of protected and recreational zones;
- management of technological centers;

- preparation of a plan for the management of protected zones;
- provision of interest-rated subsidies;
- provision of guarantees (warrants) on credits.

Under the conditions of a single internal market in the EU, more development agencies will find themselves playing an active role in the internationalization of enterprises.

2.1.5. REGIONAL DEVELOPMENT AGENCIES AND THE DEVELOPMENT OF COMMERCIAL ASSOCIATIONS

It is worth noting that agencies for regional development produce the greatest effect when they are included in the life cycle of commercial enterprises. This can be achieved by:

2.1.5.1. Starting the activities by ensuring access to:

- service infrastructure;
- start-up and other capital;
- calculation of risk on loans, interest, subsidies, and guarantees;
- consultation;
- training.

2.1.5.2. Transfer, including:

- consultation;
- financial engineering;
- purchase of shares by managers of the commercial association;
- access to capital;
- training.

2.1.5.3. Challenges which have to be accepted:

- regional programming;
- assistance to enterprises.

2.1.5.4. The success of these activities depends on:

- the ability of the agencies to change the regional cultural policies and to structure them around a well-defined program accepted by all public and private partners;
- the possibility of making use of market niches which are not covered by the private sector in the sphere of business services.

2.1.6. BULGARIA AS PART OF A UNITED EUROPE

Placing the issue in this broader context is of vital importance. Regional development, then, should be guided above all by implementing the initiatives of the European Union that relate to an overall concept for the development of a United Europe.

To this end, Bulgaria is in urgent need of a **National Strategy for Organization and Regional Development** which should be integrated with the strategy for European structure and development of the European space and, in particular, with the concept of Vision Planet which is being developed under the methodological guidance of Germany and Austria. This plan will cover the South East and Danube regions. The National Strategy will be linked to the overall frame-

work for development of Central and South Eastern Europe, taking into account the new political changes, objectives and principles for:

- Economic and social harmonization of the regions caused by the need for improved regional cooperation;
- The creation of a common framework for spatial development and economic cooperation of the countries in the region in order to fulfill the initiative "Desired and feasible positive future by the year 2010";
- Assessment of the base value and main objectives related to the mutual links between the regions, and formation of unified spatial structures for treatment and assistance;
- Provision for the necessary exchange of information, a new level of cooperation which takes into account the framework of national strategic planning and newly-starting European regional programs such as Phare cross-border cooperation, Interreg II, Interreg II C, Credo and others.

The main structural elements of the Strategy for spatial planning include:

2.1.6.1. Research and identification of specific activities for the development of cities in South Eastern Europe.

These are the actual factors for economic, social and cultural harmonization of the regions. The measures and the instruments which have to be established include the provision of conditions for economic and functional cooperation. To this end the Bulgarian side should define: cities of European significance (usually these are European capitals); cities with regional European significance (these are the large transport and communication centers); cities with national significance (regional, administrative, and cultural centers); other cities.

The objective is to organize an effective urban network in order to harmonize development conditions. The effectiveness of the network would depend on:

- common marketing;
- intensification of the processes for cooperation among the cities;
- the construction of strong regional centers with leading significance for decentralization and mobilization of regional development;
- creation of an attractive urban environment.

To this end, a conference of the European cities could be organized and a program of research could be developed on the strong and weak points of the cities in Central and Eastern Europe.

2.1.6.2. Design of a common strategy for the development of the technical infrastructure.

These include the ports, rail hubs, road transport network, airports, telecommunications, oil and gas pipelines, electricity transfer networks and the environmental infrastructure. Priority measures in this area are related to:

- identification of the possible location of multi-modal transport centers which have to be recognized and accepted by the Conference of Ministers of Transport of South Eastern Europe;
- Recognition of future needs for the improvement of influential port, transport and communication centers;
- Development of pilot projects for those territories which could potentially be harmonized with the aid of new forms of telecommunications;
- The creation of mobile networks for supplying electricity, gas and oil.

2.1.6.3. Development of an integrated policy in relation to environmentally vulnerable areas.

These are the areas with specific problems: coastal, border, agricultural, and protected areas, forests, wetlands, and valuable cultural landscapes .

In Central and Eastern Europe the following should be defined:

- zones and potential areas for future cross-border and trans-national development;
- pilot projects for strategic economic cooperation;
- the direction for sustainable development of the coastal zones;
- concepts for the development and protection of valuable natural territories, with the potential for the development of cooperation networks.

2.1.6.4. Improvement of the cooperation between institutions.

The following should be achieved from a procedural point of view:

- discussions with the European Union in relation to the principles, aims and tasks connected with the implementation of the policy for regional development;
- reviews of the concepts for spatial planning at a national and regional level of the countries of Central and Eastern Europe;
- encouragement of pilot environmental impact projects;
- expansion of the dialogue between the countries of South Eastern Europe in relation to training and technical assistance;
- organization of regular meetings of the ministers responsible for regional planning and development in order to approve and review the implementation of spatial development strategies;
- encouragement of the work of scientific research institutes in relation to spatial planning by linking them to the Internet;
- creation of a special technical secretariat for South Eastern Europe which would follow and analyze the process of harmonization, cooperation and forecasting of specific impact measures.

2.2. INFRASTRUCTURE DEVELOPMENT

The structural policies of the EU have direct influence in three broad areas: infrastructure, human resources and manufacturing investments. About 30% of the total resources of the structural funds are spent on investments in transport infrastructure, telecommunications, energy, water supply and the protection of the environment. Another 30% is set aside for improvement in the system of education, professional training and policy in support of the labor market. The remaining 40% of the funds are used to assist in the establishment of a dynamic business environment and auxiliary investment schemes for industry and services, in particular for small and mid-sized business.

In implementing the resolutions of the European Council in Essen (1994), the EU has undertaken the large-scale implementation of projects aimed at the development of Trans-European networks (TEN) for transport, telecommunication and energy. These projects are a result of the common understanding of their significance for the processes of integration within the Community and for its future expansion. There is recognition of the significant role which they can play in creating employment and in working to create bonds with the neighbor states of the EU and in particular with the candidate countries from Central and Eastern Europe. Emphasis is given to partnership between public institutions and the private sector in the development and operation of specific priority transport projects. The favorable climate of public opinion in the EU in support of the TEN projects has been made possible by the implemented practice of internationalization of the external expenses relating to transport activities (the acceptance of the accompanying expenditure by the transport operators and those who use the transport infrastructure, which would normally be borne by society as a whole) and by the revival of rail transport.

Action is being taken to overcome a number of discrepancies in EU legislation which hinder the implementation of large-scale projects of common interest and lead to problems in the pricing of transport and public services and in the introduction of 'European company' status for small and mid-sized transport companies. The EU has identified the need for a further more detailed analysis of the financial conditions of the priority transport projects (the implementation of which is hindered by budget restrictions). It also sees the need for: harmonizing national priorities in the development of transport infrastructure within the framework of the EU (given the restrictions of the existing financial instruments); creating legislative preconditions for the implementation of the public-private form of investment; and conducting transport projects of common interest.

2.2.1. TRANSPORT

2.2.1.1. Financial instruments of the EU in relation to the development of transport infrastructures

From the point of view of the future inclusion of Bulgaria in the scope of assistance provided from the structural funds, the two most significant for the development of the transport infrastructure in Bulgaria are the ERDF and the Cohesion Fund.

The European Regional Development Fund (ERDF) was created in 1975 with the goal of strengthening the economic potential of the regions receiving assistance for structural reform, growth and sustainable employment. To this end, the Fund made possible the implementation of the concept of territorial planning in the EU. Some of the primary projects financed by the Fund were infrastructure projects. In the current program period (1994-1999) the resources of the ERDF amount to 80.5 billion ECU in comparison with 35.4 billion for the period 1989-1993.

Another aim of the ERDF is the development of cross-border cooperation defined by Interreg II. The money from the Fund provided for this initiative is allocated for the implementation of measures in the areas of energy, telecommunications and transport which assist in the full implementation of the TEN both within the EU and in other groups of countries including those outside the EU.

In both cases, it is compulsory for the countries in question to participate in a system of trans-national cooperation of common interest and to allocate assistance from the structural funds to that part of the territory which is in the EU. In those countries which are affected by the project but which are not in the EU, trans-national activities could be financed through other programs such as Phare, Tacis and Meda. The size of the financial assistance is determined on the basis of population and the level of development of the areas affected by the specific measures, as well as by the quality features of the relevant projects.

Countries which are in receipt of funds from Phare, Tacis and Meda programs should bring their practices in line with the program's procedures in the selection of the implementing party, the commissioning of contracts, day-to-day control and auditing and the final acceptance of results.

The Cohesion Fund was envisaged by the Maastricht Treaty and began to function after the adoption of Council Regulation No.1164/94 of 16 May 1994 in relation to financial assistance for projects in the areas of environment and TEN-transport infrastructure of common interest among the member states of the Community. This assistance is provided under two conditions: the beneficiaries must have a GDP per capita which is less than 90% of the average for the Community and be successfully implementing a program aimed at achieving the criteria for economic harmonization (the success of which is assessed on the basis of economic growth dynamics). Beneficiaries of the Fund up to the end of 1999 are Greece, Spain, Ireland and Portugal.

Council Regulation No.792/93 of 30 March 1993 governs the interim source of finance for the above-mentioned measures in these countries. To be more specific, finance for transport infrastructure is a part of projects aimed at assisting mutual linkage, the accessibility and operational compatibility of the various national networks, construction of missing links and other projects which either have been approved by the European Council or have been proposed by the EU for the development of Trans-European network schemes. Areas of assistance include the relevant studies, research and working projects connected with these measures. Funds allocated for 1993 and 1994 were 1.5 and 1.75 billion ECU respectively.

Both sources of finance have a number of common features: criteria for allocation (population, GDP per capita, and other social and economic factors such as differences in the transport infrastructure), and relative proportional financing of the measures (80/85 % of the size of the public expenses needed for the implementation of the project, up to 100 % of the expenses needed for the preliminary and conceptual viability studies which may not exceed 0.5 % of the total sum available from the above-mentioned interim source of finance).

It is worth noting here the eligibility requirements for funding under the Cohesion Fund:

- proposed projects must correspond to the Maastricht Treaty and Council Regulation (EC) No.1164/94 of 16 May 1994 which govern the Cohesion Fund and Community policies, including those relating to the protection of the environment, transport, competition and the provision of public services;
- the Commission must be in a position to provide coordination and correspondence between the projects financed in this way and the measures undertaken by the EU, the EIB and other financial instruments of the EU;
- there must be no duplication of financing between this Fund and any of the other structural funds (ERDF, ESF, EAGGF and FIFG);
- in the event of combination with other sources of finance, the total amount available from the Fund and the other contributions from the Community may not exceed 90 % of the funds needed for the project.

The procedure for the approval of measures and projects and the manner of the allocation of finance and implementation of payment of the various stages includes:

- approval of projects to be financed through the Cohesion Fund by the European Commission and the beneficiary country;
- suitable balance between the projects concerning the environment and those concerning transport infrastructure;
- applications for financial assistance from this fund shall be submitted by the beneficiaries (members of the Community) and the integrated or single projects should have sufficient influence to cause a positive effect on TEN-transport;
- provision of high quality projects based on meeting the financial, economic, medium-term and other criteria;
- three- month period for making a decision on the submitted project, including determining the size of the financial assistance, devising a financial plan, adding specific clauses and any other conditions;
- payment in advance to the amount of 50 % of the funds for the first year of the implementation of the project once the project has been approved;
- interim payments amounting to 50 % of the funds for the current year, provided that the funds allocated for the preceding stages have been utilized and the types of work envisaged by the program have been successfully implemented;

- the difference in payment to be made from the fund cannot be less than 20% of the total amount of the assistance provided;
- the application for funds should be accompanied by a suitable system for the management and financial control of the project as well as proposed measures for effective implementation and the resolution of crisis situations;
- wherever applicable and appropriate the Commission and the beneficiary country together with the EIB should conduct regular monitoring and assess the implementation of the project.

The Cohesion Fund and the EIB decide upon direct subsidies and credits in the form of project finance and are subject to specific rules, while the structural funds operate within the framework of orienting programs toward common principles, compatibility and continuity.

During the period 1991-1995, the European Investment Bank allocated two-thirds of its credit expansion of about 44 billion ECU for regional development in the EU, and more than 50% of the funds were used for the implementation of Objective 1 measures.

2.2.1.2. The need for financial support for pre-accession in the modernization of TEN-transport in Bulgaria

The achievement of the economic conditions necessary for Bulgaria's membership in the EU depends on the ability to direct and attract new investments in the manufacturing and service sectors in Bulgaria. Studies on investment activity, growth and the macro-economic environment in Bulgaria confirms that the need for investment revival is becoming more and more acute. For the period 1990-1997, according to the National Statistical Institute, investments in long-term material assets in Bulgaria in 1990 comparable prices have fallen from 9.8 to 3.4 billion levs and the standard for investment in long-term material assets has fallen from 21.6% to 10.1%. The freeze on investment activity has led to a delay in commercial revival and long-term growth as well as in the achievement of the economic criteria for the membership. Nevertheless, in June 1997 the EU reported that the average GDP per capita in the candidate countries is about one third of that in the Community and only some of those countries would be in a position in the near future to fulfill the economic conditions for accession as set out in Copenhagen. Against this background, the general analysis showed that for the 13-year period (1998-2010) there is a potential average annual rate of growth of GDP of about 4.8-5.0%, given great efforts and a suitable macro-economic and structural policy allowing an accumulation rate of 25-27%. In the longer-term these countries will have to rely on an influx of direct foreign investment equivalent to 3-4% of GDP in order to support the 27-29% investment rate up to the year 2020.

Analyses also show that investment strategy in Bulgaria should be oriented towards a high level of investment activity given a modern level of growth factors. Over a period of time this should allow Bulgaria to catch up with the GDP growth rates of the countries of the EU and the reforming economies in Central European countries. At the moment Bulgaria is lagging dangerously behind in terms of GDP per capita (parity exchange rates). Expressed as part of the average indicator for the 15 member states of the EU, GDP for Bulgaria is 19% that of the average for the EU and over the past 7 years has shown a trend towards decline (in 1990, the reform process began with a level of GDP at 29% that of the EU). This has created problems for reducing the difference between the current level and the expected minimum level of GDP which would be necessary in order to benefit from preparation for accession. If it is accepted that Bulgaria will be acceded to the EU at a minimum level of 40-45% (given fulfillment of the remaining criteria for membership), the above-mentioned investment strategy should be completely synchronized and coordinated with European structures and the International Monetary Fund, and should serve the interests of export-oriented industrial capital. Moreover, it has to be taken into account that with the intensification of manufacturing as a result of investment

activity, there will be an increase in the influence of a number of contradictory factors: the sectoral structure of investments; the relative proportion of infrastructure investments which have a high capital volume and generally low return; the rapidly growing amount of investment in projects relating to the protection and restoration of the environment; natural and geographic factors, etc. These illustrations clearly underline the minimum possibilities for the independent development of the country and the need for financial support of pre-accession preparation in particular and the modernization of TEN-transport in Bulgaria.

It would be in the interest of the EU to address the need for the joint development of an investment strategy, in particular for investments in the transport infrastructure in Bulgaria. In the EU there is applicable experience and financial instruments for such investments, which have been developed and constantly improved in recent years in connection with the policy of social and economic harmonization in relation to the beneficiary countries of the Cohesion Fund (Spain, Portugal, Ireland and Greece). There are new possibilities for the member states and the regions from the periphery of the Community; for example, the implementation of the current development program for TEN-transport will make certain territories accessible by a one-day return journey, increasing the population there by 20%. This forecast favors the structural policy of the EU for the promotion of the accession of new EU member countries via investments in freely-accessible mass transport, such as regional trains, etc., since they provide assistance to larger sections of the population and allow wider distribution of the benefits of the more effective EU economy. In the absence of other obstacles (for example visa restrictions for Bulgarian citizens), the above-mentioned effects will also spread to other neighboring countries outside the Community.

In brief, in accordance with the practical implementation of structural policy the EU has an interest in proposing cooperation at all levels to link TEN-transport with neighboring countries, in particular with the candidate states from Central and Eastern Europe.

2.2.1.3. Network policies for transport infrastructure in the EU and the contribution of financial instruments to the financing of TEN-transport

Network policies for transport, energy and telecommunications are oriented towards the removal of national specifics and, above all, historically inherited configurations, technical and technological bases, etc., thereby harmonizing the networks within the common framework of the EU with increased effectiveness and competitiveness. These policies are closely related to the functioning of the Single Market, reflect integration between member states, and have an influence on the geographical distribution of manufacturing with all the resulting socio-economic effects. Network policies are also a means of reducing additional costs in the transport of goods, people, energy transfer, electricity and telecommunications which are reflected in the market prices of the products. The influence of network policies on the export of manufacture to the peripheral regions of the EU will contribute significantly to their economic potential.

Transport plays a crucial role and has a direct effect on social and economic integration in the European Union. During the period of creating and strengthening the Single Market, the common EU transport policy has been oriented primarily towards the liberalization of financial, social and technical conditions for transport. Measures aimed at the implementation of this policy are supported by directives for the implementation of public services contracts and construction of TEN-transport. The latter measures remove duplication and negative historical features in the configuration and technical standards of the individual types of transport, and are of significance for the strengthening of the EU.

The importance of transport and the construction of TEN-transport for the internal integration of the EU can be seen in the distribution of the total expenses for the implementation of the individual projects between the four Cohesion countries (Greece, Spain, Ireland and Portugal) and the EU up to 1993:

- high speed trains: 2.63 billion ECU;
- highways and roads: 17.81 billion ECU;
- combined and container transport: 0.29 billion ECU;
- ordinary rail transport: 3.67 billion ECU;
- air transport: 1.27 billion ECU;
- development of sea and river ports: 0.78 billion ECU.

For the same year, the average GDP per capita in these four countries was equivalent to 74% of the average indicator for the Community.

The EU has assisted in the financial implementation of TEN-transport, including *specific projects*, through credits from the EIB, guarantees, and direct contributions from the ERDF and the Cohesion Fund. Also, the European Investment Fund has contributed by subsidizing payments of interest, making guarantees of credit, and co-financing project studies and research. It should be mentioned that the Community has been a catalyst in the commencement of individual projects, especially by providing funds for feasibility studies and project design.

The regulation of financial assistance is carried out by the TENFAC Committee. The Committee was created in the second half of 1995 to assist the EU in the preparation of a multinational indicative program as the framework for budgeting projects of common interest for the period 1996-1999. It carries out current analysis and proposes measures for the rationalization and increased effectiveness of network policies.

More precisely, the assistance from the EU for the development of transport infrastructure in compliance with network policies in 1996 was allocated as follows: 68% for studies; 26% for interest relief on credit payments; 6% for direct contributions and payments (grants). According to type of transport, the allocation of funds was: 62% for railway transport infrastructure and partially for the infrastructure of combined transport; 12.6% for construction and modernization of roads; 0.5% for the development of internal water ways; 1.3% for the infrastructure of ports; 1.4% for airports and 22.2% for the construction of traffic management systems for the individual types of transport (mainly seaport navigation and air traffic control). The proportion of the individual sources and relevant financial instruments in the financing of the TEN—transport projects for the period 1993-1997 was as follows:

Forms of assistance (financial instruments)	Source of finance	Total amount (millions of ECU)	Percentage of total financing
Credits	EIB Luxembourg	9,567.0	51.29%
Guarantees	EIB Luxembourg	461.4	2.47%
Direct contributions (grant)	European Fund for development of the regions	3,638.0	19.50%
Direct contributions, interest rate subsidies, credit guarantees, co-financing of studies (including the 14 specific projects)	TEN-transport's own budget	905.0	4.85%
	—	572.3*	(3.07%)
Direct contributions	Cohesion Fund	4,083.1	21.89%

The table shows that both structural funds—the ERDF and the Cohesion Fund—are the main sources of grant assistance for the implementation of the TEN-transport projects. For the above-mentioned six-year period their percentage is 41.4% of the total financing for TEN-transport in the EU.

TEN-transport can be seen as a means of achieving the aims of Community structural policies in the regions and in new member states as follows :

- the ERDF finances projects for TEN-transport or such projects which directly impact the level of economic development and the quality of the life in Objective 1. Examples of this are the highway construction in Greece, Italy and Ireland and the modernization of the railway line between Athens and Thessaloniki in Greece.
- The Cohesion Fund is used to finance projects for TEN-transport only in the four cohesion countries of the EU: Greece (11.9% of the resources of the fund), Ireland (9.3%), Portugal (19.3%) and Spain (59.4%). For the period 1993-1996, the above-mentioned funds, totaling 4.08 billion ECU, were allocated in the following way: roads and highways, 72%; railways, 20%; ports, 3%; airports, 3%; and sea navigation systems, 3%.

2.2.1.4. The role and effect of investments in transport infrastructure projects

The existence of an adequate transport infrastructure at the necessary level of development is one of the economic conditions for membership in the EU. Expanding the infrastructure leads to a significant increase in economic results and in commercial and social integration (mainly in the peripheries of the Community). It also has favorable effects on the environment, with a move away from road goods transport to combined road and rail transport and internal water ways.

In recent years the EU has witnessed an increased interest in the investment in Trans-European transport networks (TEN-transport) based on preliminary predictions about their positive influence on commercial growth and employment. These preliminary forecasts include a number of studies on the macro-effects of the implementation of the following two groups of investment goals in the area of transport infrastructure:

- the completion of the 14 specific projects concerning transport infrastructure in the EU, approved by the European Council in Essen with a total unutilized volume of about 90 billion ECU;
- the implementation of TEN-transport using in full the expected volume of investments, totaling 400 billion ECU.

Analyses¹ have confirmed the effectiveness of the specific projects as follows:

- the cumulative growth of GDP of the Community will exceed 560 billion ECU by the year 2030 which corresponds to a social and economic level of return of 11%—a level of return impossible to achieve by the majority of investments in the public sphere;
- accelerated implementation of the projects leads to significant improvement in the competitiveness of the economy of the EU as a whole;
- the effect on employment in the Community has two aspects: temporary employment for the period of the construction, and constant growth in the number of permanent jobs created by the operation of new infrastructure projects and connected transport communications.

During the period 1998-2007, the growth of temporary employment will be about 700,000 man-years, and up to the moment of the complete implementation of the TEN-transport projects, 3.2 million man-years. The effect on long-term employment is assessed at about 130-140,000 additional positions as a

¹ Trans-European Networks, 1996, Annual Report. Communication from the Commission to the European Council, the Council and the European Parliament. Annex X. Brussels, 06.12.1996. COM (96) 645—final.

result of the implementation of the 14 specific projects and between 594,000-1,030,000 new jobs for all the projects connected with the development of TEN-transport. Under specific conditions (more jobs instead of higher real income), the above figures could change to 570,000 and 4.7 million new jobs, respectively. On the whole, despite these positive results, the problem of unemployment in the EU can not be resolved solely by the development of TEN-transport; the liberalization of the transport sector is also having favorable effects on the economy of the European Union.

From this point of view, TEN-transport is also having an effect on the function of the goods, capital and labor markets as a result of improved conditions for competition, the reduction of conservatism and assistance for structural re-development. Investment in the TEN is a significant element in the structural policies of the EU and may be applied to those parts of the network in Bulgarian territory. It has been proven² that the TEN plays a significant role in the growth of employment, and a catalyzing role in the development of new forms of investment cooperation between public institutions and private investors and operators. It also plays an important role in consolidating the transport market under the conditions of balanced development of ecological types of transport and the internationalization of external expenditure on transport infrastructure (for the relevant type of transport).

2.2.1.5. Issues of competition and the future of transport SMEs

Other elements related to the ability of the economy of the candidate country to withstand the pressure of competition in the Single Market include problems connected with small and medium enterprises (SMEs), state economic and legal support for them and the ratio between SMEs and large companies (in principle it is accepted that the predominant presence of large companies is proof of a certain level of reluctance to restructure the economy toward competitive market conditions). From the point of view of the benefits and challenges of the Single Market in relation to transport services, this means that given the current situation in Bulgaria and without new investment in the means of transport (trucks, buses, passenger and goods railway rolling stock, planes and ships), Bulgarian shippers in the near future will not be allowed access to the transport infrastructure along the Trans-European roads in the EU. This is also true for Bulgarian railway rolling stock and, partially, for certain old models of passenger aircraft, trucks and buses.

The absence of a suitable investment climate to encourage private enterprise in Bulgaria may lead to a paradoxical situation wherein the transport vehicles of Bulgarian shippers may not be allowed access to the country's future infrastructure constructed in accordance with strict international operational and environmental standards, which will also be applicable in Bulgaria. At the moment, the SMEs in the area of international automobile transport pay license fees in accordance with EU regulations and bear a dual financial burden as a result of national corporate taxation.

The European Foundation for the Study of Private Enterprise in Central and Eastern Europe has suggested immediate courses of action relating to financial assistance for the further development of private companies³:

- training in the area of working with banks, preparation of business plans and the selection of the optimum financial source to support the specific tasks of SMEs;
- assistance in the provision of short-term and long-term finance with favorable conditions;

² COM (96) 645 final. Trans-European Networks, 1996, Annual Report. Communication from the Commission to the European Council, the Council and the European Parliament. Brussels, 06.12.1996.

³ European Foundation of Enterprise Research (EFER). Central and East European Dynamic Entrepreneurs. EFER/Europes 500, Brussels, May 1997.

- assistance in access to risk capital which is still inaccessible to successfully developing entrepreneurs in the region;
- a recommendation was made to the governments of the CEE countries to undertake a strategy aimed at the development of private enterprise and to support existing institutions in their assistance of SMEs, of which transport companies make up a small percentage (about 10%).

2.2.1.6. Harmonization of legislation and improvement of management efficiency and investment climate.

In relation to transport, the harmonization objective needs to be accompanied by a thorough analysis and assessment of the readiness of the transport sector to function and maintain its competitiveness after the removal of the state monopoly and the growth of the role of the private sector. In practice, with the introduction of the internal market as well as the competition and state aids *acquis*, the prospects for the demonopolized transport industry are quite unfavorable—particularly since it also suffers from an inherent shortage of current assets and difficult access to credit and is deprived of state investment support under the currency board. This state of the industry is due, in part, to chronic cash flow deficiency, lack of access to loans and the lack of an investment policy on the part of the state in the presence of a currency board. It is further related to the lack of economic potential; restriction on the movement of goods, services, capital and persons; and infringement of the right to engage in the business of shipping, goods freighting, etc.

Given such an extrapolation of current trends, even in the short term and without the relevant structural assistance for transport SMEs, the transport sector in Bulgaria is doomed to play a secondary and tertiary role in local and regional freight within the territory of Bulgaria in the atmosphere of the single transport market.

1) Absorption of resources from the structural funds

The most common difficulties encountered in the assimilation of financial assistance from the structural funds in the countries or individual beneficiary regions are:

- reasons of a technical nature when the public administration in the country or the region lacks the organizational skills or manpower;
- budget difficulties leading to the impossibility of co-financing the measures to be undertaken by the beneficiary country;
- macro-economic difficulties in the assimilation of the funds, such as inflation, uncontrollably high level of import, leakage of funds, etc.

The principle of matching the contribution from the structural funds with money from the beneficiary state's public budget prevents the EU funds from being re-allocated to the budget of the country.

In Bulgaria, a future beneficiary of the pre-accession funds, the matter of co-financing is of crucial significance considering the restrictive budget policy the currency board introduced in July 1997. For this reason, during preliminary talks with the EC, Bulgaria's interests should be oriented towards those sources of financing for projects in the area of transport policy which are required for pre-accession and for which budget co-financing is not a prerequisite.

2) Telecommunications

2.2.2.1. The use of structural funds for the development of communications

The question of how and to what extent communications contribute to economic and social harmonization could be considered from two points of view: 1) what is the significant contribution of the development of communications

to the resolution of the aims set out by the Council of Ministers, and 2) from which fund should money be allocated (taking into account their function) for the development of communications.

Clearly, as an infrastructure sector communications are the most significant factor connected with the implementation of Objective 1. Regions which are lagging behind in development need, first of all, a good infrastructure which is an indispensable condition for the development of all economic activities.

The development of communications could also to a certain extent contribute to the resolution of the problems of Objective 2, since their social role is foremost in those regions affected by industrial decline.

There is no indication in the materials available of the use of communications for the resolution of the problems of Objective 3. This is due, perhaps, to the underestimation of the role of the new information technologies in creating possibilities for training, for working away from the office, for reducing the negative effect of unemployment, and for integrating young people and those at risk of becoming unemployed.

The effect of telecommunications on resolving the other objectives is in fact marginal if progress is not made in the mass use of information technology.

In considering the functions of the structural funds, it would be obvious that two of them could be used most directly for the development of communications. First, there is the ERDF, one of the main tasks of which is the creation or modernization of infrastructures which contribute to the adaptation of the relevant regions. Second, there is the Cohesion Fund, despite the fact that this is primarily for environment and transport infrastructure projects.

Another significant financial instrument aimed at the resolution of communication problems are EIB loans (indicated above as one of the financial instruments of the EU) and the specialized budget line for Trans-European projects (TEN budget line).

2.2.2.2. The future use of structural funds for the development of communications

As indicated above, in its Agenda 2000, the European Commission has proposed over the period 2000-2006 a sharp reduction and re-structuring of the objectives of economic and social harmonization by reducing them to two and introducing a new third objective.

In practice, all the funds may be used for the implementation of each of the objectives by their combination in a single program for the relevant region. The Cohesion Fund will continue to be managed on the basis of the relevant principles as an addition to financing provided from other funds mainly for environmental and Trans-European network needs.

As in the previous period, communications are one of the most important factors in the implementation of Objectives 1 and 2; further, when considered as the basis of an information society they could play a very significant role in the resolution of problems in Objective 3. The new documents of the structural funds provide new opportunities for integrated development solutions. In this case there is no requirement for the particular fund to be targeted at a particular objective which allows greater flexibility. This expands the possibilities but on the other hand requires a very detailed inter-sectoral study of the problems in the aim of finding comprehensive solutions. Identifying the fund(s) to be used for financing communications depends on the role which will be given to them for the resolution of given objectives.

2.2.2.3. Ways of using the ERDF and the Cohesion Fund

In accordance with the tasks set out in the Treaty—Art. 130 (C) and the main principles of the structural policy of Regulation 2052/88, the ERDF can be used for investments which contribute to the establishment and development of Trans-European networks in the area of telecommunications. As was indicated

above, it is used on the basis of the developed and accepted regional plans. The regional plans, however, give only a general framework. Specific applications for the use of the fund can be made in a number of ways:

- in the framework of a regional operative program undertaken upon the initiative of an EU member country or the European Commission;
- for partial financing of an individual project or within the framework of an operative program;
- for partial financing of support schemes, including repayment of funds and provision of grant assistance, etc.;
- provision of global grant assistance managed by an agency designated by the member country in accordance with the Commission which allocates it to the end recipients.

In accordance with Council Regulation 1164/94, the Cohesion Fund provides financial support for projects in the area of Trans-European networks. More specifically, for the implementation of tasks set out in the Treaty, Art. 129(c) it is used for the construction of an infrastructure of common interest which, in principle, includes telecommunication infrastructures. An important characteristic is that it is not independent and is used in addition to other funds without duplicating them.

2.2.2.4. Other possibilities for the use of telecommunications for economic and social cohesion

In the Maastricht Treaty, the European Union specifies the development of TENs as a priority sector. The TEN telecommunications programs have been regularly implemented since 1996. In this area there have been two main directions of work:

- ISDN projects which include different practical applications of ISDN services (electronic commerce, electronic education, working at a distance, etc.); the funds expended by the EU for these projects in 1995 and 1996 amounted to 11,371,929 ECU and 18,101,000 ECU respectively;
- IDA telematics projects (exchange of information between administrations): this is a series of projects involving various General Directorates of the Commission for which 24,000,000 ECU were expended in 1996.

In the special TEN budget line, the funds allocated and expended for telecommunications projects were significantly (15 to 22 times!) lower than those for transport, but to a great extent this is compensated for by the funds allocated as loans and guarantees from the EIB and EIF and funds from ERDF.

2.2.2.5. Regional cooperation initiatives

The four basic forms of regional cooperation between the European Union and the associated countries from Central and Eastern Europe are:

- those undertaken by individual regions;
- those undertaken by regions in the framework of national programs for cooperation;
- those undertaken between the individual regions in the framework of multi-national programs for cooperation, and;
- those undertaken by regions within the framework of independent associations of regions.

The third form is of the greatest interest in the context of this study. European structures have developed a wide range of multi-national programs of cooperation in which the countries of Central and Eastern Europe have found a successful place.

In terms of regional development, cross-border cooperation (CBC) is of particular interest. In the framework of the EU this is implemented on the basis of the

Interreg program, which in the period 1994-1996 was transformed into the Interreg II program, allowing for joint projects with the associated countries. These projects include regions from EU member countries and the neighboring associated country. Since finance from the Interreg II is available only to EU member countries, the associated countries can receive finance for the implementation of the joint projects from the Phare-CBC. In this case, one project receives financing from two different programs but the principle of non-duplication is maintained and each country (territory) receives financing from a different source.

For Bulgaria, the Phare-CBC program encompasses projects with Greece (as a neighboring member state) and is directed at projects in the area of transport infrastructure, energy, telecommunications and the environment. In regard to telecommunications, the joint project envisages the installation of an optical cable between Haskovo and Kavala.

In preparation for the use of the structural funds, it is necessary to adhere to the following stages:

- the use of joint projects in cross-border cooperation as the basis for gaining experience in regional cooperation with the member countries of the EU;
- the active use of regional cooperation within the National Program for the Adoption of the Acquis (NPAA) which is an instrument for the implementation of the Accession Partnership document (AP);
- identification of applications of the structural funds in the early stages of the pre-accession period (in case the European Commission creates the legal and practical conditions for the use of these funds by those countries which are not members of the EU; for example, by direct transfer of money from the funds to the Phare-CBC program and/or to the relevant national partnering funds).

2.2.2.6. Objectives of the national strategy for Bulgaria's accession to the EU in the area of communications

In the area of communications, the following short-term objectives exist:

- the development of a market for communication services; the formation of a favorable investment climate via:
 - harmonization of legislation in the area of telecommunications;
 - the creation of institutional and technological grounds for the implementation of a new regulatory framework;
- restructuring of the communications market via:
 - privatization of the national telecommunications operator BTC EAD and
 - privatization of Distribution of the Press EAD;
- the transformation of Bulgaria into a strategic telecommunications center in South Eastern Europe via the modernization of the national telecommunication infrastructure (complete digitalization of the international network).

The medium-term objectives include:

- the development of the market for communication services via harmonization of legislation in the area of postal communications;
- the liberalization of the market for telecommunication services via:
 - announcement of tenders and provision of concessions and licenses to operators in accordance with the accepted sector policies (telecommunications and postal communications);
 - provision of freely accessible basic telecommunication services;
- the transformation of Bulgaria into a strategic communications center for South Eastern Europe via:
 - modernization of the national telecommunications infrastructure (25% digitalization of the subscriber capacity by the year 2000);
 - introduction of pan-European networks and services;
- restructuring of the national postal operator Bulgarian Posts EAD.

2.2.2.7. Communications in the national and regional contexts

For a long time, telecommunications have been seen as a national technical infrastructure and it was considered that they played a mainly social function. The construction of communication networks and the provision of communication services was considered as one of the most important state objectives to be fulfilled directly by the state administration. The state, through an institution executive agency (Ministry of Communications or similar ministry), directly defined policy and developed specific plans for development, investment and operation aiming to provide communication services throughout the country.

With the development of modern communication technologies and the adoption of market principles, communications have long since outgrown the narrow limits of their social functions and have become one of the most powerful factors in economic prosperity. Their integration into modern business has led to a profound change in the principles of their development on the basis of the market economy.

This has also led to a change in the nature of telecommunications from the point of view of territory. They should be considered in three territorial aspects:

- Telecommunications as a national infrastructure unit

This aspect continues to be the leading factor for a number of reasons:

- the need for common technical principles to form the basis for the development of a national telecommunication network;
- the need for the introduction and use of common technical requirements, a common approach to certification for compatibility with requirements and a common system for control;
- subordination to a common regulatory framework, etc.

This aspect is reflected in the development of a national policy for the development of telecommunications, national primary and secondary legislation, the acceptance of national standards and requirements and the development of a national strategy for the development of the telecommunications infrastructure.

- Telecommunications in the regions of the country

The rapid appearance of new telecommunications technologies, particularly those which allow for additional communication and information capacity based on the existing infrastructure, creates the need and the opportunity to further develop the infrastructure and to provide services throughout the territorial regions of the country. In principle these are not connected with the administrative divisions of the country. The regions which can be established from a telecommunications point of view are connected primarily by the technological principles upon which the network is constructed.

In 1997, on the basis of the newly constructed and digital national telecommunications network, a new territorial division of Bulgaria was made (within the framework of the national operator BTC-EAD) in accordance with the locations of the new digital transit exchanges. Eleven regional telecommunications directorates (RTD) were established with centers in: Sofia, Blagoevgrad, Plovdiv, Haskovo, Stara Zagora, Bourgas, Varna, Russe, Veliko Tarnovo, Pleven and Vratsa. Each RTD has acquired a certain level of autonomy in its marketing policy, which is directed at the segmenting of consumers and the application of a differential approach in the aim of maximizing profit. From this point of view, the individual telecommunications regions in Bulgaria can be characterized according to their different levels of development, possibilities and manners of further development, and relations with the other regional or local telecommunications operators. This allows for telecommunications to be viewed on a regional level within the country and in this way to be included in different regional programs for social and economic harmonization.

- National telecommunications in the framework of an international region

New telecommunications technologies have led to the relative standardization of the principles involved in the construction of national networks. On the other hand, the increasing economic harmonization between states has naturally led to the need for greater unification of national networks in order for them to become unified continental networks and, subsequently, a unified global network. A number of international telecommunications projects have been initiated aimed at the construction of *regional* networks.

The construction of a digital overlay network (DON) in Bulgaria has allowed the country to be included, through its main national operator BTC-EAD, in a number of international projects: the Trans-Balkan line (TBL), the underwater cable system in the Black Sea (CAFOS), the Black Sea fiber-optic cable system (BSFOCS), the Trans-European Network (TEN) and the Trans-European Line (TEL). As was mentioned above, a joint telecommunications project with Greece is being implemented under the Phare-CBC program.

In the area of telecommunications, the concept of region is very flexible and in the development of projects for the use of structural funds it can be interpreted both in a national and regional scale (within the borders of the country or outside it).

Clearly, in the context of economic and social harmonization, communications projects cannot apply independently for the use of funds from structural funds. In all cases they have to be seen as one of the primary factors in the achievement of Objective 1 and, in part, Objective 2. They have to find their place in the range of measures which must be undertaken to implement the objectives. It is also clear that in the preparation of programs assisted by structural funds an integrated view must be taken leading to the creation of a well-coordinated team which will view problems from the standpoint of interdependency.

2.3. REGIONAL ASPECTS OF SOCIAL POLICY

The European Community created the foundations of its integrated social policy when it ratified the Treaty of Rome. In 1961, the European Social Fund was created which became an instrument for the implementation of joint objectives and tasks in the social sphere.

The 1990s marked the beginning of a new era of cooperation in the social area as a result of the rights to the free movement of people, goods and capital within the borders of the EU as set out in the Maastricht Treaty. The Treaty contains an independent agreement for Social Policy ratified in 1993 which guarantees the principles of social dialogue and the harmonization of social policy at the level of the European Union. During the same year, the member states accepted the Protocol for the implementation of the European Social Charter which guaranteed the effective exercising of basic human rights in the social sphere.

In 1993, the Commission published the Green Paper for the future of European social policy. On the basis of the proposals for the resolution of social problems a second strategic document was drafted in 1994, titled "The White Paper on European Social Policy: The Road Leading to the Future of the Union." Both documents are fundamental to the implementation of the social policy of the European Union and to the formulation of objectives, priorities and specific projects in this area.

The new chapter on employment included in the Amsterdam Treaty was the pinnacle of the development of European Social Policy in that it regulates specific obligations in the sphere of the integrated labor market.

The social policy of the European Union is aimed at the mitigation of the most significant differences among national schemes and programs so as to facilitate the free movement of workers, create pre-conditions for increased employment and improved working conditions, raise the level of professional training and assist in the re-training and reintegration of persons who have lost their jobs due to structural changes in the economy or other socially significant reasons.

In order to achieve the objectives of its social policy, the European Union uses various instruments and mechanisms. These include both direct financial assistance as well as consultancy and scientific-technical methods for providing assistance in the organization and management of social schemes at a local level. The European Social Fund is the primary instrument for social policy cooperation which allows the implementation of an integrated approach to a diversified range of problems and activities in the social sphere.

2.3.1. MAIN PURPOSE AND FUNCTIONS OF THE EUROPEAN SOCIAL FUND

2.3.1.1. Priority objectives

The European Social Fund (ESF) is one of the five structural financial instruments of the European Union. Its main objective is to assist poorly developed regions and unequal groups of the population.

The increased level of social and economic integration in the Community has led to the need for the reform of the structural funds, including the ESF, in order to provide for the more precise and coordinated allocation of funds and their synchronization with the activities of the European Investment Bank and the other financial instruments.

The activity of the ESF is targeted at the implementation of the reform principles which are specified in the priority objectives defined in Council Regulation 2052/88 of 24 June 1988 and, to be confirmed by the end of 1999, regulation 2081/93 of 20 July 1993. The greatest significance for allocation of money from the fund is explained in Objectives 3 and 4. But these are not all the objectives of the ESF. The labor market demand is a product of the economic conditions caused by the development of agricultural regions and the structural adaptation of those regions with industry in decline. For this reason, the ESF in practice is involved in the implementation of each one of the five objectives and can be defined as the broadest instrument of structural policy.

On the other hand, the activity of the European Social Fund is directly subordinated to the objectives of the European Union in the social sphere, as defined in Art. 2 of the Maastricht Treaty:

- maintaining a high level of employment and social protection;
- increase in the standard of living and quality of life;
- economic and social cohesion and solidarity between the member states.

Specific texts of the Maastricht Treaty regulate the specific objectives of integrated policy and effect all the main social activities:

- the conditions of life and labor of the work force (Art. 117);
- security and health of workers (Art. 118);
- equal remuneration for men and women (Art. 119);
- development of dialogue between social partners (employers and unions) on a European level (Art. 118b)
- activities of the ESF (Art. 123).

2.3.1.2. The effect of harmonization

Any of the member states may be a beneficiary of the ESF. Potential recipients of money are not defined in advance and the conditions for access do not depend on economic development nor on the GDP of the country, as is the case with the Cohesion Fund. In this way, the ESF is not targeted only at the horizontal harmonization of economic risks, and the direct re-allocation effect is less significant with this fund than with the Cohesion Fund.

On the other hand, however, the targeted nature of the projects financed by the ESF guarantees the precise allocation of the resources towards those regions which are facing the most serious difficulties in relation to employment and income among the population. Thus, the overall effect on social and economic integration of individual regions and countries is no less significant than that of the Cohesion Fund.

2.3.1.3. Structure of the ESF

A specific feature of the ESF is the priority orientation towards the resolution of national problems instead of Community-wide problems. The money in the fund is used in the following main areas:

- to facilitate access to the labor market;
- provision of equal opportunities for employment;
- development of skills, abilities and professional training;
- encouragement of job creation;
- financing of studies and pilot projects on common issues for the member states.

On 20 July 1993, the Commission of the EU passed Regulation No.2084/1993 in relation to the ESF which adapted the priorities and financial provisions for expenditure to the new social realities and dynamics of the labor market.

Taking into account the serious nature of unemployment in the member states, structural policy in this area is being targeted at decreasing long-term unemployment and integrating young people in the labor market. This emphasis is reflected in the allocation of the funds between Objective 3 and Objective 4. The activities which can be financed by the European Social Fund are being defined in a new, broader manner; in particular, assistance for employment can take the form of measures connected with the encouragement of geographical mobility of the work force, the employment of personnel or self-employment.

In connection with the implementation of Objective 3, the following activities will be implemented:

- facilitating the professional integration of workers affected by long-term unemployment, via:
 - professional training and re-training, including basic skills, orientation and consultation;
 - provision of temporary employment;
 - development of appropriate structures for training, employment and assistance, including the necessary personnel and suitable forms of service for dependents;
- creating advantageous conditions for young people in search of employment, including opportunities for two-year or longer professional training, equivalent to compulsory secondary education after which young people will be of working age and will be able to take part in the labor market;
- developing opportunities for the integration of workers threatened with being excluded from the labor market;
- equalizing opportunities for men and women in the labor market, particularly in those areas where women are not sufficiently represented, and taking steps to integrate women without sufficient professional training and women who are returning to the labor market after a long absence.

In relation to Objective 4, the new priorities include increased employment and training through labor consultations, mediation and training services on a horizontal principle; i.e., they must cover all sectors of the economy without special preferences for particular branches or sectors, and they must be geared towards all categories of workers, especially those affected by unemployment.

This principle should guarantee that the measures will not contradict the rules of competition and will contribute to but not replace the responsibility of companies to implement labor protection for workers.

The specific activities of Objective 4 are connected with the development of manufacturing and services and are not directed towards short-term market operations. These activities must correspond to the needs of the workers arising from the re-structuring of industry and are not oriented toward an individual type of industry or company. At the same time, however, special attention should be paid to small and medium enterprises, taking into consideration the risk factor for employees of these businesses and the need for professional training. Bearing in mind the strategic significance of continued training throughout professional life, Objective 4 concentrates upon increasing the level of training in new technologies and changes connected with the protection of the environment. Taking the priorities of Objective 4 into account, the ESF finances the following operations:

- forecasts of trends in the labor market and requirements for professional training;
- professional training, orientation and consultation of workers affected;
- assistance in the improvement and development of professional training systems, including training the trainers.

Money from the European Social Fund is directed toward those regions in decline and toward the following operations which can be implemented by Objectives 1, 2 and 5(b):

- the development of human potential in the area of scientific research and technology, mainly through the preparation of management personnel and specialists in the area of technical science;
- improvement of education and qualification services, mainly via the training of teachers, and assistance links between the centers for training and institutions of higher education on the one hand and enterprises on the other;
- financing of national institutions of education which are directly linked with the labor market, new technologies and economic development;
- training of state employees when this is necessary for the implementation and development of structural adjustment policies.

2.3.1.4. Financial and institutional aspects of structural assistance under the ESF

Structural cooperation via the European Social Fund is regulated by the general provisions of Council Regulation 2081/93 regarding the role of structural funds, their effectiveness and their coordination with the other financial instruments, including the European Investment Bank. At the same time, the expenditure of funds is regulated by the specific provisions of Regulation 2084/93 of 20 July 1993, directly related to the ESF.

The European Social Fund finances the following types of expenditure in relation to the operations indicated in Regulation No. 2084/93:

- payment, maintenance and travelling expenses of persons involved in the activities envisaged;
- expenses for the preparation, organization, management and control of the programs;
- value of the expenses connected with assistance for employment, in accordance with the provisions, applied in the member states;
- technical assistance, pilot and demonstration projects.

Of the annual budget of the Fund, 0.5% may be allocated for preparatory operations and subsequent control. The European Social Fund can also finance activities carried out at the initiative of the Commission wherein the total

expenditure is not more than 1% of the total annual budget. Activities implemented at the initiative of the Commission may include research, creation of systems for the accreditation of educational institutions, etc. The Fund may compensate equivalent to the total sum of the expenditure for this objective, if the total expenditure does not exceed the quota specified in the annual budget.

In order to absorb the funds, the member countries develop national programs accompanied by the specific data for the following main indicators:

- disproportions between supply and demand of labor, including women's labor;
- type and nature of vacant jobs;
- possibilities for employment within the labor market;
- type of measures which will be undertaken;
- categories and types of persons meant to be covered;
- expected effect of measures related to the equalization of opportunities for men and women on the labor market.

The Economic and Social Committee has been created as a consultative body in the area of structural policy; therefore, decisions related to the implementation of provisions concerning the ESF are made by the European Council after consultation with this body. It consists of certain quotas of manufacturers, farmers, workers, public organizations, etc. The management of the Fund is carried out by the Commission, which is assisted by a committee chaired by a member of the Commission and comprised of representatives of governments, unions and employee organizations.

2.3.1.5. Programs and activities on the labor market

In 1996, the Commission approved a number of basic documents containing directions and specific routes for the expansion of employment via the structural policy of the European Community up to 1999. Of particular interest for candidate countries are the criteria for financial assistance and example activities announced in the relevant initiatives and programs of the Commission.

The first framework document (COM (96)019) of 20 March 1996 sets out the administrative and financial conditions of the structural policy in relation to employment. It does not replace the existing documents and agreements in this area but rather aims to use the flexibility of those programs which have already been implemented to direct them towards the creation of new jobs.

Priority activities in this area are:

- investments in human capital;
- the strengthening of business assistance services ;
- incentives for the expansion of innovative technologies;
- re-organization of work time;
- use of new employment resources, etc.

In connection with these priorities, the Commission has proposed to allocate additional resources, orient them towards employment programs and allocate additional resources amounting to five billion ECU. These resources will be derived from the revaluation of the funds after the auditing of annual inflation indices for the period 1994-1999 and after any changes have been made by the monitoring committees in the programs financed during this period.

Special attention has been paid to the organization of the programs. It is proposed that a local and regional partnership be set up between the state and the private sector. The aim is to stimulate the political initiative of the local partners but not to duplicate the functions of the monitoring committees.

The second document (Urban (96/C 220/04) concerns the integration of urban areas in decline via the financial instruments of the EU. The use of the ESF for this objective is warranted by the fact that the most acute social problems of the Community such as the loss of economic opportunities, low income and deteriorating living standards are appearing in urban areas where the local authorities are experiencing increasing difficulty in financing infrastructure and services. The initiative is targeted at a limited number of urban regions —mainly medium-to-large towns and agglomerations with more than 100,000 residents. There are about 350-400 of these in the EU.

In the interest of assisting the towns located in the regions identified in Objective 1, each member country may present a limited number of projects to be discussed with the relevant local authorities. Priority is given to projects which have a demonstrative character in relation to other urban regions experiencing similar social problems. Priority projects are also those which have an innovative character and represent part of a long-term strategy for the integration of towns and, especially, for the expansion of local employment.

The Urban initiative encourages an integrative approach to development programs which combine a range of economic, social and environmental problems existing in the region. The structural funds cannot be used for all local activities, for example the construction of housing, but they can be used to contribute towards the better coordination of activities between national and local authorities as well as between state and private resources.

The list of measures suitable for financing within the framework of this initiative includes the following main activities:

- creation of business centers and the transfer of technologies;
- creation of networks of management and marketing consultants;
- training in the area of new technologies and computer training of the local work force;
- development and application of programs for skills and language training for minority groups;
- establishment of mobile bureaus for consultations and the training of the unemployed;
- provision of services and daily welfare for children (e.g., nurseries and kindergartens);
- establishment of clinics for the treatment and rehabilitation of drug and substance abusers;
- provision of healthy living conditions;
- refurbishment of housing.

This initiative is financed not only by the ESF but also by other structural funds. Their total contribution is 157 million ECU of which 61 million are for the regions identified in Objective 1 and 96 million are for other regions. At the same time, it is envisaged that in the implementation of the projects, other EU programs connected with social isolation be taken into account (Leonard, Cohesion Fund programs and the EIB).

The third document (Employment (96/C 200/6) introduces a framework initiative for employment and development of human resources. This initiative, under the general title of Employment-Integra has the aim of contributing to the development of human resources and the improvement of the labor market by increasing employment and strengthening social solidarity. It contains four mutually connected components:

- the development of women's employment; in particular, measures connected with professional training and re-training, access to potential work places and management (Employment NOW);

- improvement of the opportunities for employment of the handicapped (Employment Horizon);
- integration of young people in the labor market and especially those with professional training (Employment Youthstart);
- expansion of the opportunities for employment amongst the vulnerable groups which are considered to be excluded from the labor market or which have an increased risk of being excluded (Employment Integra).

Priority activities for which member states are invited to apply for financial assistance from the European Social Fund and the other financial instruments of the EU are as follows:

- the establishment of bureaus for consulting with labor market risk groups and orienting them toward suitable training and employment;
- provision of training services to women, the handicapped and young people, particularly on an international basis;
- creation of jobs via support for small and medium business and cooperatives in which risk groups are included;
- measures for the stimulation of self-employment of labor market risk groups via setting up credit mechanisms on an international basis;
- activities relating to the dissemination of information and the activation of public opinion (creation of data bases, observation and evaluation of professional training and employment, dissemination of information about the labor market in a format which can be used by the handicapped, etc.).

Projects for which the member states can apply for financing in relation to this initiative must take into account the basic objectives of the European Social Fund or other structural funds. At the same time, the selection has to guarantee the maximum possible level of additional financing and the minimum overlapping with similar projects relating to other programs of the EU. The commission requires only one Observation Committee in each country to take responsibility for each initiative.

2.3.2. THE DEVELOPMENT OF THE ESF AFTER THE YEAR 2000

2.3.2.1. Priorities and structure of expenditure

Under the proposed reduction in the number of objectives, the relative importance and the role of the European Social Fund will grow even further. Against this background, the priorities existing within the framework of the ESF will be maintained. The regions in decline referred to in Objective 1 will maintain the same high relative level, equivalent to approximately two thirds of the total expenditure of the ESF.

The main principles of reform will be preserved in the structural funds of 1993 which were directed towards the provision of more objective, transparent resources for harmonization. Approximately the same criteria will be used for access to the resources and only the circle of potential recipients will be changed. These criteria will continue to emphasize the difference between regional economic development and the average level of the Community as well as the national economic level. Additional assistance will be provided mainly to regions with high levels of unemployment.

The integrated approach to those regions which are in decline will continue to be applied as it is at the moment. The success of the support and partnership between the member countries depends on suitable coordination between all the components of structural assistance, including not only the ESF but also the ERDF, the European Agricultural Guidance and Guarantee Fund and the Cohesion Fund. Each region will be assessed both from the point of view of its specific needs, but also from the point of view of the priorities of the

Community. Specific programs will be developed as far as possible on the basis of local priorities. Special attention will be paid to increasing competitiveness which is a particularly important criterion for the creation of new jobs. This emphasis can be achieved through the support of infrastructure development, innovations, small and medium business and human resources.

The new formulation of Objective 2 is economic and social restructuring. It will combine the measures relating to those regions of the EU which are in decline and experiencing structural problems. These include regions which are undergoing economic changes (in manufacturing or services), depopulated rural regions, regions in crisis which are dependent on the fishing industry or problematic urban areas. The structural problems in these regions are mainly limited to unemployment or depopulation for which reason Objective 2 will also focus on social problems.

With the exception of the regions which are covered by Objective 1 about 20% of the population of the EU is living in regions where the level of unemployment is above the average for the Community. In a number of urban regions this varies between 30-50%. Youth unemployment in the Community is over 30%. Structural measures in these regions will be directed at the diversification of the manufacturing structure, the revival of economic dynamism and the development of business culture among the population. They will contribute to the maximization of the economic potential of these regions and at the same time will encourage the emerging reforms and their adaptation to the requirements of the market.

New Objective 3 is the development of a strategy for human resources. The development of human resources is a key element of both Objective 1 and Objective 2 as well as of the European Union as a whole. The formulation of a specific objective in this area does not replace the united efforts of the remaining instruments of structural policy. At the same time, Objective 3 emphasizes the modernization of the labor market in accordance with the provisions of the Amsterdam Resolution on economic growth and employment. This objective emphasizes the provision of access to the labor market, possibilities for training during the entire working life and the development of local employment initiatives, including territorial agreements on employment.

New Objective 3 will be applicable in regions which are not covered by Objective 1 and Objective 2. It will help the member states to adapt and modernize their system of education, professional training and employment. These priorities are important not only from the point of view of economic competition but also from the point of view of preserving the European social model. In Agenda 2000, education is identified as the most powerful means of social equality and inclusion in social life.

2.3.2.2. Increasing effectiveness

The reduction of the number of objectives and initiatives of the EU is only the first step towards the simplification of structural policy. The second approach is directed at the simplification of administrative procedures. This envisages the development of multi-year programs for each region covered by Objective 1 and Objective 2. For horizontal Objective 3, there will be a national program or network of regional programs. This is expected to lead to a reduction of administrative expenditure and the strengthening of the overall strategic approach.

The increase in the efficiency of structural funds in Agenda 2000 is linked with the better allocation of responsibilities, including the simplification of administrative links, greater flexibility and the decentralization of management. This trend will be accompanied by the application of modern principles of management and the restructuring of personnel. The Commission will require greater selectivity and precision in relation to the selection of priorities. This will lead to the application of the real meaning of the concept of partnership between the Commission and the member states, from preparatory operations,

financing and preliminary assessment, to subsequent monitoring and final evaluation of each structural operation. The system for observation and control on the projects and programs will also be improved and it is recommended that the checks be made more effective and strict.

Ways will be sought to increase the effectiveness of structural resources. On one hand, priority will be given to financial instruments (low interest loans, loan guarantees, participation with capital) rather than grants. On the other hand, a reserve of at least 10% of the structural funds will be set aside, including the European Social Fund. The reserve will be allocated for regions which have effectively implemented the assistance already provided.

2.3.2.3. Priorities of social policy

In the future expanded Union, these will be addressed towards acute social problems in the new member states, which include unemployment and health care, as well as the problems arising from the process of harmonizing the old and new member states. It will be necessary to make considerable investments in human resources. One main obstacle to the adaptation of the new members states to the high level of social protection in the EU and to the European social model will be the presence of a large number of people living below the average living standard in Europe. There will also be conflicts arising from the inadequately developed network of professional training, inadequately developed industrial relations still undergoing transition, and inefficient state administration. In this context, the expansion of the EU will increase the significance of social integration and will strengthen the role of social policy.

On the other hand, a series of other factors will come into conflict with this process. In a number of areas, such as health care and safety at work, the accession of the associated countries will require serious and sometimes expensive efforts. Especially in those cases where adaptation is slow and ineffective, the allocation of a large volume of money for this objective will have an unfavorable influence on competition and the future development of the economy of the Community.

Significant differences in salaries between East and West act as a serious factor in encouraging migration, despite high levels of unemployment in Western Europe. This trend may have a positive effect in leading to more flexible forms of employment, particularly in bordering countries such as Germany, Austria, Greece or the Scandinavian countries. On the other hand, however, it could have a negative effect, increasing the imbalance of the western labor market and restrictions on employment possibilities for the free work force. It is difficult to evaluate the strength of these opposing effects. After the accession of Greece, Spain and Portugal there were also expectations of mass migration which never materialized. It is possible that the flow of migration from the eastern countries could be limited due to the lack of mobility of the work force and the lack of sufficient funds for change in domiciles. It is also possible that during the period of accession, there may be a reduction in the differences in wages between Eastern and Western Europe, thus removing the main motive for migration.

2.3.3. REQUIREMENTS FOR BULGARIA'S PARTICIPATION IN THE ESF

2.3.3.1. Main conclusions concerning the need for and the potential effects of the resources of the ESF in Bulgaria

The quantitative and qualitative specifics of unemployment in Bulgaria to a large extent reflect the effectiveness of the labor market policy implemented here. At the same time, they define the objectives of social protection and must be taken into account when drafting future programs to be financed by the ESF.

The first wave of general redundancies in 1991-1993 affected a large number of persons working mainly in the budget sector and the administration of state

enterprises, as well as low-qualified manual laborers. During the next three years there was a recorded reduction of unemployment from 16% to about 11% among the population in the active age range. This process, however, was a result of the delay of privatization and structural reform in Bulgaria. The economic collapse in 1996-1997 influenced the dynamics of general unemployment and put an end to the period of a relative, if albeit artificial, stability in the labor market. In the first half of 1997 alone unemployment rose by about three points to over 14%.

The 14% level of unemployment registered in 1996 puts Bulgaria in a relatively unfavorable position in relation to the other associated countries and in relation to the average level of the EU, which is 10.8%. With respect to the other indicator, GDP per capita, Bulgaria is also in one of the last positions—representing, together with Lithuania, Latvia and Romania, only 24% of the average level of the EU. This position emphasizes the importance of the ESF as an instrument of regional policy (see Table 1).

Unemployment is among the main factors involved in the overall decline in living standards and the erosion of income of the population. Over 22% of households in the country live below the relative poverty line used by EU countries.⁴

The critical condition of the labor market in Bulgaria is revealed not only by the total level of unemployment and poverty or the general level of unemployment and poverty, but also by its structural features. It is indicative that during the period of low general unemployment the problems of long-term unemployment and its specific features appeared. In 1996, one third of all registered unemployed persons were in the long-term category⁵.

At the beginning of the transition, the risk of unemployment affected almost all people of working ability to more or less the same extent. After 1994, however, long-term structural features and risks for certain social groups such as low-qualified workers, minorities and persons with social problems began to appear. The same hypothesis was confirmed by the study *At-Risk Groups and Social Policy Challenges in Bulgarian Society* carried out in 1994-1995 by the Center for the Study of Democracy⁶. Bulgaria is one of the countries with the lowest percentage of youth employment: only 20% of the relevant age group. This is partially due to the wide range of educational services. About 40% of young people between the age of 16 and 24 are in regular education; this includes 74% of young people under the age of 18 and 27% of persons between the ages of 18 and 24. The majority of unemployed young people are affected by the unfavorable structure of the labor market, which is static and does not provide any opportunity for flexible employment or innovative professions. Many young people, after a three- or six- month period of receiving assistance from labor bureaus, enter the group of the long-term unemployed (see Table 2).

The regional structure of unemployment (see Graph 3) has the greatest significance for the determination of the strategy of the country in relation to the opportunities for using the ESF. Statistics show a great variation in the level of

⁴ The relative poverty line, equivalent to 50% of the average income per person per household at the end of 1997 was 45,000 levs according to statistics of the National Statistical Institute. Relative poverty was used as an international indicator allowing the comparison of the level of poverty in Bulgaria and the Western European countries. It should, however, be noted that the relative measurement of poverty is not an adequate methodology for countries of Central and Eastern Europe. Due to the low overall level of income, it artificially lowers the threshold for the measurement of poverty. The absolute line of poverty calculated by the Ministry of Labor and Social Policy on the method of the consumer shopping basket is significantly lower. In December 1997, this was 97,000 levs. Fifty percent of the population lives below this line.

⁵ The maximum period for the receipt of unemployment compensation in Bulgaria is quite extended (12 months). For this reason long-term unemployment includes persons who have not worked for more than one year. In the majority of Western European countries, long-term unemployment is registered after the sixth month.

⁶ Center for the Study of Democracy, "At-Risk Groups and Social Policy Challenges in Bulgarian Society," Ch. IV, Clients of the labor bureaus and centers for social welfare (quantitative study), Sofia, 1995.

unemployment and in the structural features of the labor market among the individual regions of the country.

The clear inequality of the individual territorial units in Bulgaria requires the use of an integrated assessment in determining the level of criticality of the municipalities in Bulgaria. This approach assumes the systematized selection of different indicators for the determination of the level of social and economic development of the municipalities. The integrated approach is also set out in the methodology for mutual relations between the state budget and the municipal budget which is part of the budget legislation. In 1994, the Ministry of Finance commissioned research, also based on a combined approach, on the overall social and economic condition of the municipalities⁷. The analysis demonstrated the large differentiation of municipalities. The integral assessment of the condition of the country parallels the top 10-20%; i.e., it coincides with the relatively well-developed groups of municipalities. Sixty-seven municipalities are considered critical, representing 20.12% of the territory of the country and 10.2% of the entire population. As a result of the study, seven relatively autonomous regions in different parts of the country were found to be in a critical situation. Approximately half of the critical municipalities are in mountainous areas of the country and the remaining are primarily agricultural. Selected indicators show that depressed municipalities with developed industrial structures do not fall into the critical range. This suggests the conclusion that geographical features and the border features of the municipalities in Bulgaria are not an unconditional reason for critical condition. The larger municipalities with more diverse commercial structures notwithstanding any adverse geographical features remain above the critical threshold.

Statistics on the condition of the labor market lead to a number of basic conclusions which must be taken into account in the evaluation of the needs and the development of programs to be financed by the European Social Fund:

- the labor market in Bulgaria has a high and constantly increasing percentage of unequal groups ;
- territorial disproportions in the country are significant and are as serious an obstacle to effective structural policy as the difference of aggregate indicators in relation to the average level of the Community;
- there is a high level of institutionalization of the labor market resulting from delays in the privatization of the state sector and the lack of adequate regulatory provisions for flexible forms of employment.

The assessment of the expected effect of the programs financed by the ESF can be quantified by using the following indicators:

- the significance of the sectors covered from the point of view of the priorities of structural reform in the country;
- improvement of the quality features of the work force;
- easing of poverty and social isolation;
- compensation for the social price of the reforms and provision of the necessary social support;
- effect of integration and harmonization of the country to the features of the labor market in the EU.

In the context of the requirement for the integration of regional development, the assessment of the social effect must be carried out not only on the basis of the absolute and relative level of expenditure from the ESF, but also as an integral effect of the cohesion policy conducted through all possible financial instruments: structural funds, the Cohesion Fund and credit instruments. The social effectiveness of the infrastructure corridors which will pass through Bulgarian territory are reflected in the creation of jobs, including for low-quali-

⁷ G. Shopov, "Municipalities in critical social and economic conditions," report to the National Seminar on regional development and investment policy, Sofia, 17-18 March, 1994.

fied workers from the risk groups of the labor market. In second place, these infrastructure projects, in the process of their functioning will create flows of commercial and economic exchange which will contribute to economic revival and the increase of income into the state budget.

3. PRE-ACCESSION STRATEGY FOR THE PREPARATION OF BULGARIA'S PARTICIPATION IN THE STRUCTURAL FUNDS

The pre-accession strategy is based on the Europe Agreements, the Single Market White Paper, Accession Partnership and Phare.

With the future enlargement of the Community, support from the structural funds and the Cohesion Fund will, in principle, cover the new member states which are experiencing and will continue to experience the acute need for development of the manufacturing sector and human resources and also the infrastructure and the environment. The EU places an emphasis on the effective use of time, resources and efforts in the pre-accession period. There is also a need for significant investment in such sectors as the environment, transport, energy, industrial restructuring, the infrastructure of agriculture, etc. More specifically, of the total volume of budget funds of the EU for the new member states—which amounts to 45 billion ECU from the year 2000 onwards from the structural and cohesion funds—a total of 1 billion ECU will be set aside for assistance for preparation for membership. This will have the primary function of bringing the infrastructure into line with the standards of the EU (more specifically for transport and environment).

The Commission is aware of the need to apply a scheme for financing accession and internal harmonization between the countries of the EU with an instrument similar to the Cohesion Fund but directed at the candidate countries. It is envisaged that Phare will take its place as the source of methodical and technical assistance and as a catalyst for joint activities of the European Investment Bank, the European Bank and the World Bank with which the Commission entered into framework agreements in 1998.

At the stage of the preliminary preparation, funds from the LSIF financial facility from the same program are used. This was created, above all, with the intention of expanding the TENs beyond the borders of the EU. With the funds allocated in this manner, work will be carried out to resolve environmental problems with cross-border effect. The funding of projects in the framework of LSIF is made in ratio 50:50 for projects in the fields of transport and environment. The aim is to prepare the candidate countries in 1998 and 1999 for their future participation in the pre-accession funds in the period after 2000.

On 18 March 1998, the EU presented a package of directives for the management of structural funds, the Cohesion Fund and the new ISPA. The package includes:

- common directives for structural funds;
- directives for the ERDF, ESF, FIFG, and Cohesion Fund;
- ISPA directive
- SAPARD (Special Accession Program for Agriculture and Rural Development) directive.

3.1. AVAILABLE FINANCIAL INSTRUMENTS

ISPA, the proposed new source of finance for the pre-accession activities of the Community and candidate members of the EU, will restrict the targeted funds to projects connected with the environment and transport and technical assistance for the entire cycle of the engineering process. These measures (groups of projects) should correspond to the following conditions:

- they should be technically and financially independent and be connected with the environment and transport;
- they must be mutually complementary.

ISPA financial assistance will be accessible for absorption during the period 2000-2006. Also eligible for financing are those preliminary studies related to preparatory-stage measures and technical assistance, which can be covered on the basis of the above manner to their full extent but limited to 2% of the total amount of the ISPA funds.

In a number of ways, the newly applied instrument may be considered an analogue of the Cohesion Fund in the specific conditions of the preparation for the enlargement of the European Union with the countries of CEE. The criteria for the implementation of the distribution of funds between these countries are population and GDP per capita, adjusted for purchasing power and territory.

In relation to transport, this source is used to finance measures (with the minimum single power per project of 5 million EUR) which are targeted, via the implementation of projects of common interest, at significantly increasing the traffic capacity of the relevant types of transport infrastructure (those included in the TEN-transport expansion program). Another condition which has to be fulfilled by projects applying for finance from this fund is that they must be oriented to the objectives set out in the Accession Partnership document.

3.2. TECHNICAL ASSISTANCE FOR THE DEVELOPMENT OF ADMINISTRATIVE STRUCTURES

Of particular interest is the Phare Special Preparatory Program (SPP) for structural funds presented by the Commission at the end of April 1998. The aim of this program is to assist the candidate countries in understanding the structural policy of the European Union through administrative cooperation, in the adaptation of their structural policies to the principles and procedures involved in implementing Objective 1, as well as in their preparation for the new financial instruments ISPA and SAPARD. Between 2000 and 2006 (or to the date of accession, if earlier) Bulgaria will be able to make use of three financial instruments: Phare, ISPA and SAPARD. In order, however, to begin their use by the year 2000, Bulgaria will have to carry out the necessary preparation. In the draft of the SPP there are a number of administrative, legislative and other measures which have to be implemented. Regarding development, the most important task is the preparation of a National Plan for Economic Development of the whole territory of Bulgaria (similar to the plans developed by Greece, Ireland, Portugal and Spain for the implementation of Objective 1 which will have to cover the following areas:

- productive investment;
- infrastructure (including telecommunications);
- human resources;
- modernization of agriculture;
- special integration programs for individual regions in decline.

3.3. FINANCIAL ASPECTS OF THE PRE-ACCESSION PERIOD

One of the most significant elements of the process of Bulgarian accession to the EU is the gradual adaptation of the country to the mechanism of accumulation and expenditure of financing from the EU structural funds. The various instruments created at different times during the development of a united Europe via the structural funds, the Cohesion Fund and the European Investment Bank, as well as the existing financial instrument (Art. 130 b of the Treaty), provide the financial support for the achievement of the objectives defined in the Treaty.

At the Edinburgh Council in December 1992, the decision was made to improve and optimize the activities of the structural funds. Six main objectives were agreed upon in relation to their functions for the financial period 1993-1999. It should be taken into account that not one of the associated countries

in Central and Eastern Europe, including Bulgaria, is entitled to take part in the formation and allocation of funds from these programs. This is still seen as a reserved territory for bringing together the community and national interests of the 15 member states in the area of structural and regional policy. An exception to this rule is the participation of the European Investment Bank in the financing of important infrastructure projects in the area of energy, transport, telecommunications and the protection of the environment. From this point of view the budget implications for Bulgaria are specifically positive and are aimed at the re-allocation of funds from the budget for the maintaining of macro-economic stability and the creation of conditions for economic growth. This effect is achieved by long-term grace periods and delayed servicing for EIB credits for a period of twenty years at favorable interest rates.

However, if we do not take into consideration the above-mentioned exception, current practice in the functioning of the EU structural funds does not have a direct, real effect on the structural adaptation of Bulgaria in the process of its accession to the mechanism for harmonizing the economic growth levels of the member states. In fact, its significance is limited to achieving results from:

- awareness and information about the current state of the process;
- measures of a preparatory nature (creating the conditions for the introduction of an adequate and compatible structural and administrative practice, range of instruments and human resources);
- measures of an evaluative nature (making possible the accurate evaluation and comparative analysis of the accession process).

3.4. INSTRUMENTS FOR STRUCTURAL POLICY IN THE PRE-ACCESSION PERIOD

In the period after 2000, the main instrument for adaptation to the structural funds of the European Union in the area of industrial infrastructure will be ISPA. Similar to the Cohesion Fund, this instrument will be directed exclusively towards the harmonization of standards in the infrastructure of the associated countries with those of the member countries. The most important sectors which will be covered by financial support will be:

- the environment: provision of sufficient quantities of drinking water with a high consumer quality, the treatment of waste water, campaign against air pollution and the treatment of solid waste;
- transport: expansion of the Trans-European transit network and the relevant harmonization of national transport infrastructure.

Specific projects in the above-mentioned sectors will receive financial support from ISPA only on the condition that they are included in the National Plan for Economic Development and at the same time take into account the priorities of the pre-accession strategy. The allocation of financial resources provided by ISPA will be determined by selected criteria, including:

- population;
- GDP per capita, adjusted for purchasing power;
- territory.

Attention will also be paid to the various levels of development of transport infrastructure and the environment in the individual countries.

ISPA may be defined as an element of strategic investment policy in those areas. Parallel with this, there will be efforts to find additional sources of finance from the private sector and international financial institutions. The role of the European Investment Bank will be significantly increased. It will carry out the preliminary examination of individual projects before the relevant finance package is approved by the European Commission. ISPA will finance up to 85% of the necessary expenditure for each project. In order to approve the

financial package, the Commission will take into account additional financial and technical criteria: the interest of the European Union in the implementation of the project, the potential of the project to generate income, and the level to which the project places the burden of environmental cost on polluters. The Commission expressly reserves the right to define the ceiling of finance for projects to be funded by ISPA. Financial packages that include partial loan-based finance from the private sector and/or international financial institutions will have priority for approval.

A special financial mechanism is to be established to manage the funds provided by ISPA which will be discussed between the Bulgarian government and the Commission of the European Union. Against the background of the future adaptation of the country to the practices of the structural funds of the EU, the budget procedures for financing projects in the area of the environment and transport will be analogous to those of the Cohesion Fund. The experience of the structural funds of the EU and, in particular, that of the Cohesion Fund shows that financing commences after the approval of the project by the Commission and that the financial resources are allocated in relation to the calendar schedule of the relevant project. Another feature which must be taken into account is that the total expenses relating to each individual project in both areas should not be less than 5 million ECU. Two percent of the total funds are provided by ISPA to the beneficiary country for preliminary studies, the preparation of the feasibility study and possible technical assistance in the phase of project preparation which, in certain cases, can meet up to 100% of these preliminary expenses.

The practice of the Cohesion Funds, which will serve as a model for the ISPA financial instrument, makes use of various forms of financing with funds from the EU:

- direct non-refundable finance;
- interest-free credit;
- subsidy with payment of interest rate only;
- subsidy with a fee for a guarantee from the relevant ISPA beneficiary government;
- risk capital, direct capital involvement, etc.

3.5. SPECIAL PROGRAM FOR AGRICULTURE AND RURAL DEVELOPMENT

In the pre-accession period and after the year 2000, Bulgaria is expected to receive money from the EU budget for assisting the development of agriculture and the strengthening of regions which are predominantly rural. This pre-accession strategy in agriculture assumes the implementation of the Special Program for Agriculture and Rural Development (SAPARD). This program is financed by the Commission with the purpose of the gradual harmonization of Bulgarian agricultural policy with the Common Agricultural Policy of the EU. It is provided as a financial resource from the Guarantees sector of the European Agricultural Guidance and Guarantee Fund (EAGGF). The majority of the funding is provided for certain purposes: the improvement of structures for the manufacturing of agricultural and fish products, mechanisms for the sales of produce, quality control of agricultural produce, the standardization of norms for veterinary and phytosanitary control, and the creation of independent associations of manufacturers. Additionally, this resource provides opportunities for: financial support for integrated projects in agriculture with a regional and local character, improved efficiency in agricultural economies, the adaptation of infrastructure in this sector, and access to certain provisions of Objectives 5a and 5b of the regional policy of the EU aimed at the acceleration of structural reform in Bulgarian agriculture. The allocation of the funds to the individual countries of Central and Eastern Europe in the pre-accession period will be governed by the following criteria:

- GDP;
- Proportion of work force employed in agriculture;
- Proportion of arable agricultural land;
- Other specific indicators connected with agriculture in its relationship to the country.

By the beginning of the year 2000 each CEE country will be obliged to prepare and present to the Commission a seven- year agricultural development plan which should include the following main features:

- assessment of the present situation, showing the structural imbalance of agriculture and the potential for its development, the main results of the current activities which have been carried out with the support of the EU commission, financial funds assimilated and an assessment of the results achieved;
- description of the proposed strategy, its objectives, the selected priorities for agricultural development and the geographic range;
- initial assessment of the expected economic, environmental and social results, including the expected effect on employment;
- indicative financial resources as a summary of the possibilities of the national budget, expected financial assistance from the Community, and the mobilization of private sector funds for each priority in the context of the drafted plan for agricultural development, including those measures which could be financed by the EIB and other international financial institutions;
- indicative financial forecast for each year of a seven-year period in relation to each source of funding which co-finances the program;
- the preparation of information for each analysis, training or technical assistance in relation to the preparation and implementation of each measure in the area of agriculture which is covered by SAPARD;
- identification of the national institutions and agencies responsible for the implementation of the Program as well as the reporting institutions which are carrying out the financing;
- definition of End Beneficiary where possible. These may be public or private organizations or commercial associations which are responsible for the implementation of individual sections of the Program;
- description of the measures necessary for the implementation of the seven-year plan and, in particular, the scheme of financial support for these measures, including also an assessment of the regulations on competition;
- guaranteeing the necessary conditions for the timely implementation of the Program, including monitoring, control and assessment of the results achieved and obligations concerning sanctions;
- results from the consultations with and the conditions accepted by the competent institutions and organizations associated with agricultural production as well as economic, environmental and social partners.

The plan for agricultural development should ensure that its priorities and accompanying measures will strengthen the market orientation of agriculture, improve health standards and quality standards, and reinforce measures aimed at supporting existing workplaces and the creation of possibilities for increasing employment in the agricultural regions.

After the preparation of the seven- year plan and its linkage with financial resources for implementation, and after its approval by the Commission of the European Union, the Commission shall undertake to cover 75 % of the generally accepted public expenditure. In the case of agricultural investment projects which generate income, budget finance may cover 50% of the proven value of the project, in which the contribution of the EAGGF may reach up to 75 %.

3.6. PREPARATORY PROGRAM FOR PARTICIPATION IN THE STRUCTURAL FUNDS

Of significance to the goal of adapting the Bulgarian economy to the above-mentioned forms of participation, is the Special Preparatory Program for the Structural Funds. From a budgetary and financial point of view, the Program includes the following tasks:

- the creation of a National Fund according to the Memorandum of Understanding between the European Commission and Bulgaria. This will include the entire flow of finances provided by the European Union to Bulgaria in relation to all present and future programs, including instruments related to the participation of the country in the structural funds of the European Union. The National Fund is established as a structure within the framework of the Ministry of Finance and functions as a "treasury" in respect of the management, control and accountancy for the funding from the EU.
- the creation of the necessary legal framework for the preparation of a National Plan for Economic Development similar to those prepared as the central measure of the Cohesion Fund in Portugal, Spain, Greece and Ireland. In the budget sector in particular, this will create the conditions for the management of public finances and their relationships with private sector third parties (for example in the area of state aids and public procurement);
- the preparation of the Plan itself for the entire territory of Bulgaria. It will define the priority areas for co-financing by the European Union from the year 2000 onward. It will cover the following sectors and programs:
 - Manufacturing investments in the industrial sector and services, connected with the improvement of competitiveness, encouragement of business activity, privatization, etc.;
 - Manufacturing and social infrastructure, energy, telecommunications and health care. Special attention will be paid to transport and the protection of the environment (main priority areas for financing by ISPA);
 - Human resources initial training, ongoing training and re-training, and regulation of the labor market;
 - Modernization of the agricultural sector, including fisheries; integrated development of agricultural regions to be financed by SAPARD;
 - Special programs for development directed towards the less developed regions in the country.

The National Plan for Economic Development should also identify national sources of co-financing (not only from the central budget but also with money at a regional and local level) as well as seek additional sources from the private sector and international financial institutions.

Budgetary Aspects of the Effective Management of the Funds

Together with the National Plan for Economic Development, the Bulgarian government should adapt the structural principles of the budget in accordance with the practice of the member states of the European Union as follows:

- management of financial flow;
- identification of funds for co-finance;
- independent internal financial control and external audit;
- systems for observation and assessment;
- development of new structures for financial management by the European Union and their subsequent implementation.

4. CONCLUSIONS AND RECOMMENDATIONS

4.1. PREPARING FOR ANTICIPATION IN THE EU STRUCTURAL POLICIES

Bulgaria's participation in the structural funds of the EU is a matter for the future. In order for these funds to be used effectively, it is crucial that the relevant Bulgarian institutions begin, in advance, to become well acquainted with the practice and the limitations of implementing the regulatory directives.

The priorities of the Accession Partnership define the urgent tasks in this area. The successful definition, introduction and implementation of the following instruments will assist the fulfillment of the accession criteria:

- National Program for the Adoption of the Acquis (NPAA);
- Joint assessment of the priorities for economic policy;
- The Pact against organized crime;
- Implementation of the Road Maps for alignment with the Internal Market legislation of the Community.

Practical steps are needed to prepare transport infrastructure projects suitable for implementation in accordance with the regulations for financing through Phare, LISF, ISPA and, consequently, via the structural funds (ERDF) and the Cohesion Fund.

The preparation of Bulgaria for involvement in the structural funds of the Community should be an ongoing process of adaptation, defined at the policy-making level and directed by an executive body at the Council of Ministers on the basis of the commitments in the Accession Partnership and the programming documents. The Ministry of Finance, the Ministry of Justice and Legal Eurointegration, the Bulgarian National Bank (BNB), the Ministry of Foreign Affairs and other specific ministries should play a leading role in the implementation and monitoring of this process.

The Ministry of Foreign Affairs and its units should provide up-to-date information about the management, reporting and best practices of similar programs in other candidate countries during their pre-accession stages. The wide-ranging potential for analysis and networking of non-governmental organizations active in the fields of European integration and regional development should also be used.

The experience of the cohesion countries—Greece, Ireland, Portugal and Spain—in the use of assistance from the structural funds and the Cohesion Fund up to the moment should be thoroughly studied. Of particular interest is the provision of timely information on the progress of countries such as Hungary and Lithuania in their implementation of pre-accession programs and other accession preparation, particularly in terms of the restructuring of public administration.

Of practical importance is the selection of a model of fund use that allows for a minimum budget burden to the country. To this end, it may be possible to find a combination of positive examples from countries such as Ireland (general administration, financial management, environment, transport), Greece (agriculture, tourism and transport), and Lithuania (financial policy under a currency board). From a geographical point of view, the measures of the Accession Partnership and the future participation of Bulgaria in the structural funds and the Cohesion Fund should encompass the entire country; i.e., the identification of Bulgaria as one region should be promoted.

The preparation for the accession of Bulgaria to the EU structural policies began with the Special Preparatory Program designed to help in creating the necessary information and administrative and resource potential for the associated

countries before their accession to the Community. The priorities of SPP include three main activities:

- establishing the main structural policy objectives of the candidate countries , including adequate regulatory framework, coordination of administrative and budget procedures and the formulation of programs;
- understanding the programs and administrative cooperation;
- development of the projects, applying the principles and procedures for the implementation of Objective 1 at a local level and applying the integrated approach for the development of multiannual programs.

The main part of the funds allocated in relation to the SPP are expended for the institutional preparation of the candidate countries for accession and will be included as an addition to the national Phare programs. It is envisaged that four of the total 60 million ECU from the SPP will be expended on horizontal activities, including the development of national statistics and, in particular, the creation of a data base at a regional level, the organization of conferences and the training of administrative staff. Horizontal preparatory activities can be directly applied to the development of regional statistics on unemployment and the level of education of the work force as well as to more thoroughly informing the central and local executive authorities about the use of resources from the European Social Fund.

The process of absorption of funds from the ESF includes the following main stages:

- the definition of priorities for the relevant period;
- design of an integrated multiannual program;
- approval of the program by the Commission.

These stages are not significantly different from the procedure for the examination and approval of national programs of the CEE countries financed on the basis of the Phare program and other EU non-refundable assistance programs. The main difference is in the requirements and the criteria which must correspond to the programs for structural development.

First and foremost, the countries which are applying for funds from the structural funds should guarantee **adequate co-financing** from local sources which are reliably guaranteed during the implementation of each specific project.

Second , the programs for the ESF should be compiled in the framework of a **longer term and wider scope** and to involve more aspects of economic and social development, both for individual regions and from the point of view of national objectives and priorities.

The **allocation of funds and functions** between the Commission, the government and the local administration is also among the main requirements for the absorption of funds from the structural funds, including the ESF. This allocation is guided by the following scheme:

- The Commission, jointly with the government and the local administration, identifies the priorities for development and assistance and links them with achievable objectives.
- The management in member states and regions is decentralized and only in the case of the main projects is there is a system of joint administration by the Commission and the member state. With decentralized management, the member state reports to the Commission in relation to the absorbed funds.
- In order to ensure the thorough examination of results, the Commission requires that the member state has an adequate system of management, accountability and control.

In 1997, the majority of programs approved in the context of Objective 2 were in relation to campaigns against unemployment. During the first six months of the year, thirty-two programs were approved for this objective; by the end of

the year, a further twenty were approved finally or in principle (see Table 4). At the same time during the second half of 1997, the Commission published a list of eighty projects of the member states relating to the implementation of territorial agreements for employment accompanied by the criteria on which they were assessed and which are a significant precondition for the submission of competitive proposals for projects:

- rapid implementation of projects;
- extensive partnership, including all interested parties;
- innovative approach in relation to the creation of jobs.

4.2. REGIONAL POLICY

The European Union is aware that the enlargement of the Community is not going to lead to a significant reduction in the problems connected with the differences between the regions and the groups of population which use the structural assistance provided in connection with Objective 1. On the basis of the current rules for assessment, the European Union forecasts that the entire territory of all candidate countries will come under the definition of Objective 1.

The definition of geographical priorities in the medium term will not be necessary due to the range of problems in the problem zones and the relatively small territorial areas of some of the associated countries. For this reason, of principle importance is the conclusion of the European Union that the solution of problems connected with internal imbalances should be integrated with the priority policy aimed at the reduction of the overall lack of harmony in relation to the average indicators of the European Union. To this end the European Union recommends the classification of three geographical levels:

- **regional and local level** reduction of internal disproportions (differences), since these are increasing and can lead to serious political tension. In connection with this it is recommended that methods be chosen which are best adapted to each country, taking into account the possibility of effective participation on the part of territorial administrations, the state and management institutions;
- **National level**, where structural reform can be based on strategies of the central administration and the existing, functioning instruments in the framework of the national programs for regional development similar to those which are implemented in accordance with Objective 1 and which finance a limited number of economic priorities;
- **At a transnational level** the member states will form a specific group of neighboring states where a single infrastructure and transnational and cross-border policy for cooperation can be implemented.

The European Union is aware that in almost all of the candidate countries the process of public administration reform is underway which will lead to changes in the central administration. As far as the use of structural funds is concerned, at this stage the EU concludes that:

- there is a lack of relevant instruments for development of regional policies reduced in accordance with the budget;
- the intervention instruments are also poorly developed;
- poorly developed administrative capacity for the management and guidance of the process;
- there is absence of procedures for inter-institutional cooperation which would clarify the role of the sector ministries in relation to their significance in the implementation of regional policy;
- lack of mechanisms for co-financing of the structural reform from a territorial point of view;

- insufficiently ensured involvement of the institutions of local government in this process;
- the lack of technical experience and budget instruments in relation to effective action.

Therefore, in the future, in order for the Bulgarian authorities to make use of the opportunities provided by the European structural funds, including the ERDF, it will be necessary for two budget conditions to be fulfilled:

Firstly, to mobilize the funds needed to match the expected contributions from the European structural funds. This is a purely quantitative parameter.

The second condition is related to the improvement of the methods, procedures, mechanisms of assessment, control and monitoring, in order to define the quality indicators which will be used to account for the regional changes in the processes of social and economic harmonization.

In connection with this, the technical assistance from the EU is expected to be gradually increased. These reforms, which are of the greatest significance for the future management of the processes of harmonization, will take a number of years before their real effects will be felt. Past experience in countries such as Portugal and Spain shows that the behavior of the central administration is a particularly important condition for the development of adaptation structures which can mobilize and coordinate competencies for the management of structural reforms.

The European Union emphasizes that the issue is not defining structural policies in the place of the institutions which are responsible for this but rather to provide the necessary instruments to ensure harmonization with European law in this area, within the framework of the integrated approach applicable in poorly developed regions.

4.2.1. INSTRUMENTS FOR THE IMPLEMENTATION OF NATIONAL REGIONAL DEVELOPMENT POLICIES

The instruments of regional policy need to be considered from the point of view of creating, at the pre-accession stage, conditions favorable to the functional introduction of structural fund principles in Bulgaria. To this end it is necessary for the Bulgarian public administration to be familiar with the main **principles** upon which the policy for the functioning of the structural funds is established.

4.2.1.1. Concentration

The assistance is concentrated only in those regions and population areas which are greatly in need as compared to the rest of the population. For Bulgaria, the application of this principle is connected with the issue of achieving **national solidarity** in relation to encouraging and assisting the development of a particular type of region. Despite the fact that in an economic recession and stabilization the definition of the concept „poorly developed or less favored region” is questionable, there is a need for political consensus on the issue. The application of the principle of concentration should be examined from a number of points of view:

The concentration of the types of assistance which the state has to provide for the development of a particular type of region or zone in accordance with its national priorities. The European Union administers three types of assistance:

- **loans** (credits);
- **subsidies**—directed mainly at research and development, professional training and the structural funds for alleviation of inequalities through integrated structural regional policies;
- **guarantees**

At this stage, the implementation of these instruments in Bulgaria is debatable since economic incentives usually depend on the policy for stabilization or macro-economic growth.

4.2.1.2. Partnership

Involvement of the relevant authorities and competent bodies at a national, regional and local level to work with the European Commission for the creation and implementation of programs for which assistance is provided. Partnership is linked closely with subsidiarity; i.e., the clear delegation of the right to make decisions at a local, regional, national or Community level, ensuring the maximum effectiveness and responsibility.

4.2.1.3. Programming

The question of programming—which means the provision of funds on the basis of medium-term programs with strategic significance—is of great significance for Bulgaria, since the European Union plans its „Partnership” financial assistance to be provided only upon the development of medium-term programs.

For each region which meets the conditions (national priorities), the local and regional agencies should develop a regional plan to be considered for assistance from the Community on the basis of an agreement between the government and the EU. On the basis of the framework agreement, specific agreements will be developed which include the following elements:

- the region, which is the subject of assistance;
- clearly formulated priorities for assistance;
- measures for which assistance is provided and developed in accordance with each priority;
- the allocation of funds for each individual priority or measure;
- selection criteria of the initial assessment;
- the size of non-refundable assistance for each project;
- the requirements for the organization of administration, financial control, observation and assessment of the program.

Interim assessments of various stages of the implementation of similar programs indicate that the adaptation and implementation of the requirements of this approach have led to the introduction of a number of different requirements for its practical application; i.e., new procedures, a glossary, new terminology, requirements for human resources, inter-institutional coordination and vertical and horizontal management.

Another problem is the lack of public awareness of the need for assistance and encouragement of participation in regional programs and projects. This is an important matter, since the Community supports public involvement as a necessary element of a successful and correctly oriented policy. The *Structural Funds Guide*, which is a complementary document to this study directed at the central and local authorities, private organizations and the general public, will address that need.

It is also important to assess at a national level the possibilities for additional co-financing which will guarantee the commitment of the Government to the implementation of given regional aims.

4.2.2. FINANCING PROCEDURES

The European Union has introduced clear and precise financing procedures with which Bulgaria has to make the necessary efforts to comply. Usually, a

three-stage procedure is used which closely involves the European Union, the national governments and the regions.

The regional authorities define their priorities in dialogue with the local authorities. These priorities are combined within a National Program with a medium-term plan of action (usually covering five years). In the same way, the main and specific (detailed) objectives are also defined and the sources of EU funding are brought into line with the national objectives and national sources of funding, with emphasis being placed on flexible planning.

The development of the single National Program includes the following steps:

- social and economic study of the regions with the definition of the main problems;
- study of the entire policy of the European Union in relation to a given region—all the directorates of the Commission are involved;
- study of the national policy for the strategic development of the region.

On this basis, the Single Program for Regional Development is elaborated.

The Bulgarian Experience

As was shown above, the regional level is not developed in terms of self-government and at this stage it cannot be involved in the development of the relevant analyses, forecasts and development programs. This causes great difficulties in planning and programming. The regional level does not have a sufficiently developed capacity of administration to manage and implement the process of planning and forecasting and the overall development of the region, including identification of geographical regions in the district in need of specific assistance. This basic weakness of management policy has a negative effect on the planning of regional programs of cooperation in relation to the EU programs open to Bulgaria.

For the purpose of designing a development strategy for CBC regions under the direction of the Ministry of Regional Development and Public Works, a general study has been carried out, priority areas for development and cooperation have been identified, and the principal measures and projects have been established.

The first set of problems which appeared in the programming stage resulted from the insufficient participation of regional and local authorities in the determination of the main priorities for regional and local development.

The lack of ready projects which could be immediately included in investment negotiations by means of tenders was of significant influence in the selection of priorities.

The second range of problems which appeared were connected with:

- insufficient experience and management skills in relation to such types of programs;
- the absence of experience in the area of preparation and assessment of tender documents for investment sites;
- lack of understanding of the need for the creation of specialized management units for work on the planned sites;
- insufficient and poorly qualified administrative personnel to work with the European regulations and procedures;
- the lack of a single reliable source of financing of the Bulgarian participation in the program which caused lack of confidence among the partners in Brussels—co-financing is carried out through different budgets and extra-budgetary sources which does not allow for control or monitoring;
- the formal participation of interested regional administrations in the process of planning, programming, control assessment and management of the

implementation of the projects due to the weaknesses indicated above at the level of regional management;

- insufficient overall experience of the local authorities in working with the programs and requirements of the European Union, etc.

The introduction of effective information systems for the management, control and monitoring of the processes in regions is an important condition for the assessment of progress in social and economic harmonization.

4.2.3. MAIN REQUIREMENTS FOR THE FUTURE USE OF STRUCTURAL FUNDS

Development of a package of strategies, programs, plans and investment projects at a national level:

- National Plan for Economic Development;
- National medium-term program for regional development;
- Annual sectoral programs for regional development.

Strategies and packages of programs for regional development, including:

- integral medium-term and annual programs for the development of specific types of regions and areas—agricultural, in decline, peripheral, in environmental danger, protected, etc.;
- programs connected with the reduction of long-term unemployment;
- programs connected with youth employment;
- programs connected with the development of rural areas.

Mobilization and concentration of state financial resources and the use of non-budgetary funds and accounts.

When the State Budget Act is passed, quotas should be set for allocations from those funds which are to be involved in the achievement of regional development objectives defined by the government.

To this end, it is suggested that the following priorities should be achieved via the National Funds:

- National Environmental Protection Fund
 - Objective 1: Protection of damaged territories;
 - Objective 2: prevention of pollution in conflict regions and zones within the territory of the country;
- National Fund for Agriculture
 - Objective 1: encouragement of youth employment (farming);
 - Objective 2: integrated development of rural regions, including creation of a new infrastructure.
- National Fund for Regional Development
 - Objective 1: provision of the funds needed for the co-financing of European programs for regional development in the territory of Bulgaria;
 - Objective 2: The development of strategies and integrated programs for the development of regions (via the district agencies for regional development) and regions whose methods of formation make them problematic (via non-governmental agencies and private consulting bureaus).
- National Fund for Structural and Technological Policy
 - Objective 1: development of technological centers, business development units, and centers for technological transfer within the main industrial centers;
 - Objective 2: economic restructuring of the regions and zones with intensely developed mining and ore-mining industry;

- Objective 3: acceleration of the process of privatization and the creation of competitive industry.
- National Fund for Small and Medium Size Enterprises
- Objective 1: Encouragement of small and medium enterprises in certain sectors and regions—through export- oriented manufacturing, trade marks, use of local potential, etc.—and priority regions with a high level of unemployment and an industry in the process of active restructuring.

In order to maximize the mobilization of funds outside the state budget, it will be necessary, in addition to making them target- oriented, to undertake measures for their restructuring and unification. This study suggests that the following funds be created in order to aggregate the 53 funds existing as of 30 March 1998:

- National Technical Infrastructure Fund to unite the following existing funds: Republican Road Network, Energy Efficiency, Development of the National System for Air Navigation, Drinking Water, Energy Resources, National Communication System, Nuclear Research and Nuclear Safety;
- National Environmental Protection Fund of the to include the following funds: National Trust Eco-Fund, Protection of the Environment and the Bulgarian Forest Fund;
- National Social Policy Fund to include the funds Professional Training and Unemployment, Encouragement of Youth Enterprise, Targeted Protection, Social Assistance and Child Assistance;
- National Agricultural Guarantees and Agricultural Policy Fund to unite the funds Agriculture, Tobacco, Land and Land Use and Melioration;
- National Fund for Structural and Technological Policy which would include the funds Reconstruction and Development, Standardization and Metrology, Development of Industry, Structural and Technological Policy, Industrial Property and Privatization Renewal Fund;
- National Regional Development Fund to unite the funds Small and Medium Enterprises, Development of Statistics, and the proposed draft-stage Regional Development legal fund;
- National Fund for Social, Cultural and Scientific Research Policy to unite the funds Preventive Health Care, Cultural Development, National Donors Fund Bulgaria, Development, Creative Fund, Science and Scientific Research;
- National Fund for Strengthening of Internal Security which would unite the funds Prisons, Prison Buildings, Campaign Against Crime, Court Buildings and the Currency fund.

The unification of these funds will result in:

- concentration of resources;
- provision of finances for a certain number of priority objectives;
- financing of integrated programs connected with the implementation of the entire structural reform;
- resolution of social problems;
- implementation of differentiated regional policies;
- provision of finances for strategic infrastructure and environmental projects;
- better control and transparency in the use of funds;
- clear regulations and procedures for progress reporting on the implementation of objectives ;

- matching financing of programs, initiatives and projects initiated by the European Union during the stage preceding accession to the structural funds.

It is recognized that the proposal for the restructuring of funds is a radical measure which requires political will since it entails significant legislative amendments. We believe, however, that this is an important and necessary element of structural reform in the area of financial policy.

4.2.4. PREPARATION RECOMMENDATIONS

Considering that the whole of Bulgaria will be considered as one region under Objective 1, a number of structural actions need to be taken at this early stage to prepare the country for the implementation of targeted policy in accordance with EU procedural requirements.

In this context, the main recommendations for the preparation of Bulgaria are:

4.2.4.1. Adoption of the main principles upon which the future of the Community is developed, in particular:

- sustainable economic development;
- competition between the regions;
- decentralization of management at a regional and local level;
- inter-regional and cross-border cooperation.

4.2.4.2. Implementation of policy for the reduction of disparity in social and economic regional development within the country, via:

- the development of a National Medium- Term Plan and program for social and economic development. The necessary stages in the work on the National Plan for Economic Development are:
 - analysis of strong and weak aspects in the current situation, and assessment of the key needs;
 - development of a strategy and program for cultivating partnership, particularly on the basis of the current technical assistance from the European Union;
 - assessment of the needs in public, social and private sectors;
 - implementation of a round of talks with the European Union to prove the need for financial assistance. Of particular importance at this stage are political contacts and partnership relationships with the European Union;
 - the introduction of the National Plan by defining the main priorities. A special program, a sub-program, measures and specific support programs will be developed for each priority. The programs will have an integrated nature in order to multiply the effect of their implementation;
 - definition of the sources of finance, including: national contributions, private investments, bank credits, and subsidies from the European Union;
 - development of the system for assessing the growth and control of expenditure.
- A **National Program for Regional Development**, which should be a structural element of the National Plan for Economic Development, should contain:
 - description of the current situation in the regions (districts) and identification of the zones in which differentiated measures for support and development will be implemented in accordance with the policy and the aims of the Community (agriculture, crisis and industrial restructuring);
 - a program of the main priorities for positive economic growth, emphasizing the measures connected with the sustainable development and adaptation of structurally defined sectors;

- indicative general financial plan uniting the national sources of finance (including budget and non-budget resources) of the regional programs and the expected subsidies from the European Union;
- creation of a National Regional Development Fund as the main source and guarantee for the provision of finances for the regional programs.

4.2.4.3. Development of the institutional structure for the management of the National Plan for Economic Development which should ensure that the following are covered:

- coordination and development (planning and programming);
- consultation/coordination with the central institutions, regional and local authorities;
- provision of resources;
- implementation, control and assessment of the National Plan for Social and Economic Development.

4.2.4.4. Improvement of the implementation process for the National and Regional Programs via the simplification and consolidation of the system of financial management :

- the development of a joint conception for the management of budget and non-budget resources which will include the improvement of the system of contracting state and municipal commissions, reporting, payments, final beneficiaries as well as assessment of the viability of expenses and stages of implementation;
- improvement of the system of control and monitoring which will include: integrated financial reporting, data- base management, unified computerization and result indicators.

4.2.5. CONCEPTUAL BASIS FOR THE PARTICIPATION OF BULGARIA IN COMMUNITY INITIATIVES

This should be established in accordance with the main priorities adopted in the area of cross-border, transnational and interregional cooperation via:

4.2.5.1. Development of a National Strategy for Territorial-Administrative Organization as a structural element of the European perspective for spatial development of the Central European and Danube regions which should contain:

- an integrated program for cross-border, transnational infrastructure development with the classification of transport hubs and networks, including road and railway networks and structures, ports and airports;
- national program for urban development including: urban networks in Bulgaria; administrative territorial structure at a regional and local level; and classification of towns in accordance with their administrative, economic, cultural and transport significance in the country and in Europe;
- recommendations and measures which encourage interregional cooperation, including: pilot projects, creation of networks for cooperation, common consultative councils for development and economic and cultural exchange, etc.

4.2.5.2. Development and application of programs for cross-border cooperation,

within the framework of the initiatives of the Community such as the Phare Interreg-II programs, which encourage cooperation between the member states and the associated countries.

4.2.5.3. Expansion of CBC to include other borders on the basis of programs such as Credo, Phare/Tacis; expansion of the powers of the regional and local

authorities via the ratification of documents of the Council of Europe accepted in this area.

In order to achieve the above-mentioned tasks, which will facilitate the efforts of the country in the process of accession, it will be necessary to undertake the following actions in the medium term:

4.2.5.4. Improving the regulatory framework which will create reliable guarantees for the implementation of European principles for regional development via:

- amendment of the Administrative-Territorial Organization Act which will provide for the necessary changes in the administrative and territorial structure of Bulgaria, in accordance with the requirements for the effective implementation of decentralized regional policy;
- amendment of the Local Government and Local Administration Act which will improve the status, functions and tasks of the district governor and district administration;
- the Organization of the Territory Act (new law) which will introduce a new philosophy to replace the Territorial and Population Centre Structure Act, by taking into account the new realities connected with property, land use, construction and control which are the necessary elements for the implementation of a modern structural policy, in accordance with the Constitution, market principles and the protection of public interests;
- a new Public Procurement Act to provide further transparency, financial control, and accountability;
- the overhaul and amendment of the large amount of secondary legislation governing the creation of non-budgetary funds which form a conglomerate of stimulation without the clear definition of national aims, priorities, or assessment mechanisms.

4.2.5.5. Introduction of the principle of strategic forecasts and planning at a national, regional and local level via the implementation of:

- an integrated approach for the development of the country and the regions;
- coordination of all elements of structural assistance—national funds, EU funds, private investments, etc.;
- identification of those regions which are subject to special assistance and which meet European practice criteria, while taking into account national differences and specific conditions;
- programming based on active cooperation with local and regional development agencies;
- improvement in the system of selecting projects at a local, regional and national level, in accordance with their efficiency.

4.2.5.6. Expansion of the basis for partnership and cooperation between:

- Central, regional and local authorities;
- Government and non-governmental sectors;
- similar institutions from the country and the member states of the Community, including encouragement of the practice of twinning municipalities and cities;
- Encouragement of partnership and cooperation of Bulgarian institutions with European institutions, including the Committee of the Regions and the Congress of Local and Regional Authorities of the Council of Europe, etc.;
- Creation of networks for cooperation between the national research centers, technological parks and business enterprise centers.

4.3. TRANSPORT INFRASTRUCTURE

The forthcoming enlargement of the EU is different from previous ones due to the different nature of the social and economic environment in which the candidate countries have, until recently, developed. The main challenges to enlargement are low GDP per capita, the heavy role of agriculture in the economy, the so-called sensitive sectors of industry, the inadequate transport infrastructure, inadequate telecommunications and energy and their relevant networks, and the inadequate administrative capacity in the candidate countries.

In the area of transport, many serious problems could be expected in terms of traffic capacity, safety and other technical risks, as well as access to the market and the exercise of related professions (the latter refers mainly to the automotive industry and to a lesser extent air and railway transport).

Taking into account the actual absence of state aid for transport infrastructure, the restructuring of Bulgarian National Railways, the privatization of the national carrier Balkan Airlines and the elaboration of legislation regulating the status and ownership of ports, rapid transition through these tough but necessary stages of adapting the transport companies and working structure to market conditions is in Bulgaria's primary interest. The declared will of the EU that the adoption of the *acquis* will open up the way for the development of a Common Transport Policy and the introduction of new incentives for the development of transport and its accompanying industries, provides a guarantee for beneficial and close cooperation in the pre-accession activities of Bulgaria as it prepares for EU membership.

The Community is also aware that the SMEs in the area of transport are a rapidly developing sector in Central and Eastern Europe. They still represent a minority of GDP in those states which are candidates for membership in the EU and are not in a position to withstand the competitive pressure of the Single Market. The EU declares that it will have to set aside resources to support SMEs both prior to and after accession, and the future multi-national programs aimed at them in the new member states will satisfy a number of specific needs. The candidate states are, at the moment, involved in a number of aspects of current SME programs in accordance with the additional protocols of the Europe Agreement on the participation in Community programs.

The existing policies of the EU presuppose a number of legal and organizational preconditions (the principles of legislation in relation to insolvency and bankruptcy, the existence of a Chamber of Commerce, etc.) which are still in need of assisted development given the pressure from the requirements of the Single Market and the conditions for financing the preparation for participation in it. Thus, by way of the single platform for the implementation of the pre-accession strategy of Bulgaria—the Accession Partnership—the Commission has outlined the preliminary conditions for financing the envisaged measures: meeting the obligations of the Europe Agreement, further actions aimed at the implementation of the Copenhagen criteria and general progress in the Partnership. In the event that these general conditions are not met, the European Council is entitled to terminate the provision of financial assistance.

Significant investments in transport infrastructure leads to rapid macroeconomic and social effects—an increase in GDP per capita, the creation of large numbers of temporary and permanent jobs, etc.

The implementation of projects of mutual interest in the development of transport infrastructure in Bulgaria address the priorities of the Community also. In the first place, these projects would include supplying the missing links between adjacent transport systems (e.g., the bridge over the Danube at the western part of Bulgaria's border with Romania), the reconstruction and renewal of transit railways and road infrastructure links, through Bulgaria, between Greece and the Danube on one hand, and the main nucleus of the EU on the other. They correspond to the transport priorities from the control list of tasks suggested by the Commission:

- For the Internal Market without borders;
- For the maximum amount of funds to be allocated for establishing the foundation of the future Trans-European transport network and as compensation for the lack of funds for the automobile road network;
- For SMEs, including transport, with emphasis on forms and methods of access to financial sources for SME support in preparing to cope with the pressures of the Internal Market.

4.3.1. INSTITUTIONAL ASPECTS

The implementation of the obligations and regulations related to national pre-accession preparation and the monitoring of this process should be carried out under the joint direction of the Commission and the National Coordinator with the leading involvement of the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Justice and Legal Eurointegration, the Ministry of Regional Development, the sector ministries and the Bulgarian National Bank.

The Ministry of Transport should strengthen the respective implementation and control units for infrastructure projects at the level of TEN-transport. To this end it will be necessary to change the structural regulations of the Ministry and to create a Directorate of Transport Policy and Eurointegration with a number of objectives, including:

- coordination and control of the implementation of measures linked to legislation in transport and the relevant regulatory framework, including transport safety, in accordance with the NPAA (transport section);
- accelerated preparation of the TEN-transport priority projects of mutual interest and the maintenance of relevant databases. In the section related to roads and highways there should be cooperation with the Roads Directorate at the Ministry of Regional Development;
- participation by the Roads Directorate at the Ministry of Regional Development in the joint bodies of the Commission and Bulgaria for coordination, control over the implementation and reporting on the work carried out in the framework of the Accession Partnership.

It should be noted here, that the Council for Infrastructural Policy (CIP) established at the Council of Ministers should confirm projects and initiatives drafted and approved by the Ministry of Transport. The CIP has the appropriate competencies, representatives and tradition of cooperation in international organizations (such as the European Conference of Transport Ministers, the Transport Commission of the Economic Commission for Europe of the UN, the Council of Transport Ministers of the EU, etc.). To this end, the priorities of transport in the development of the transit infrastructure of TEN-transport should be defended and decided on the basis of the opinion of the Ministry of Transport.

4.3.2. PERSONNEL ASPECTS

The existing employees in the Ministry of Transport and the Roads Directorate can be retrained; also, the R&D units within the system of the National Railway Company and the Ministry of Transport, the Institute of Air Transport, "Transproekt," etc., have the potential for providing personnel with the necessary skills (professional training, minimum work experience, knowledge of the transport system in Bulgaria to the minimum necessary level, and knowledge of foreign languages). It will be necessary to recruit for the new units in the Ministry of Transport on the basis of a competition. Candidates who fulfill the requirements should take part in specialized training courses organized under Phare technical assistance.

4.3.3. DEVELOPMENT OF PROJECTS IN THE AREA OF TRANSPORT INFRASTRUCTURE

The joint work with the European Commission on the final formulation and timing of the priorities for the development of transport infrastructure in Bulgaria should be integrate objectives by seeking the support of Greece for their smooth implementation. National interests, in the context of regional stability in the Balkans, should also be leading principles. The complexity of the problems is increased by government commitments in the context of the initiatives for cooperation, good neighborliness and stability in South Eastern Europe. Another aspect to be considered is the coordination of interests under the Black Sea Economic Cooperation and the bilateral agreement with neighboring countries and those of the Black Sea basin.

From a technological and economic point of view the combined transport of goods via roads, railway and the internal European waterways should be further developed. Priority projects could be: along Corridor No. 4 in the section Arad-Kraiova, the future second bridge over the Danube-Sofia-Thessaloniki, Corridor No. 7 to the river ports of Lom/Vidin and Russe (system of internal waterways Rhine-Main-Danube) and the Russe-Varna (Varna sea port) railway line.

The implementation of the commitments of pre-accession preparation in the area of transport—primary and secondary legislation, a national strategy for developing the infrastructure for the Trans-European networks in Bulgaria, specific projects with a maximum level of readiness for finance, etc.—is the responsibility of the Ministry of Transport and the Transport Safety Inspectorate of the individual types of transport.

4.4. TELECOMMUNICATIONS

4.4.1. CONDITIONS FOR THE USE OF THE STRUCTURAL FUNDS

The structural funds are not an independent financial source. They are used as an addition or contribution to the so-called “national structural operations.” The objectives, content and expected results of such an operation must be agreed upon, from the outset, on the basis of consultations between the European Commission, the member state and the relevant competent institutions. In the event that a structure has already been allocated financial assistance from the structural funds, funding from the EIB and other financial instruments could be sought.

Forms of assistance vary. The structural funds can be used for the existing operative programs or for appropriate specific projects. In certain cases, they can be used to provide technical assistance, non-refundable assistance or assistance to a national scheme for support. The most integrated approach is the development of operative programs which envisage the use of different structural funds for a series of measures to be implemented over a number of years as well as the assistance of the EIB or other financial instruments. This, however, does not mean that they can be used at the same time or in parallel. Within each period, financial assistance may be provided once for each individual measure or structural operation from one structural fund only. If some of the measures or structural operations lead to the implementation of one or more objectives at the same time, they may be financed only in relation to one of the objectives defined for this period. Moreover, a territory may receive assistance for the implementation of only one of the objectives. As can be seen, the regulations are very strict and aim at avoiding any possible duplication of financial assistance. (Clarification of the forms of use of two of the structural funds, ERDF and the Cohesion Fund, are shown below). On the other hand, assistance from the EIB is provided via the partial financing (crediting) of individual investment projects or programs, and the partial financing of technical assistance or guarantees.

As was indicated above, the communications sector has most direct impact on the implementation of Objective 1. Here, the member state has to present the European Commission with a Regional Plan for Development. It is possible for a number of member states to present a joint Regional Plan. On the basis of these plans and joint consultations, the Commission develops framework programs for structural operation assistance at the Community level.

When considering communications as an instrument for Objective 2 it is necessary for the member state to develop a regional and social plan for harmonization together with a list of the problem regions. Following consultations, the Commission develops a framework program for harmonization of structural operations.

With the development of these framework programs, and through other means (budget forecasts, monitoring, etc.) the European Commission coordinates the activities relating to the various structural funds, the EIB and other financial instruments. Wherever possible, integrated forms of assistance are sought.

4.4.2. ORGANIZATIONAL ASPECTS

The fact that communications projects may not apply independently for support from the structural funds means that teams must establish a high level of coordination with each other and must examine issues in the context of their interdependence. The individual institutions must present their views in relation to:

- the need and the justification for including the particular activities in projects related to the implementation of one of the objectives for economic and social harmonization;
- various ways a given territory could be eligible as a unit of the relevant area of activity in the projects;
- the possible mutual links with other areas of activity which can be covered in the same territory.

Joint working groups should be created for the development of the projects, including experts in territorial development, economic and other activities, and from different areas of infrastructure. It would be appropriate for the coordination of teams to be carried out by the Ministry of Regional Development and Public Works.

The Committee of Posts and Telecommunications should study closely the conditions for participation in the TEN project in order to make use of opportunities for the development of information services.

During the preparation, it is advisable to adhere to the following organizational scheme:

- The National Plan for Economic Development should examine both the development of the country as a whole as well as that of the regions without placing any preliminary limitation on the interpretation of the concept of region (it does not have to correspond to any territorial administration in the country).
- As a result of the interdependent nature of social and economic development considered from a territorial point of view, it will be expedient for this plan to be carried out not so much at the ministerial level but by joint working groups who will examine the issues in their entirety. The ministerial approach would not lead to the harmonious development of a given region.
- A definite link should be sought between the level of economic development, infrastructure and the existing social problems. Particular attention should be paid to the border regions where poorly developed infrastructure does not create good conditions for general economic and social development.

- The formulation of plans for the development of regions, on the basis of Objective 1, has to look for a truly integrated resolution including both the development of individual infrastructure elements (energy, transport, communications, etc.) and the possibilities for the development of suitable dominant economic activity, all combined with the relevant social measures. This will allow for the more complete and diversified use of the structural funds, and the most suitable fund and method of finance shall be found for each area of activity.
- The basic principle of the development of the National Plan, notwithstanding whether it is applied to the country as a whole or to individual regions, should be to do away with any previously self-imposed limitation on the precise measures which need to be taken, the method of finance and the funds to which the requirements should be submitted.

4.5. SOCIAL POLICY

4.5.1. STRUCTURAL CHANGES IN THE REGULATORY FRAMEWORK, IN THE EXECUTIVE, AND IN THE ADMINISTRATIVE CAPACITY FOR SOCIAL PROGRAMS

The specific activities which Bulgaria could propose in the framework of the new Objective 3 could be grouped in the following general categories:

- measures accompanying economic and social changes;
- the creation and development of systems for training, retraining and professional development;
- active labor market measures;
- action against social isolation.

The new law on Protection against Unemployment and Encouragement of Employment, passed in 1997, provides a favorable regulatory and administrative environment for the gradual adaptation of the Bulgarian labor market to European social standards. Specific legislation, however, cannot achieve this objective alone. There are a number of deficiencies in certain regulatory acts which effect the character of national social policy and, in particular, the labor market policy.

4.5.1.1. Legislative measures

An important measure in relation to the possibilities for the full involvement of Bulgaria in the structural funds and, in particular, the ESF, is a configuration of territorial districts based on economic criteria. To this end, the expected changes in the Local Government and Local Administration Act of 1991 should take into account regional features of the workforce and its mobility.

Another significant pre-condition for the gradual mitigation of regional differences is the development of flexible forms of employment, including the stimulation of the supply and demand for hourly paid part-time work, temporary or seasonal employment, etc. The current regulatory framework restricts the possibility for similar forms of employment. The main reason is the lack of balanced schemes for social security. Although separate from the state budget, the Social Security fund and the Professional Training and Unemployment fund are burdened with fiscal functions which have a very unfavorable effect on the demand for labor and on the development of flexible forms of employment.

4.5.1.2. Proposals for administrative measures

The development of local government in Bulgaria has passed through a number of stages of liberalization. The autonomy which the municipalities achieved

in 1991 in relation to budget determination and decision making in the main spheres of social policy has been gradually expanded through changes in the methodology of relations between the central and municipal budgets after 1993. The municipal councils independently determine a significant part of their economic and social priorities in the allocation of funds from their own income and subsidies from the central budget, and finance more than 60% of their educational, health, social and infrastructure services in the budget sphere. About half of the investments in these activities are also financed from the municipal budgets. The demand for work in the municipal services and activities is typically very elastic and is important for the resolution of unemployment, depopulation and low living standards among the local population.

At the same time, decentralization creates a stable basis for adaptation of the administrative structure to the requirements of European structural policy, the main objectives of which include the expansion of the involvement of local executive authorities in the decision-making process.

The process of adopting the requirements for the use of funds from the ESF will be eased to a large extent by the existing tradition of decentralized social policy in Bulgaria. There is a lack, however, of adequate mechanisms for the coordination of regional priorities. According to current practice in the national Phare programs, the Council of Ministers is the primary body which coordinates the executive authorities. It will not fulfill this function effectively in relation to the structural funds since it would not be able to balance the interests of the autonomous territorial units. Accordingly, there is a need to discuss the possible alternatives for the development of a national coordinating body and to study the experience of the member states of the EU. In each state there is a range of different administrative structures, adapted to national features of administration and the allocation of responsibilities between the central and local executive authorities.

Any assimilation and analysis of this experience should involve not only the administrative personnel and representatives of the central executive power but also the members of the National Association of Municipalities in Bulgaria, as this organization has consultative functions in the discussion of draft regulatory acts and national programs related to regional development.

4.5.1.3. Understanding the requirements for program design

Taking into account the fact that structural fund co-financing will take place on the basis of a multiannual program for each region, the representatives of the local authorities in Bulgaria will have due time in which to orient themselves towards an integrated approach in the drafting of strategies, programs and regulatory acts aimed at the implementation of economic and social policy. The requirement for a minimum three-year projection in the drafting of the state budget, as set out in the Structure of the State Budget Act in 1997 should also be applied to the drafting of local budgets. In the majority of cases, however, there is a lack of sufficient non-aggregate data and analyses which would serve the local authorities in establishing the local framework of financial and economic policy and in developing a medium- and long-term strategy for regional development.

The procedure for planning and implementing these programs should be subordinated to the accepted standards and models for their development. At the same time, the parameters of planning and management have to be adapted to the needs and the prospects of regional development in Bulgaria. In connection with this, there is a particular need for the study and transfer of the experience of the European Union as well as discussions about possible alternatives.

The first steps in this direction were taken before the Europe Agreement was put into effect. In 1994, a National Seminar on Regional Development and Investment Policy was held, emphasizing, among other things, the clarification

of the potential of European structural policy in the social sphere and the presentation of a principle scheme for the development of a regional program.⁸

The SPP identifies as one of its main priorities the transfer of expertise in relation to EU structural policies. Such a transfer includes the organization of seminars, conferences and local working groups focused on the problems of the principles and procedures of structural policy (particularly of Objective 1) and the development of industrial regions in decline.

4.6. FINANCIAL ASPECTS OF THE PRE-ACCESSION PERIOD

Bulgaria's movement toward harmonization with the structural funds through its pre-accession involvement in the emerging programs and financial instruments, and the long-term financial commitments resulting from that movement, prompt the following conclusions.

The current practice regarding the involvement of Bulgaria in programs of the European Union with the relevant financial contribution from the national budget is to a large extent chaotic and there is no preliminary organization and agreement between the individual institutions involved in this process. Also, it should not be forgotten that under a currency board and approved budget deficit there is an even more categorical need for a simplified, flexible and dynamic functioning mechanism for the coordination of Bulgaria's participation in the pre-accession process, more so for the preparation and the implementation of the financial instruments ISPA and SAPARD.

5.6.1. SHORT- TERM OBJECTIVES:

- the timely creation of a National Fund into which will be channeled the entire flow of financial funds provided by the European Union to Bulgaria in relation to present and future programs, including those for participation in the structural funds. This must be established and its functions determined by the National Assembly through a relevant law by the end of September 1998. Unless this is done, Bulgaria will be faced with the real danger of the European Union blocking Phare funding for 1998, including the Special Preparatory Program for 1998-1999 which amounts to 7 million ECU;
- the creation of a Central Coordination Unit for the implementation of the Special Preparatory Program with representatives from the ministries of: Finance; Foreign Affairs; Transport; Environment and Waters; Agriculture, Forests and Agrarian Reform; Labor and Social Policy; Regional Development and Public Works, as well as representatives from the cabinet of the Prime Minister. All the representatives of these institutions should be appointed to work full time for a period of two years. This is extremely urgent since this unit will have to prepare proposals for government decisions concerning the new legislative measures, mechanisms and implementation structures in relation to the preparation for the use of the financial instruments ISPA and SAPARD from the year 2000 onwards;
- the creation of the necessary legal framework for the preparation of a National Plan for the Economic Development of Bulgaria and the Plan itself (currently underway);
- the preparation, agreement and finalization of the bilateral agreements between Bulgaria and the European Union for regulation of the activities of ISPA and SAPARD. The process needs to be completed before the commencement of the preparation of the state budget for the year 2000; i.e., during the first half of 1999.

⁸ Dr. Paris Kokorotsikos, report to the National Seminar on regional development and investment policy, Sofia, 17-18 March, 1994.

4.6.2. MEDIUM-TERM OBJECTIVES:

- The preparation of a seven- year plan for the development of agriculture in relation to SAPARD, duly linked with the relevant financial resources from the national budget, funds from the European Union and alternative sources of financing from international financial institutions;
- the development of an adequate financial mechanism for the management, monitoring and control of incoming funds from the national budget, from the European Union and alternative sources of finance from international financial institutions for the objectives of ISPA and SAPARD. This mechanism should function from the beginning of the year 2000;
- the complete harmonization with the *acquis communautaire* in the area of state aids and competition;
- training of the Bulgarian civil service to implement these objectives.

In conclusion, it should be clearly emphasized that Bulgaria is facing a process of significantly increasing the roles of the budget and financial participation in ISPA and SAPARD as forms of adaptation to the structural funds of the European Union. It is necessary to take into account the macro-economic framework, the aims and objectives in developing the state budget, when dealing with the realities and requirements of the process of Bulgarian accession to the European Union. This is the key to the successful combination of national financial resources with the financial instruments of ISPA and SAPARD as a form of Bulgaria's participation in the Cohesion Fund and the European Fund for Guidance and Guarantees in Agriculture.

APPENDIX 1: CHARTS

CHART 1.

Regional Development - Infrastructure, Economic Development And Regional Assistance

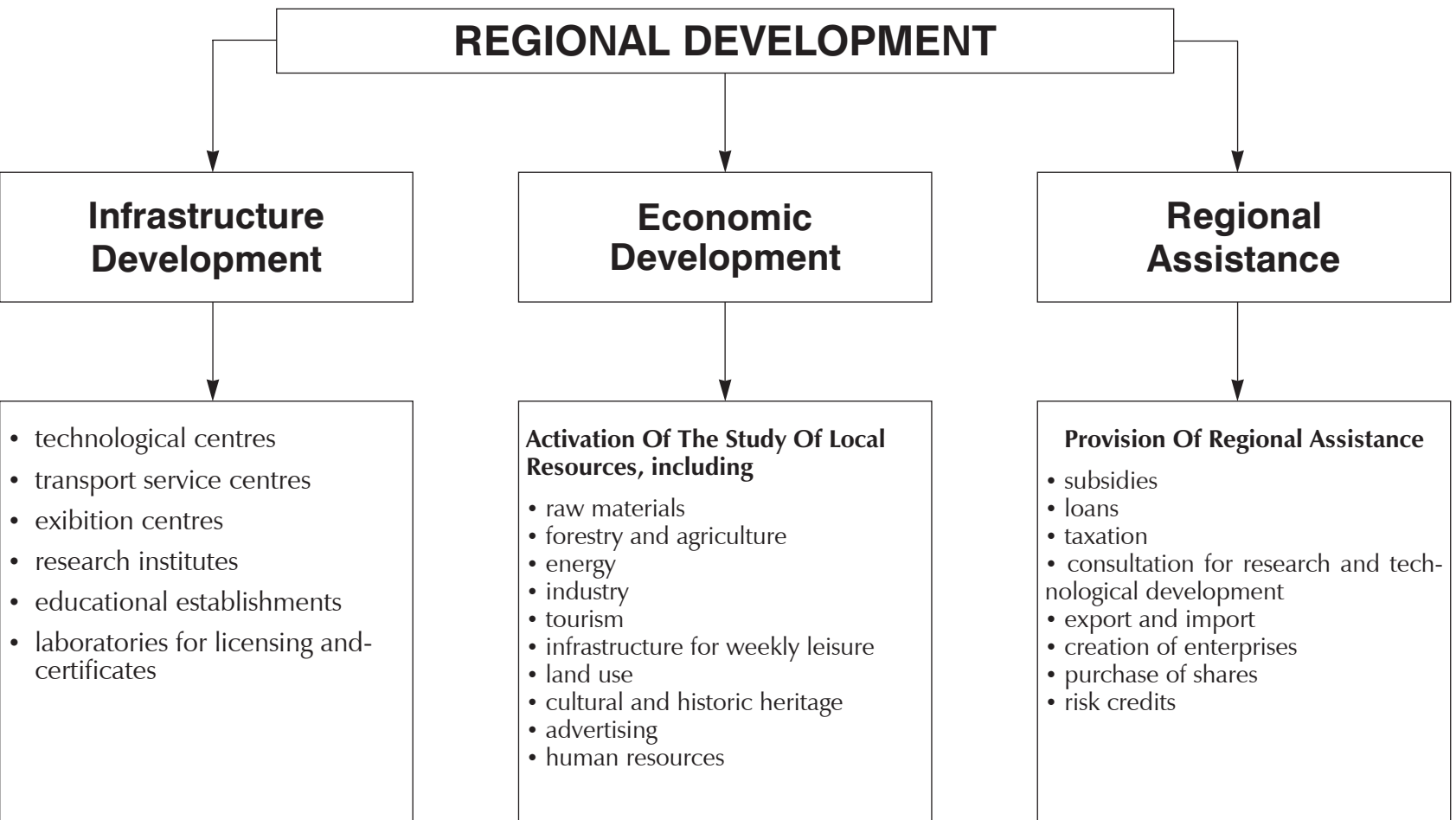


CHART 2. Regional Development – Institutional Links And Partnership

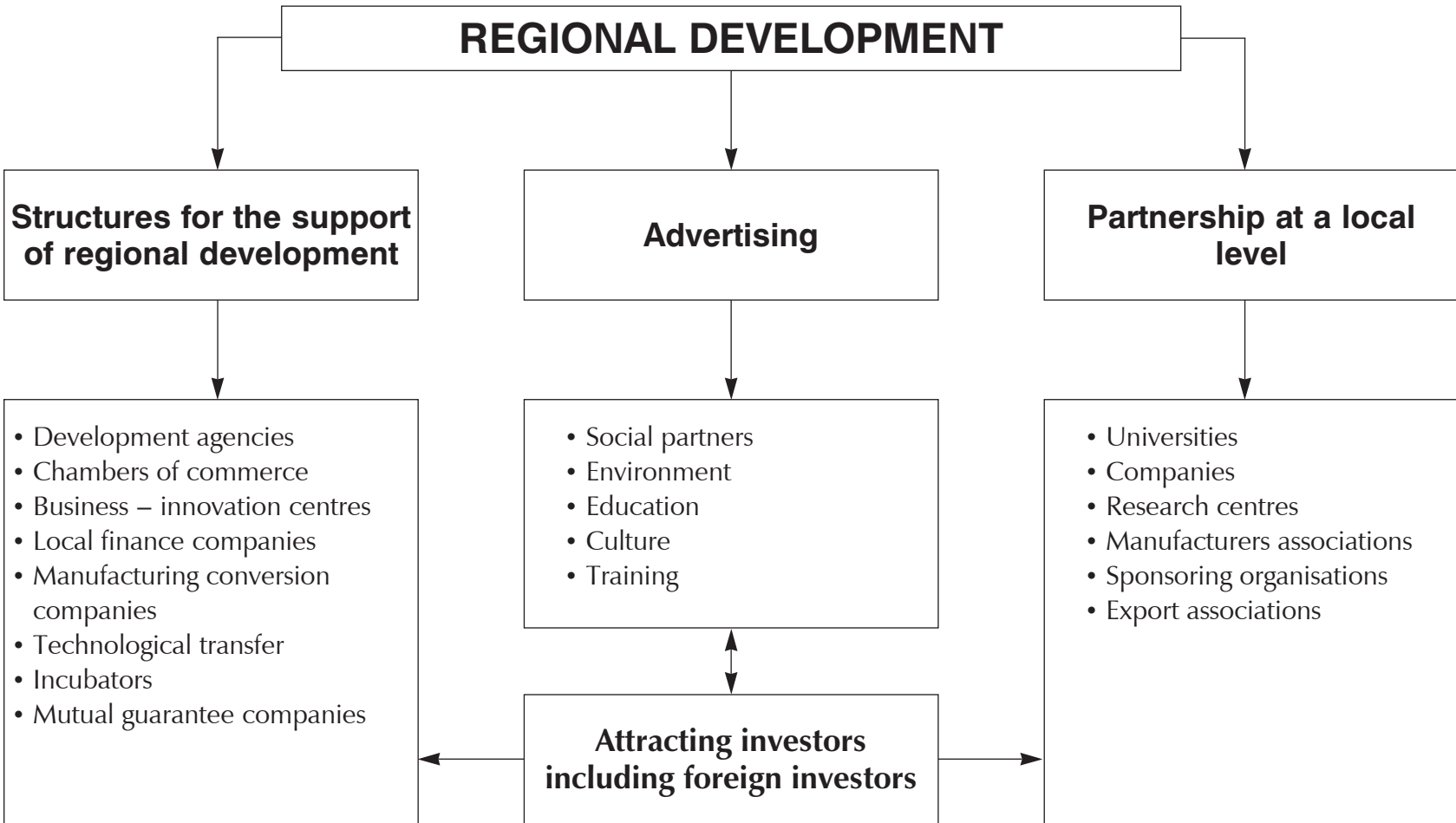
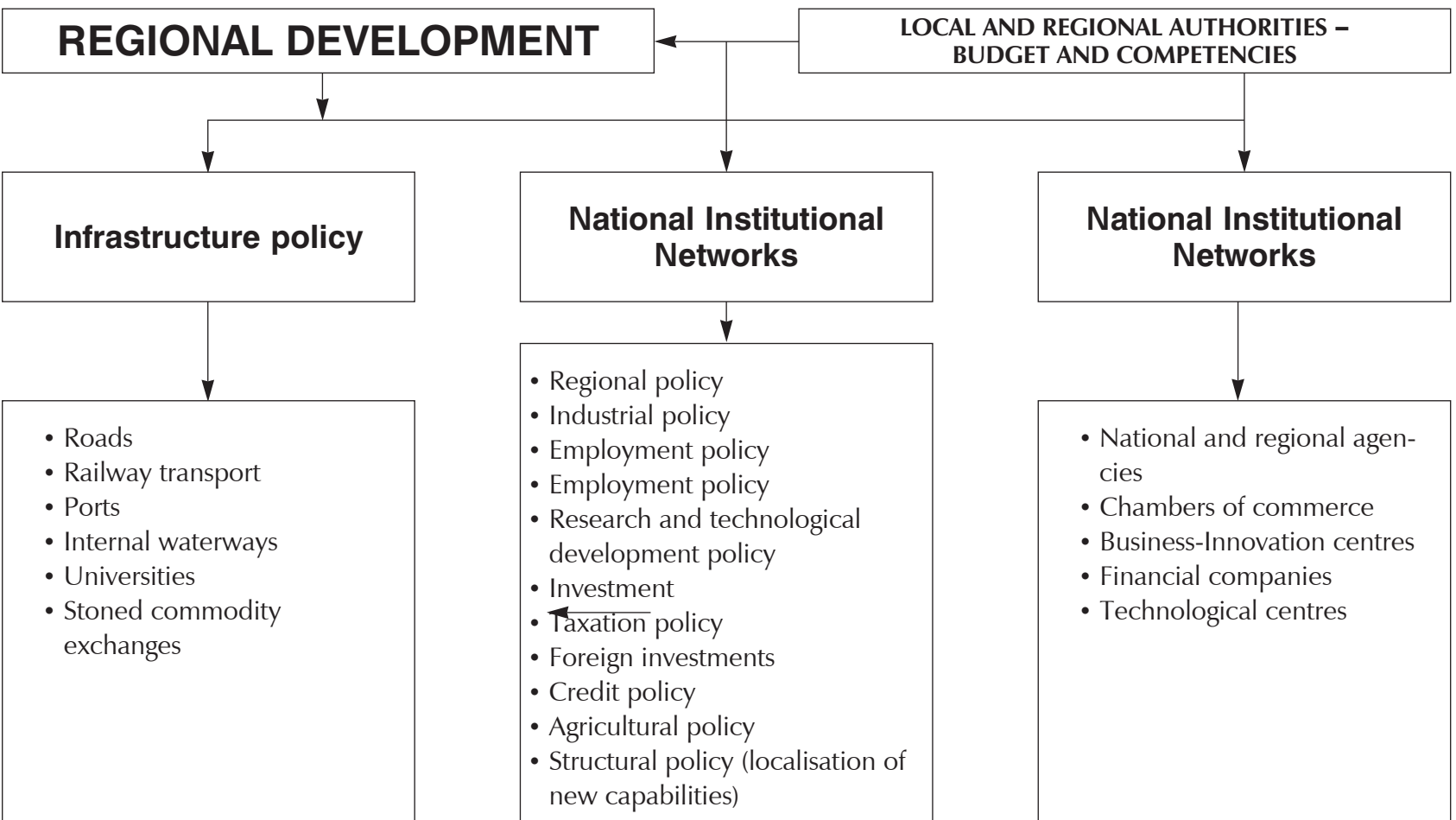


CHART 3. Regional Development – Links with the National Policy for Macro-Economic Development



APPENDIX 2

TABLES

TABLE 1. Levels of employment and registered unemployed on the associated CEEC (year 1996)

Country	Level of employment in % of the work capacity population)	Level of unemployment (in % of the economically active population)
Hungary	64,2	12,8
Poland	66,1	11,1
Rumania	75,6	8,9
Slovakia	66,0	13,8
Latvia	83,3	6,4
Estonia	80,6*	2,3
Lithuania	79,7	6,1
Bulgaria	69,8	10,9
Czech republic	77,5	3,0
Slovenia	53,8	13,9

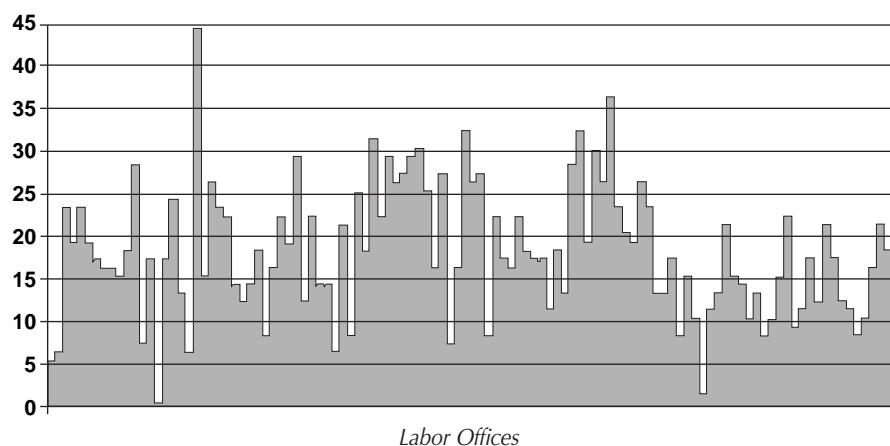
* During 1994

Source: ICDC, UNICEF, Fourth Regional Monitoring Report, Florence, Italy, 1996

TABLE 2. Programmes and funds granted for industrial regions and regions in decline (1997-1999)

	1991	1992	1993	1994	1995	1996	1997
Level of unemployment	11%	15%	16.4%	12.8%	11.1%	10.9%	14.1%
Long term unemployed— – Relative part	—	—	1521 21 24.3%	1252 58 25.6%	1214 28 28.6%	110 868 28%	1200 67 22.5%
Women – Relative part	228 400 54.2%	3023 92 52.4%	3312 28 52.9%	2653 40 54.3%	2357 93 55.5%	269 133 55.2%	3082 65 52.7%
Under 24 years – Relative part	121 871 29.1%	1597 97 27.7%	1678 05 26.8%	1172 21 24%	1055 31 24.8%	118 672 24.1%	1287 02 21.9%
Without special professional education – Relative part	135 798 32.4%	2838 31 49.8%	3143 23 50.2%	2583 86 52.9%	2400 35 56.7%	262 873 53.7%	3401 45 58.2%

Source: National Employment Service of the Ministry of Labor and Social Policy

GRAPH 3. Unemployment Rate by Labor Offices 1998 (in %)

Source: National Employment Office

TABLE 4. Programmes and funds granted for industrial regions and regions in decline (1997-1999)

Countries and Regions	National budget funds (million ECU)	Structural funds (million ECU)
B Turnhout	72276	32858
F Alsace	49970	21920
Auvergne	164630	82315
Basse-Normandie	231383	80330
Bourgogne	156385	69702
Bretagne	271084	118334
Centre	81364	37987
Chempagne-Arednne	243205	113806
Haute-Normandie	412590	164200
Nord-Pas-de-Calais	915123	375392
Pays de la Loire	348185	162493
Picardie	303447	139569
Poiatou-Charentes	141891	62857
Provence-Alpes-Cite d'Azur	353534	154400
Rhene-Alpes	300671	148870
I Emilia-Romagna	38416	14171
Toscana	412109	158930
NL Zuid Limburg	162007	65523
UK Plymouth	78792	38590
Thanet	77291	22393

Source: EC DG XVI Lettre d'information No 41, Juin 1997