INSTRUMENTS OF EU COHESION POLICY FOR BULGARIA

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Abstract

The Cohesion Policy of the European Union is the most important one for the integration process of the Member States. The present 2014-2020 programming period has a number of new financial instruments for the implementation of the Cohesion Policy. Thus, each Member State may implement these instruments for the specific needs of its operational programs. The purpose of the paper is to present the opportunities of the financial instruments of the EU Cohesion Policy for Bulgaria and to analyze the absorption process possibilities and problems for this policy.

Key words: *EU funds absorption, Cohesion policy, Bulgaria, EU funding financial instruments*

Introduction

The European Union in 2014 consists already of 28 Member States and each one has its own policy regarding economics and finance. It is true that uniting many and different countries in order to establish a leading entity in the world economy is not an easy task nor for the European institutions and administration, nor for the Member States themselves.

In the history of the European Union and European integration, various documents and acts exist supporting the process of uniting of the Member States. Moreover, the Treaty of Lisbon adopted in 2007 and took into force in 2009, provides the legal tool for: a) a more democratic and transparent Europe; b) a more efficient Europe; c) a Europe of rights and values, freedom, solidarity and security; and d) a Europe as a global player (European Commission, 2014). These targets of the Treaty are possible and achievable if Europe transfers into more homogenous entity, i.e. higher economic growth and living standards in all Member States and thus excluding the economic “gaps” among them.

As the European Union implements its common policies (trade policy, agricultural policy, competition policy, and more recent foreign affairs policy and defense policy, etc.) in order to achieve the above mentioned goals, it is of great importance not only to follow the economic and social changes in world economy but to establish a competitive and sustainable European economy as well.

One of the crucial policies of the European Union is the cohesion policy that is directed to reducing the social and economic differences in the regions in the Union and in the Member States and to increasing the competitiveness of the economies. As the European economy until 2020 targets a smart, sustainable and inclusive growth, one of the significant tools for achieving these objectives is the implementation of the cohesion policy. Thus, the European economy will be able to keep its leading role in the world and the world economy.

If otherwise, the process of increasing the differences between the regions within Europe may affect the future development of the Union and new crises may erupt. Therefore, the successful implementation of the present cohesion policy until 2020 is important for overcoming the discrepancies in the EU and for sustainable positioning in the world economy.

The main objectives of the cohesion policy are (Ferrara, Ivanova &Kancs, 2010):

- Convergence. This objective is focused on the least developed Member States for promoting investments in infrastructure, human capital and research and development in those countries;
- Regional competitiveness and employment. The covered areas for the Member States outside the convergence objective are promotion of entrepreneurship, protection of environment, R&D and investments in human capital;

- Territorial cooperation. It concerns the cross-border cooperation, transnational cooperation, exchange of experience.

The implementation of the cohesion policy and the policy objectives in particular is possible through the EU budget, i.e. EU funding and the financial instruments of the policy. At national level, the operational programs of the Member States transfer the EU funding to the final beneficiaries and thus they may implement the European policies and absorb the funds.

The funding of the programs and projects is achieved by direct payments from the budget of the European Commission (about 20% of the whole budget) which is possible for specific areas (R&D, education, transport, energy). The rest of the funding is implemented through the EU funds to the operational programs of the Member States. Usually in this type of funding (direct payments by the EU budget or the EU funds), there is a co-funding for the final project provided by the final beneficiaries or the government budget if the beneficiary is the state.

The European Union has also other financial instruments to perform specific activities, e.g. EU Solidarity Fund, financial instruments with the European Investment Bank/ European Investment Fund, Instrument for Pre-Accession. These financial instruments are applied in specific cases and they are designed to achieve a specific goal. For example, the financial instruments of the European Investment Bank allocate funds to small and medium sized enterprises in the Member States under a credit line (actually one of the financial instruments of the cohesion policy). In addition, of the funding by various financial instruments, it is possible to provide grants to the Member States where no co-funding is needed. Some of the instruments are part of a certain policy of the European Union.

The purpose of the paper is to present the opportunities of the financial instruments of the cohesion policy for Bulgaria and analyze the opportunities and the issues in the absorption process within the policy. Thus, the paper examines these issues in two main parts: the first one focuses on the financial instruments of the policy and especially on the changes made for the new programming period. The second part of the paper reviews the opportunities for Bulgaria and of course, the lessons learnt so far from the first programming period of the country as a Member State. Some suggestions for the present programming period are made at the end of the paper.

In the paper are used recent studies and papers from the European institutions, primarily the European Commission and European Parliament and some of the general directorates, especially the Regional Policy and Budget directorates. Useful for the analysis was the information of the European Investment Bank about the Cohesion Policy for the present programming period (2014).

The analysis in the paper is based on up-to-date information for the absorption of EU funds in Bulgaria from the Ministry of Finance of Bulgaria and the Single Information Web Portal for the EU Structural Funds (2014).

Recent studies and papers in the field of European funding absorption are reviewed as well. Usually the cohesion policy is regarded as a tool for increasing the economic growth of a country, e.g. Bulgaria and in their recent study of Paliova and Lybek (2014) analyze the growth potential and the management of the post-accession funds. The opportunities for absorption of the EU funding are discussed in the framework of the public private partnership as the cohesion policy is regarded as an investment policy (e.g. Dobreva 2013). Another point for discussion of the cohesion policy and its implementation is the cost-benefit analysis of the projects presented by the Directorate General Regional Policy (2008).

The cohesion policy has a significant impact on the development of the small and medium sized enterprises in the Member States as they are a successful tool for reducing the number of unemployment and increasing the level of innovations in each one of the countries. Thus, the European institutions such as European Parliament (2011) and Lopriore and Pati (2012) analyze the impact of the cohesion policy on the potential for growth, SMEs and microcredit.

1. Financial Instruments of the Cohesion Policy

Actually, the financial instruments of each policy are the funds of the European Union that are used to implement the European policies in the Member States. The cohesion policy has its objectives and priorities for each of the programming period it is applied.

When the European Union planned the multi financial framework for 2007-2013, the world and the European economy were in economic growth. However, the priorities such as sustainable growth, convergence, etc., were influenced by the debt and financial crisis in the Euro area. Nonetheless, the European institutions continued their work on the implementation of the planned activities for each of the EU funds. Moreover, the priorities and objectives of that financial framework reflected on the preparation process of the present program.

The priorities and objectives of the EU for the 2014-2020 are presented in the strategy Europe 2020: strategy for smart, sustainable and inclusive growth. The strategy is a document of EU that aims to ensure consistency in the implementation of the European policies. By that strategy EU will target to its recovery from recession and to continue with its economic development until 2020. In order to achieve these results there are priority areas that are financed, such as (European Commission 2010):

- Developing an economy based on knowledge and innovation (smart growth).
- Promoting a more resource efficient, greener and more competitive economy (sustainable growth).
- Fostering a high-employment economy delivering economic, social and territorial cohesion (inclusive growth).

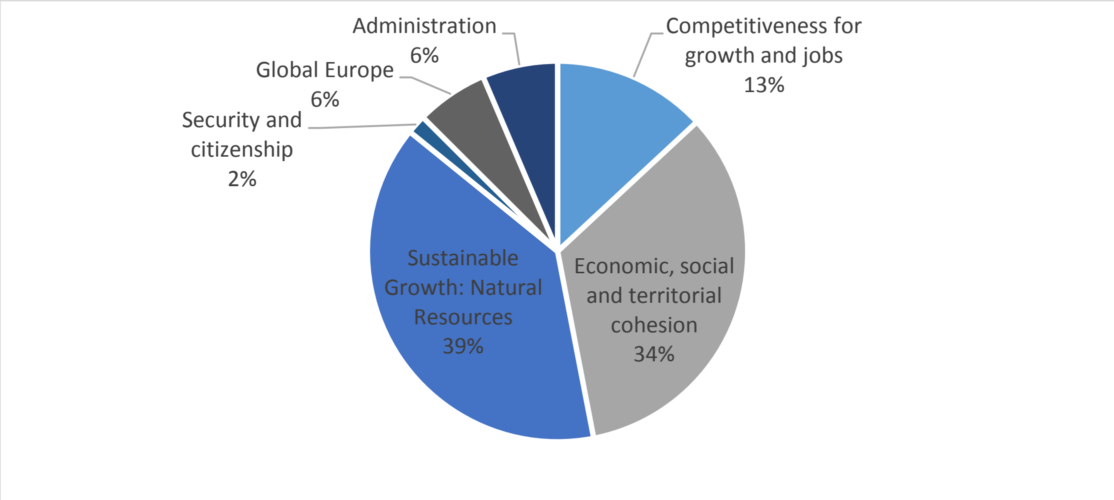
The financial instruments for the implementation of the cohesion policy and for achieving its goals are the EU funds. However, there are special financial instruments applied to the some target areas of the cohesion policy. In the paper are reviewed both the funds and the special financial instruments of the cohesion policy.

For the 2014-2020 programming period the applicable funds for the cohesion policy are European Social Fund, European Regional Development Fund, Cohesion Fund, and the newly added to the cohesion policy implementation European Maritime and Fisheries Fund and European Agricultural Fund for Rural Development.

For the programming period 2007-2013 the financial instruments of the cohesion policy included only three funds – European Social Fund, European Fund for Regional Development and Cohesion Fund. In order to speed up the absorption process by the member states the European Commission include the two funds in agriculture as well. Thus, all the funds can cooperate in different policies in order to speed the absorption of the EU funding and to favor the managing authorities and beneficiaries.

The total amount of funding for the 2014-2020 by the five funds is EUR 960 billion and the amount for the cohesion policy only is EUR 325 billion or about 34% of the whole EU budget. Figure 1 shows the share of the cohesion policy budget compared to the other priorities of the European Union up to 2020. Actually, the cohesion policy (economic, social and territorial cohesion) is the second for the six-year framework and only the priority concerning the sustainable growth is ahead of the cohesion one with the amount of about EUR 373 billion.

Figure 1. Priorities in Financial Framework 2014-2020



Source: European Commission, Financial Programming and Budget

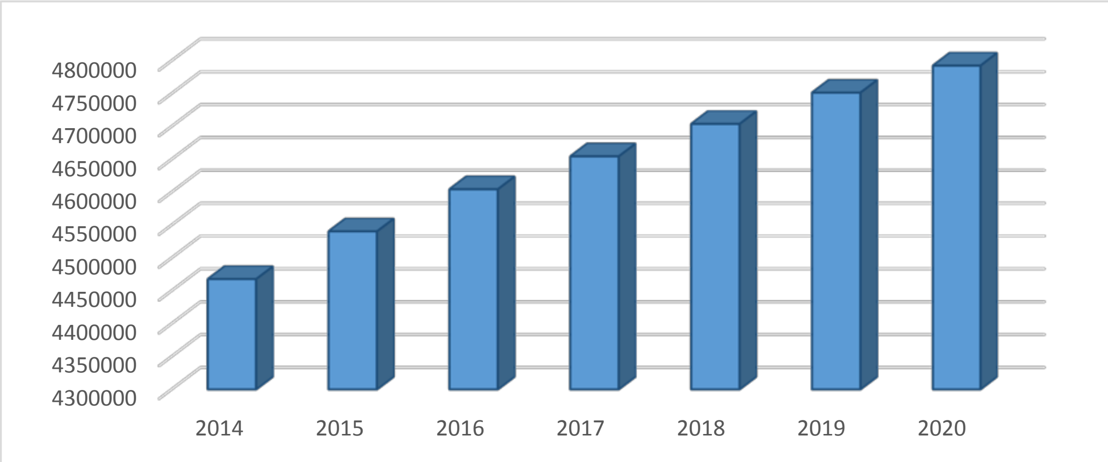
The rest of the funds from the EU budget by 2020 (EUR 635 billion or about 66% of the budget) is for agricultural policy and other policies (e.g. R&D, foreign and security policy, etc.)

Another significant issue for the allocation of resources within the cohesion policy 2014-2020 is the level of development of the each region in Europe. Thus, the level of investment under the cohesion policy depends on the level of development of each region and the allocation of funds is in three categories:

- Less developed regions are those with GDP less than 75% of the EU-27 average. The regions in this category will receive EUR 164 billion under the present programming period and the EU population within this category is about 27% of the whole population of the Union. In the category are regions in different Member States but not the whole country, e.g. Portugal, Greece, Spain, Great Britain, and almost all of the territory and in some cases all of Bulgaria, Rumania, Hungary, Croatia, Poland, Estonia, Lithuania, Latvia and Czech Republic. Less developed regions are a specific target for the cohesion policy and certain measures and activities will be implemented. Each of the regions has its priorities and objectives to fulfil by 2020.
- Transition regions are the ones with GDP level between 75% and 90% of the EU-27 average. The amount planned for these regions is EUR 32 billion for the six-year period and the population included is about 12% of the whole EU population.
- More developed regions are those with GDP more than 90% of the EU-27 average and the amount for them is EUR 49 billion. Actually, the European population in this group is about 61% of all EU citizens, which makes this group the biggest one.

Figure 2 shows the amount of euros invested by the cohesion policy for the programming period 2014-2020. That covers all the regions in the three categories and it is expected that the allocations of funds will increase gradually by the end of the six-year period.

Figure 2. Cohesion Policy Financing 2014-2020, in EUR mln



Source: European Commission, Financial Programming and Budget

How the financial instruments are implemented within the cohesion policy? As mentioned above, EU funds (European Social Fund, European Regional Development Fund and Cohesion Fund) act as financial instruments for implementation of the cohesion policy through the operational programs at national and regional level. However, there are some other financial instruments available for the implementation of the cohesion policy and for the acceleration of the EU funding absorption.

The support through financial instruments is possible by the Article 44 of the European Council Regulation 1083/2006 and it is especially focused on three areas (EC, Regional Policy 2013):

- Enterprises, including SMEs and micro enterprises
- Sustainable urban development
- Energy efficiency and renewable energy resources

Actually, financial instruments were part of the absorption process of the EU funding in the programming period 2007-2013. They were used primarily in order to facilitate the funding of SMEs and start-ups and for energy efficiency, especially for the joint instruments with European Investment Bank and European Investment Fund (e.g. JASPERS, JESSICA).

The types of financial instruments that may apply for the present programming period include equity, loans, loan guarantees, micro-finance and other form of revolving assistance (European Commission, 2012). These instruments can be set up indirectly to holding funds, or through direct contributions to equity funds, loan funds and guarantee fund mechanisms. Thus, the EU funding through the financial instruments reaches the recipients (SMEs, other enterprises, public entities).

The special financial instruments follow the logic and legal framework of the cohesion policy and they act especially in the less developed regions of the European Union where more resources and good practices are needed (low administrative capacity, high unemployment level, low level of entrepreneurship, low density population). When applying the financial instruments in less developed regions the financial return is not at the first place. On the contrary, these financial instruments are value added for the implementation of the cohesion policy and for the less developed regions in the European Union.

The benefits of the financial instruments of the cohesion policy are (European Commission 2014):

- Efficiency and effectiveness gains due to the revolving of the funds and reducing the so called “grant culture”.

- Private sector involvement in the implementation of financial instruments and banks are included as well.
- Private sector support to the public policy objectives.

Moreover, the European Commission encourages the use of financial instruments for the programming period 2014-2020 and more synergy between the financial instruments and the other instruments of the policy are expected. At present date the package of financial instruments for 2014-2020 is not finalized yet as the partnership agreements and operational programs for all Member States have not been adopted as well.

However four special instruments (EC Regional Policy, 2004) have been implemented successfully for the programming period 2007-2013. Two of the instruments are financial engineering instruments (JEREMIE and JESSICA) and the other two are technical assistance facilities (JASPERS and JASMINE).

- JEREMIE – it is an initiative of the European Commission and the European Investment Fund for micro, small and medium sized enterprises. The purpose of the initiative is to improve the access to financial resources of the target group (micro and SMEs) via EU funds interventions.
- JESSICA – it is again a joint initiative of the European Commission with the European Investment Bank and the Council of Europe Development Bank for sustainable investment in urban development.
- JASPERS – a technical assistance facility for the newly joined the EU member States in 2004 and 2007. The purpose of the instrument is to support different projects within the European regions which need co-financing. In 2013 the initiative provided support to 603 projects in 17 countries and the total investment cost of the projects is about EUR 60 billion.
- JASMINE – the initiative provides both technical assistance and financial support to micro-credit providers in order to improve the quality of their operations and to expand their activities.

The financial framework for the 2014-2020 will follow the successful experience of the above mentioned initiatives in order to speed the economic development of the less developed regions in the European Union. The joined initiatives, especially the ones with the financial institutions have shown significant results in the regions.

2. Lessons learnt for Bulgaria and future opportunities

Bulgaria as a Member State of the European Union from 2007 implements the European law and practices in the absorption of the EU funds. However, as a new Member State many obstacles have emerged in the process of absorption of the EU funding.

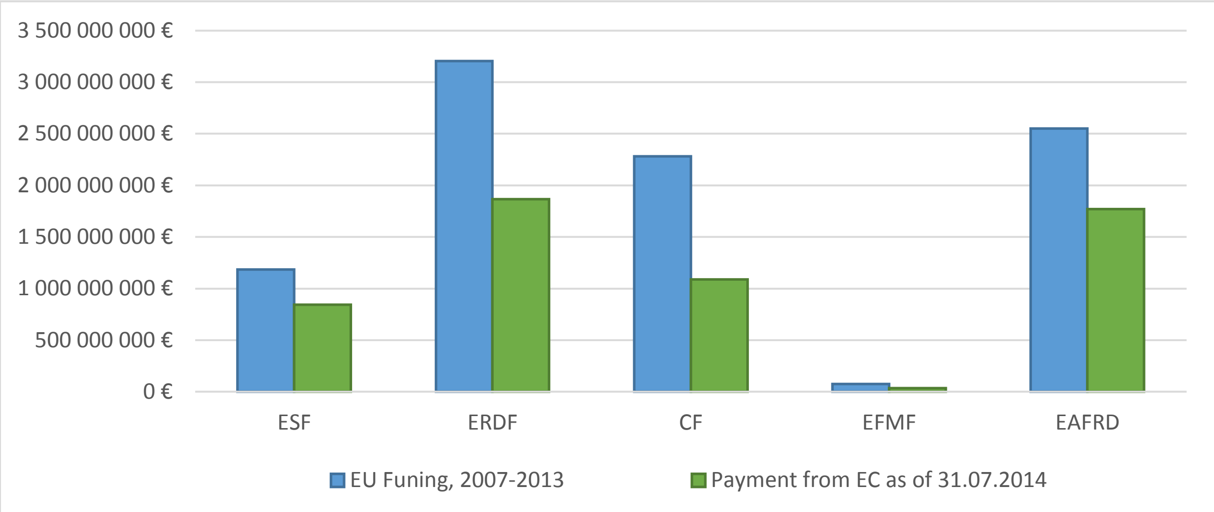
In order to analyze the programming period 2014-2020 it is necessary to present the results for Bulgaria from the previous six-year period and in this way new opportunities can be found and the disadvantages can be overcome. Actually, the financial framework 2007-2013 concerning the EU funding is still in progress and many projects in the operational programs are in process of finalizing. Moreover, the absorption of EU funds may continue throughout 2015 for the projects that have been already contracted.

How the process of the EU funding absorption in Bulgaria is and what is the absorption rate for the country?

The total amount of EU funding for Bulgaria for the programming period 2007-2013 is about EUR 9 301 764 579, and EUR 6 673 328 244 are from the Structural (European Social Fund and European Regional Development Fund) and Cohesion Fund. The European Fisheries Fund and the European Fund for Rural Development finance programs in agriculture for about EUR 2 628 136 355. The allocation of the EU funding by the funds of the European Union is shown on Figure 3. Leader in the implementation of the cohesion policy and in absorption of the EU funding is the European Regional Development Fund.

As of 31 of July the absorption rate[1] of EU funding by funds is European Social Fund 71, 32%; European Regional Development Fund 58, 27%, Cohesion Fund 47, 72%, European Fisheries Fund 47,00%, European Agricultural Fund for Regional Development 69,40%.

Figure 3. EU Funding for Bulgaria 2007-2013, in EUR[2]



Source: Ministry of Finance, Bulgaria

The total amount of the received payments in Bulgaria as of 31.07.2014 is about EUR 5 609 billion or 60, 31% of the EU funding for 2007-2013 programming period.

Each Member State structures its operational programs with the permission of the European Commission. The total number of the operational programs for Bulgaria for the programming period 2007-2013 is seven and another two national plans and programs:

- Operational Program Transport
- Operational Program Regional Development
- Operational Program Competitiveness
- Operational Program Human Resources Development
- Operational Program Environment
- Operational Program Administrative Capacity
- Operational Program Technical Assistance
- National Strategy Plan for Rural Development and Program Rural Development
- National Strategic Plan for Fisheries and Aquaculture and Operational Program for Fisheries

The EU funding and national co-funding of the operational programs for the programming period 2007-2013 is presented in Table 1.

[1] In the paper, the absorption rate of EU funding means the amount of payments received by the European Commission. The national co-funding is not included.
[2] The information is as of 31.07.2014.

The EU funding for Bulgaria and the absorption of the funds as of end-July 2014 (received payments from the European Commission without the national co-funding) are shown on Figure 4. The percentage of the national co-funding differs in each of the operational programs. Moreover, in the EU funding are included the grants that are 100% EU funded. Actually, when the payments are received means that the implementation of the projects and the whole operational program is correct and under the rules of the European Commission

As in the report of KPMG (2013) is stated Bulgaria did not contracted even 10% of the total EU funding for the first three years as a Member State and the absorption started actively in 2010. In fact, in 2012 100% of the EU funding for the funds of the cohesion policy (European Social Fund, European Regional Development Fund and Cohesion Fund) has been contracted with the European Commission. For the other two funds (European Fisheries Fund and European Fund for Rural Development) in the field of agriculture, as of 31.07.2014, the contracted funding is 93, 41%.

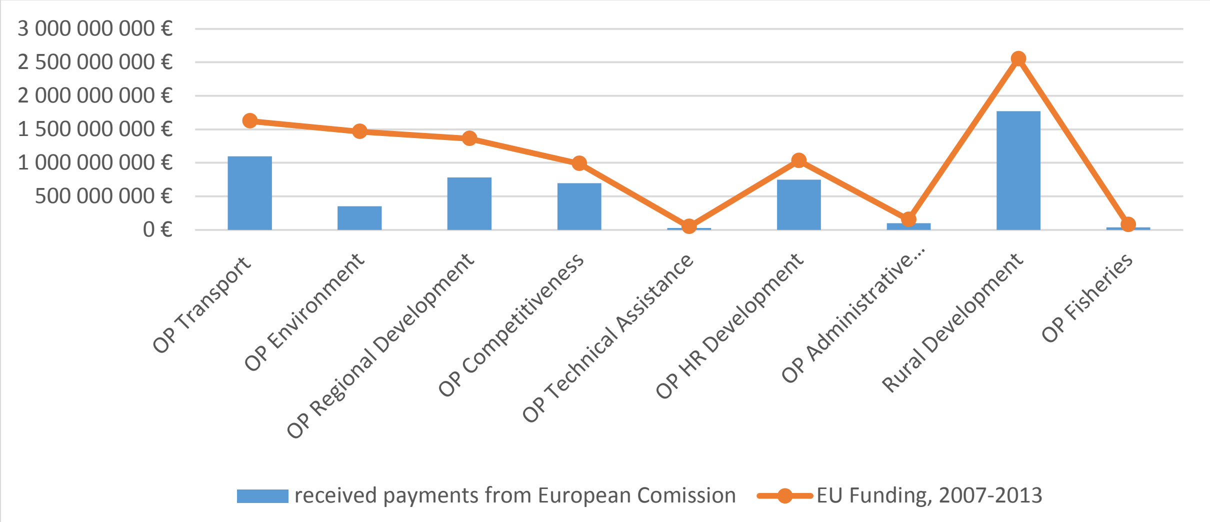
Table 1. Operational Programs Funding in Bulgaria, 2007-2013, in EUR

Operational Programs	**Total**	**EU Funding**	**National Co-funding**
OP Transport	2 003 481 166 €	1 624 479 623 €	379 001 543 €
OP Environment	1 800 748 085 €	1 466 425 481 €	334 322 604 €
OP Regional Development	1 601 274 759 €	1 361 083 545 €	240 191 214 €
OP Competitiveness	1 162 215 552 €	987 883 219 €	174 332 333 €
OP Technical Assistance	56 819 427 €	48 296 513 €	8 522 914 €
OP Human Recourses Development	1 213 869 575 €	1 031 789 139 €	182 080 436 €
OP Administrative Capacity	180 789 087 €	153 670 724 €	27 118 363 €
Total SCF	**8 019 197 651 €**	**6 673 628 244 €**	**1 345 569 407 €**
Rural Development	3 167 917 267 €	2 552 259 588 €	615 657 679 €
OP Fisheries	101 168 996 €	75 876 747 €	25 292 249 €
Total Agricultural Funds	**3 269 086 263 €**	**2 628 136 335 €**	**640 949 928 €**

Source: eufunds.bg

Figure 4 shows the difference between the EU funding for the whole programming period by operational programs and the received payments as of July 2014. An advantage for the country is the possibility to absorb the funds contracted previously in 2015 as well. Thus, the EU funding from 2007-2013 and 2014-2020 will be absorbed in parallel.

Figure 4. Absorption of EU Funding by Operational Programs in Bulgaria, 2007-2013, in EUR[3]



Source: eufunds.bg

In comparison with the other Member States (Deutche Gesellschaft fuer Internationalle Zusammenarbeit 2014) the absorption rate of EU funding in Bulgaria is lagging. As of June 2013, the absorption rate in Bulgaria was 40% (for the funding from the European Social Fund, European Regional Development Fund and Cohesion Fund) and behind was only Romania with 26, 20%[4]. In front of Bulgaria with small difference in the absorption rate was Italy 40, 27%, Malta 40, 86%, Czech Republic 41, 95%, Slovakia 45, 51%, Hungary 47, 71%. At the same time, the best performing Member States are Estonia 70, 95%, Lithuania 70, 83%, Portugal 68, 81%, Ireland 67, 56% and Sweden 62, 58%.

The absorption rate of the EU funding for the programming period 2007-2013 as of June 2013 for all the Member States is 53, 85% or about EUR 187 billion.

The low absorption rate of the EU funding for Bulgaria and Romania in comparison with the other Member States can be explained by the lack of experience in the procedures of the project management and of the administrative capacity. At the beginning of the programming period both the countries does not effectively absorb the EU funding. The other Member States, e.g. the newly joined the European Union ten countries in 2004 had the period between 2004-2007 to adapt to the rules of the project management in EU.

The significant issues for the successful absorption of the EU funding from Bulgaria is in first place related with the problems of the low absorption rate and secondly, with the opportunities for improvement the absorption at the end of the period in 2015 and for the programming period 2014-2020.

For 2014-2020 Bulgaria is going to allocate around EUR 7.6 billion for the cohesion policy, i.e. from European Social Fund, European regional Development Fund and Cohesion Fund. About EUR 5.09 billion are for less developed regions and the funding from the European Regional Development Fund is around EUR 3.57 billion and from the European Social Fund around EUR 1.52 billion. From the Cohesion fund the expected funding is about EUR 2.28 billion.

[3] The information is as of 31.07.2014.
[4] The information in this paragraph is as of June 2013. The absorption rate includes the received payments from the European Commission only.

The special financial instruments for Bulgaria will follow the sample of the four initiatives which were successfully implemented (JASPERS, JESSICA, JEREMIE, JASMINE), e.g. as of 31.12.2013 under the JEREMIE initiative 5 200 SMEs and 250 start-ups were supported at amount of EUR 340 million.

The reasons for the low absorption rate for the programming period 2007-2013 can be summarized as follows:

- Lack of administrative capacity for the project management of the operational programs. Although the pre-accession programs for Bulgaria included additional education and training for the national administration for the post-accession absorption process, the administrative capacity was not high enough.
- The world financial and economic crisis and later the debt crisis in the Euro area influenced on the priorities of the European Union and on Bulgaria. It was necessary to reallocate resources from the budget of the European Union to the unexpected issues. Thus, the newly joined Member States in 2007 were left behind from the focus and they remained with low levels of economic development and standard of living.
- In Bulgaria some sectors of the economy that have not been restructured yet and that increases the obstacles in the implementation of the European priorities. Thus, the EU funding follows the common policies but at the same time they are implemented in sectors that are not restructured.
- In co-funding there are difficulties for the final beneficiaries, especially for the SMEs and start-ups. Although the European Union and the European Investment Bank propose various types of financial instruments, the SMEs in the country are not aware enough of the operational programs and the possibilities they have with that financial framework. Thus, the administration at national and local level needs to present and even promote the European procedures for absorption of the funding in future.

The administration at national and local level has a crucial role in the absorption of the EU funding. The core activities of the administration are at the following stages of the EU funding process:

- Planning. When planning the priorities for Bulgaria for the six-year period they have to be in line with the objectives of the EU Strategy for the 2020 horizon. Moreover, these priorities are in the long run and at least two national governments are going to implement them. So sustainability is of great importance when planning.
- Absorption. The next stage is the absorption process itself and when administrating the absorption of EU funding under the good practices of the EU, the absorption rate can rise.
- The follow-up stage. It is important to define the advantages and obstacles in the programming period 2007-2013 in order to improve the activities for the next period.

The opportunities for the new programming period are in analyzing the disadvantages in the operational programs so far in order to avoid them in the next financial framework and to increase the absorption of the EU funding. The lagging in the absorption is due to the lack of the administrative capacity at national and local level. As mentioned above, the administrative capacity is one of the issues the ten member States that joined the EU in 2004 faced as well.

There is difference in the period between planning and implementation of the EU multi-year financial framework and that changes the outcomes. That is due to the long term (six years or more) and the changes in the external environment. However, these risks in the implementation of the financial framework can be avoided by the financial instruments of the cohesion policy, as they are flexible.

Conclusions

The financial crisis in Europe in the last years might be regarded as an opportunity for each Member State for assessing the economy and its different sectors. Thus, the opportunities for economic and social development are visible beyond the crisis. As the President of the European Commission Jose

Manuel Baroso states that 2010 is a new beginning as the Europe 2020 has been approved and Europe must emerge stronger from the economic and financial crisis. Whether this happens or not we shall see in the near future.

As for the Bulgarian economy, its vulnerability to the changes in the external environment increases the risk for the economy. In 2008 the financial crisis have been "imported" and affected the economic development of the country. So while most Member States are in crisis or recession, an improvement in the economy cannot be expected. Moreover, there are other inner political issues for resolving before the business climate in the country improves sustainably.

However, only the passing of the crisis without doing anything is not the right decision. On the contrary, active measures for improving the business climate in Bulgaria are needed (e.g. for attracting more FDIs and encouraging the SMEs in the economy) and defining the strategic objectives and priorities of the country in short and long run. Thus, together with the European objectives until 2020 in Bulgaria can be defined the priorities for the economy that will be the fundament of the growth after the crisis and recession in Euro area.

The European Union gives the opportunity to continue absorbing of the EU funds under the financial framework 2007-2013 parallel with the new programming period 2014-2020. Thus, the absorption rate may rise and more EU funding may enter the economy. However, it is necessary to define the priorities of the country within the European 2020 horizon.

For the new programming period, it is important to improve the absorption process and to include the financial instruments of the cohesion policy in the agenda of the country. It is necessary for the economic growth of the country and especially for the smart, sustainable and inclusive one, to concentrate on the three priority areas for financing under the cohesion financial instruments – enterprises (including SMEs and micro enterprises), urban development, energy efficiency and renewable energy resources.

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