

# PROGRAM PERIOD 2021-2027 – MAIN TRENDS IN THE EU FUNDS MANAGEMENT IN BULGARIA

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## ***Abstract***

*In the context of cohesion policy, as a member of the European Union, the Republic of Bulgaria needs to achieve a sustainable pace of reducing differences by improving: the quality of infrastructure; investment in human capital; raising standards in education and health care; maintaining the quality of the workforce; removal of administrative and market obstacles in order to stimulate entrepreneurship and investments; ensuring balanced territorial development. The realization of these goals can be achieved through the financial assistance from European funds. The degree and quality of absorption of funds from them in Bulgaria are of great importance for the implementation of structural reforms aimed at increasing the competitiveness of the Bulgarian economy, development of the regions and acceleration of the convergence process. The present study aims to analyse the main trends in the EU funds management in Bulgaria during program period 2021-2027.*

**Keywords:** EU funds, cohesion policy, management, challenges, Bulgaria

## **Introduction**

The cohesion and regional development policy is aimed at reducing the differences in the economic and social development of the member countries and their regions. It involves the transfer of resources between countries through the EU budget, to support economic growth and sustainable development by investment in people, the economy, infrastructure, employment and innovation. The concept of convergence at the European level does not consist in the redistribution of income but can be characterized as a dynamic process aimed at creating resources by stimulating competitiveness and employment. European funds are the main financial instruments of this policy. They are an important source for absorbing various „asymmetric shocks“, which are the

result of the differences in the historical and political development of the countries and regions in the EU. The activity of the funds in the Member States takes place in the form of programmes. They highlight the main problems in the socio-economic sphere and inherently support the government policy needed to solve them.

A key factor for the implementation and realization of the regional policy is the long, complex and controversial process of European integration. The preamble of the Treaty of Rome (for establishing the European Economic Community) defines the need to „reduce disparities between different regions and the backwardness of disadvantaged regions“, because harmonious development and the reduction of disbalances is a way to achieve the fundamental objectives of the Community. To achieve this goal, the financial instruments European Social Fund and European Agricultural Guidance and Guarantee Fund were created. The first enlargement of the EU acts as a shock to the Community and proves that the measures taken are not enough to overcome the differences and clearly defines the need for a policy of solidarity to integrate the newly admitted countries. During the negotiations for this first enlargement, it was agreed to develop new instruments to overcome regional imbalances. To begin with, the ESF was reformed to provide an instrument linking social policy and other Community policies, and in addition, the European Regional Development Fund was created as a redistributive instrument. Regional politics became even more important with the accession of Greece, Spain and Portugal. The need arises for taking actions for overcoming the differences. An action plan is adopted which doubles the amounts for the Structural Funds for the period 1989-1993 (First „Delor’s Plan“).

With the Maastricht Treaty for the establishment of the economic and monetary union and the introduction of convergence criteria, a potential conflict arises for the development of the poorest countries. On the one hand, they need to invest heavily to reduce their lag behind others and increase their growth potential. This requires significant additional investment to expand, improve and modernize the infrastructure. On the other hand, countries must reduce their budget deficits and strictly control public spending, with a view to joining the Economic and Monetary Union. The solution to this problem was found through the creation of the Cohesion Fund. For the period 1993-1999, Community funds aimed at the poorest countries were increased again (Second „Delor’s Plan“).

During the next enlargement of the EU to Central and Eastern Europe, the significant and incomparable disparities, not just between regions, but between entire countries, come to the fore. Regardless of these facts, in 2001 the countries agreed that, unlike previous enlargements, they would not allow any increase in the overall level of structural funds available. Subsequently and during the EU enlargement in 2007, with the admission of Romania and Bulgaria, it was not accompanied by a significant or proportional overall increase in the level of structural funds within the EU budget.

In the context of the examined historical situation, in 2007 the implementation of the first programs for the country began in Bulgaria. As a full member of the European Union, the country must achieve a sustainable rate of reduction of differences by improving: the quality of infrastructure; investment in human capital; raising standards in education and health care; maintaining the quality of the workforce; removal of administrative and market obstacles in order to stimulate entrepreneurship and investments; ensuring balanced territorial development. Achieving these goals can be implemented through the financial assistance of European funds. The degree and quality of the absorption of funds from them in Bulgaria are of great importance for the implementation of structural reforms aimed at increasing the competitiveness of the Bulgarian economy, development of the regions and acceleration of the convergence process. For this reason, the current article aims to analyse the main trends in the EU funds management in Bulgaria during the program period 2021-2027.

### **EU regional policy – general characteristics and trends**

Regional policy can be defined as investment policy because it supports the creation of jobs, competitiveness, economic growth, improvement of the quality of life and sustainable development. It is an expression of the EU's solidarity with less developed countries and regions. In the process of its structuring, four key principles for its implementation were formulated:

- **Concentration** – consists of three aspects. The first is the concentration of resources – most structural funds are allocated to the poorest regions and countries. The second concentration of efforts – directing investments to main priorities for achieving growth. The last concentration of costs – at the beginning of each program period, annual funding is determined for each program.
- **Programming** – the cohesion policy does not finance individual projects, but multi-annual national programs in line with the aims and priorities of the EU.
- **Partnership** – each program is developed through a collaborative process between European, national and/or regional and local authorities, social partners and civil organizations.
- **Complementarity** – financing from the structural funds cannot replace the national expenditure of a member state.

In recent years, the general trends in the development of regional policy have been in the direction of simplifying procedures, reducing the administrative burden, focusing on results and speeding up the process of disbursement of funds. This can be traced in Table 1, which highlights the main changes in the approach.

**Table 1**  
**Main trends in the EU funds management in Bulgaria**

	<b>2014-2020</b>	<b>2021-2027</b>
<b>Priorities</b>	11 thematic objectives and many priorities	5 main goals
<b>Transfers between funds</b>	Forbidden	Allowed under certain conditions
<b>Monitoring</b>	ADR <sup>1</sup> and presentation of financial information 3 times a year	Presentation of financial information 5 times a year
<b>Financing</b>	Recommending SCO's <sup>2</sup>	Focus on SCO's
<b>Verification</b>	-	Risk-based sample management verifications
<b>Control</b>	The same beneficiary can be audited by different audits	„Single audit principle“

In what follows, the reflection of these trends at the moment in the management of EU funds for Bulgaria will be traced, as they are systematized in the following key areas: strategic planning, regulatory framework at the national level, financial management and administrative capacity.

### **Strategic planning**

Regional policy in the country is above all a priority of the central government. For this reason, when developing the strategies for balanced and sustainable development of the regions, the participation of local authorities and regional administrations is negligible. Thus, local communities are deprived of the opportunity to influence this type of policy and to defend their development priorities and ideas. This centralized management model does not stimulate activity and limits the possibility of deploying effective local and regional initiatives. It is necessary to take measures to rethink this model and build a new system of rules in the relations between the local and central authorities based on the principles of decentralization.

In strategic terms, despite the presence of program documents, there is a lack of commitment to municipal and regional development plans. This leads to a loss of connection between the local and central level and a divergence between the set goals. Thus, the lack of a second level of local self-government (regional administrations are deconcentrated structures of central authority) that would systematize and prioritize the needs of the population clearly stands out.

<sup>1</sup> Annual Development Reports

<sup>2</sup> Simplified Cost Options

In connection with the above, it can be summarized that, first, the country must have authentic and consistent national and sectoral policies and financial interventions, which at the same time must also be oriented towards the direction set by the EU. However, there is still inconsistency and uncertainty in the preparation and implementation of public policies in Bulgaria. The need for a clear strategic vision at the national level arises from the fact that the program cycle approach is a process in which programming is tied to national policies implemented in parallel and to the strategic choices made by the respective member country.

The approach of regional development and spatial planning imposes the need for consistency of programs with plans and strategies for regional development, as well as with their specific implementation mechanisms. It is necessary to closely link the work on the programs with the process of preparing the territorial plans and strategies, as well as with the ongoing management initiatives and sector-oriented policies. The purpose of the regional and territorial partnership at the programming stage is subordinated to the more general functions of this phase (identification of priorities, planning of financing and organization of management and control systems). The inclusion of regional needs, priorities and independent resources is necessary to take them into account in the more general set of activities of the operational programs, as well as to lay the basis for the territorial distribution of future interventions.

There are two main approaches to regional interventions – top-down and bottom-up. In the top-down approach, the priorities and specific interventions for regional development are formulated and assigned at the central level, descending to the territorial state divisions and local self-government bodies as non-negotiable requirements. This approach is leading for Bulgaria, as the study of current territorial needs is often quite limited or absent. As a result, the planned interventions are limitedly adequate and for this reason the interest and voluntary contribution of the local communities and initiative groups is minimal. In the bottom-up approach, the beginning of the planning process is placed among local communities and initiative groups (primarily based on their needs) and local self-government bodies. In order to successfully implement the bottom-up approach, the following challenges need to be overcome:

- To create purposeful and feasible municipal and district strategies to be used in the overall programming process. There is still a lack of consistency and continuity between levels in the preparation of strategic documents.
- Linking programming with the territorial and spatial planning process. The determination of authentic priorities, their regionalization and the related territorial distribution of support. To overcome the chronological gap in time between individual planning processes and the impossibility of regional planning to formulate common guidelines to be used in programming at the national level.

- Introducing models, procedures and approaches that ensure perspective and alignment with national and local priorities, real and equal opportunities for all beneficiaries.
- Carrying out a process of decentralization and effective application of the principle of subsidiarity. Decentralization needs to be implemented not only at the administrative level, but also at the financial level. Municipalities, and to an even greater extent regional administrations, are not financially independent and rely on transfers from the central budget. The budget model of the country does not stimulate effective regional planning and is an obstacle to the realization of many of the planned tasks and projects.
- Development of the regions in Bulgaria: the problems of the „centre-periphery“ type. They are expressed in the existence of significant differences in the economic and social indicators between the municipalities forming one district. This phenomenon is common throughout Bulgaria. Especially affected by it are border territories, rural municipalities, areas of industrial restructuring and those where the population is mainly from ethnic minorities.
- Investing in all regions – overcoming the phenomenon – concentration of financing in the city of Sofia. A negative trend towards an increase in differences in the development of individual regions in the country shall be tackled.

## **Regulatory framework**

In the previous paragraph, an overview of the strategic planning of the process regarding the absorption of the funds from the European union during a program period was made, which gives a basic vision for its realization. But for it to be effective, the legal framework at the national level is of great importance.

Legislation in the field of European funding in Bulgaria during the 2007-2013 program period is at the sub-legislative level and fragmented. It consisted of multiple acts, resulting in a lack of a unified approach to program management. This situation has created a significant administrative burden and delays in processes. The frequent changes in the regulations, the different rules for the individual funds and programs, the various instructions from the competent authorities during the specified program period are an obstacle for every single stage of the preparation, implementation and management of the programs and the projects financed under them. Conditions are created for the unpredictability of the environment in terms of the implementation rules, which is reported as a weakness of the overall management and control system in a report of the Audit Chamber on the audit of the management systems of the Structural and Cohesion Funds of the European Union from 2013. During the mentioned period, there is a lack of a unified, flexible and easy-to-understand and implement approach

to program management. Individual managing authorities, within different departments, use different procedures in the implementation of projects and programs, which makes it difficult to take common measures to effectively optimize and simplify the processes of planning, management, monitoring and control of funds, which makes it difficult, as the administration itself, as well as the beneficiaries. These facts justified the need for public relations related to management activities, including coordination, implementation, monitoring and control of the funds granted to Bulgaria by the European Structural and Investment Funds, to be regulated by a special law. The adoption of the law related to the management of funds from the European structural and investment funds leads to the creation of structured rules for the management and control of the programs and overcoming the challenges described in the transitional paragraph.

From a normative point of view, the implementation of legislation in the field of public procurement appears as a serious challenge. The lack of experience in the public contracting authorities and the frequent normative changes in the basic Law on Public Procurement led to the conduct of illegal procedures and the determination of financial sanctions.

### **Financial management**

In addition to clear regulations, to ensure the legitimate use of funds and to prevent, detect and correct irregularities, it is necessary for each member state to build effectively functioning financial management mechanisms and financial control procedures. In Bulgaria, during the first program period, a four-tier system for financial management and control was created, which is preserved even in the current program period.

The first level of financial control in relation to public funds is the internal control systems built by those managing them. They are part of the internal written procedures for the activities of these bodies, reflecting the requirements for effective management and control according to the applicable European and national legislation.

The second level of financial control is the performance of an internal audit. According to the Law on Internal Audit in the Public Sector, every organization that disposes of funds from the budget and programs and funds of the European Union should have internal auditors. The internal audit is carried out in accordance with Bulgarian legislation and internationally accepted standards for internal auditing. By its very nature, internal auditing assesses legality and compliance with the principles of effectiveness, efficiency and economy. The third level is the sample checks of transactions and audits regarding EU funds carried out by the executive agency „Audit of European Union funds“. The fourth level is the independent external audit, which is carried out by the Court of Auditors or the European Court of Auditors.

The specified organization of the process allows the implementation of effective control over the spending of the funds, while not hindering or limiting the process of their absorption. As can be seen from Table 2, the average financial implementation of the programs reaches 96,9%.

**Table 2. Performance of the Programmes (2014-2020 period)**

Prog- ramme	Programme Budget	Contracted Amounts **		Actual amounts paid	
		Total	Grant	Grantt	%* <sup>3</sup>
OPTTI	3449175447,24	6379425986,89	3757767808,59	3264529433,09	94,65
OPE	3263311367,47	4297827420,06	3463296238,10	3000422883,94	91,94
OPRG	3128660666,89	3494675887,06	3262561906,60	2934754884,00	93,80
OPIC	3237729879,72	4381260818,28	3401702952,86	3193358984,26	98,63
OPSESG	1349999954,93	1449446233,67	1449446233,67	1297990847,73	96,15
OPHRD	2683052921,34	2956693542,10	2934816708,99	2659494660,13	99,12
OPGG	547353851,49	564721980,60	564721980,60	538614200,54	98,40
OPF	316603248,00	316536714,72	316536714,72	316535425,93	99,98
OPSMEI	199494660,00	199494660,00	199494660,00	199494660,00	100,00

*Source<sup>4</sup>: Information System for Management and Monitoring of EU Funds in Bulgaria*

## Administrative capacity

The last key area that is the subject of research is the administrative capacity – the human resource that is needed to implement all the processes. Although the third program period is currently being implemented in the country, insufficient administrative capacity is still observed at every level of government. The reason for the deepening of the mentioned phenomenon is the appearance of new responsibilities and commitments related to the management of the National Recovery and Resilience Plane. The situation is also complicated by the frequently changing structure of the bodies responsible for absorbing EU funds, which is characteristic of the first two program periods. Typical of the political reality in Bulgaria is closure and restructuring of administrations, difficult continuity between individual political cabinets and difficult communication between individual departments. In addition, a serious

<sup>3</sup> Note:

\* - % of the total programme budget

\*\* - Total includes grants and co-financing by the beneficiary

The budget includes the performance reserve in the amount of 6%

All amounts are in Bulgarian lev (BGN) / 1 EUR = 1,95583 BGN

<sup>4</sup> The data is available online in the following link: <https://2020.eufunds.bg/en/0/0>



challenge is the lack of experience and capacity among the beneficiaries regarding project management.

### **Prospects and challenges – conclusion**

The identified challenges of a legislative, organizational and managerial nature are the result of the overall political, economic and social situation in the country. Based on in-depth analyses and reforms, it is possible to overcome weaknesses, correct errors and manage operational programs more successfully in the new programming period 2021-2027, which will improve the process of absorption of funds from EU funds.

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