

# **Transplanting EU Institutions: The Role of Structural Funds in Bulgaria**

By  
Katina Pancheva

Submitted to  
Central European University  
Department of Public Policy

in partial fulfilment for the degree of Masters of Arts in Public Policy

Supervisor: Professor Valentina Dimitrova – Grajzl

Budapest, Hungary

2009

## **Abstract**

The Structural Funds (SF) have become the major instruments for EU Cohesion Policy by imposing particular institutional models to manage the funding. Even though there are theories to explain the effectiveness and measures of SF, the national institutions managing the SF remain out of the scope of these studies. Therefore this paper attempts to answer the question: can administrative capacity of national SF institutions explain implementation variation? The question will be examined within the Europeanization theoretical framework and its concepts: multi-level governance and decentralization in NMS. The methodology applied consists of literature review, document analysis, questionnaires and open-ended interviews. The conducted research has identified the lack of imposition of explicit criteria for assessment of the administrative capacity during the EU institutional enforcement in Bulgaria. It introduces such administrative capacity criteria by using two managing institutions of Operational Program Human Resource Development as case studies and measures the level of their capacity. The provided evidence for existing correlation between administrative capacity and implementation suggests factors that account for this and recommendations how it could be improved.

## Table of Contents

List of Abbreviations.....	v
Introduction .....	1
Chapter 1: The EU Cohesion Policy and Structural Funds - major reforms.....	4
1.1. The EU Cohesion Policy before 1988.....	4
1.2. The EU Cohesion Policy and Structural Funds between 2000 and 2006.....	7
1.3. Reforms concerning 2007 - 2013 financial framework .....	9
1.4. The European Social Fund .....	11
Chapter 2: Review of literature on regional cohesion and SF implementation .....	14
2.1. Regional Cohesion .....	14
2.2. SF implementation .....	15
Chapter 3: Multi-level governance and the EU transplanting of institutions.....	17
3.1. Multi-level governance imposition in the EU NMS .....	17
3.2. Transplanting regional models – territorial dimension .....	18
3.3. Programming of Structural Funds – multi-level governance .....	20
3.4. Pre-accession administrative capacity and its assessment .....	23
Chapter 4: Administrative Capacity of IB of OPHR.....	27
4.1. OPHRD: financial plan and institutions.....	27
4.2. Methods of Case Study Analysis .....	31
4.3. Case Study.....	34
4.4. Assessment of Degree of Capacity.....	37
4.4.1. Programming.....	37
4.4.2. Management.....	39
4.5. Recommendations for Improvement.....	42

4.5.1. The EU level: inclusion of administrative criteria .....	42
4.5.2. The national level: flexible administrative procedures .....	43
4.5.3. The supranational level: increased decision-making participation .....	44
Conclusion.....	45
Bibliography .....	47

## List of Abbreviations

CEEC	Central and Eastern European Countries
CSG	Community Strategic Guidelines
EC	European Commission
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
GDP	Gross domestic product
HR	Human Resources
IB	Intermediate body
MA	Managing Authority
MC	Monitoring Committee
MES	Ministry of Education and Science
NDP	National Development Plan
NSRF	National Strategic Reference Framework
NMS	New Member State
OP	Operational Programs
PAI	Pre-accession Instrument
SAA	Social Assistance Agency
SCF	Structural and Cohesion Funds
SF	Structural Funds
SG	Strategic Guidelines
SWOT	Strengths, weaknesses, opportunities and threats

# Introduction

The EU Cohesion policy has become a priority EU policy within the 2007-2013 Budget Framework in terms of expenditure and coverage.<sup>1</sup> It accounts for more than a third of the EU budget. The EU Cohesion policy has been implemented through four generations of Structural Funds Programmes since 1988. With the accession of ten new member states in 2004 and Bulgaria and Romania in 2007, the development gap between regions has doubled and as a result beneficiaries of the Structural and Cohesion funds are mostly new member states from Central and Eastern Europe. In order to face this challenge, the Commission proposed a new legislative package that concentrates Structural and Cohesion funds spending on Lisbon (innovation, growth, jobs) and Gothenburg (sustainable development) goals. The legislation included the obligation of NMS to build a complex system of institutions<sup>2</sup> and mechanisms for financial support or strengthen existing one targeted at enhancing the social and economic growth in all MS (Community Strategic Guidelines on Cohesion, Article 11)

All these financial tools known as the Structural funds act simultaneously and with strong involvement of regions and players on EU, national and local level when developing the programmes for growth, socio-economic and territorial cohesion. Even though the EU programs are designed to reduce large income disparities across regions in EU by imposing the economic models adopted by the Commission in the eligible MS recipients, regional disparities still exist. Furthermore, existing data (Molle 2007) shows that there is no clear evidence that EU policies have contributed to economic growth in general and social cohesion in particular. Extension of these policies to new member countries such as Bulgaria and the

---

<sup>1</sup> Regional policy today is considered as part of the Cohesion policy which focuses on cultural, societal and environmental issues.

<sup>2</sup> The term institution is used in this thesis according to the definition provided by Greif (2006:30) “system of rules, beliefs, norms, and organizations that together generate a regularity of (social) behavior”.

assessment of its performance according to the Report from the EC on the Management of EU Funds demonstrate among other issues, the lack of administrative capacity of institutions to secure the sound management and control of the Structural funds.

The objective of the current research is to analyze the design of the EU Cohesion policy and the impact of administrative capacity of national institutions at programming and management level on the implementation variation in the funded programs. The variable administrative capacity is assumed to influence the effectiveness of the Structural funds in achieving their intended social cohesion purposes in a new member state Bulgaria. The adjustment of existing governmental institutional structures in order to correspond to the European regulations and the multi-level governance approach adopted by the EC in the current design of the EU Cohesion policy will be identified as a key factor. It accounts for the differing level of administrative capacity of national institutions among others such as political dynamics, social capital and cultural and historical factors. The recognition of existing positive correlation between administrative capacity and SF absorption level will be done through analysis of managing authorities of the funded through the European Social Fund OP Human Resource Development in Bulgaria. The analysis will reveal the influence of the institutional factor on the effectiveness of the funds.

The paper has several caveats, which should be mentioned at this point. First, the pre-accession funds mechanisms operating in Bulgaria are still undergoing; thus final reports on their implementation and monitoring reports are not available, which impedes the overall assessment of the implementation level of the pre-accession funds. Second, during the first year after the accession there were no funds absorbed through the post-accession funding schemes in 2007, which limits even further the examined time period between 2007 and 2009.

Third, the restricted public access to reports on the work of the Monitoring Committees which should supervise the administrative capacity of the MA of the OP impedes the use of officially defined criteria for assessment. Hence, the paper comes up with measurement criteria for the administrative capacity based on Milio's (2007) study on Italian regions.

.



# **Chapter 1: The EU Cohesion Policy and Structural Funds - major reforms**

The EU Cohesion policy has been developing with the progress of the European integration covering policy areas of economic, social and territorial dimension. According to Baun et al's (2009: 32) research on the Cohesion Policy, the way it has been designed seems to entitle MS to support the major changes in the EU strategic objectives such as the Single market, the European and Monetary Union, the Lisbon Strategy and the effects of enlargement. Thus, major concern of EU has been the accession of countries even if their institutional capacity is weak to implement the EU policies and programs.

A short overview of the main reforms of the Cohesion policy will show its growing importance and increased involvement of the EU in decreasing the disparities between regions and countries. However each of the reforms represents a shift in the EU approach towards regional development, which hampers the identification of clear-cut criteria for assessment of the national SF management institutions. The reforms will be presented by providing: background information, legal basis and the approaches of the European Union. An emphasis will be put on the functioning of the European Social Fund on national level as the source for funding schemes tackling social disparities.

## ***1.1. The EU Cohesion Policy before 1988***

Even though not codified in the Treaty of Rome 1957, Cohesion policy has always been in the scope of European policies. Mainly this was due to the fact that it was perceived as a compensation for the MS commitments and cooperation in the EU integration process (Leonardi 2005: 156). Even though there was no explicit commitment to coherent

development of MS, the Treaty refers to the need for a balanced development of all countries and regions “to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing among the various regions and the backwardness of the less-favoured regions” (Treaty of Rome: 1957, Article 159-162). The rationality for such an approach of EU was all regions to unite in their efforts to support the rise of the EU economic development in a more efficient and sustainable way. In order to provide the funding, the financial instruments on the EU level for enhancing homogeneity between regions the European Social Fund in 1958 (ESF) and the Guidance Section of the European Agricultural Guarantee and Guidance Fund (EAGGF) were established. However no national institutions were envisioned to manage the funding at that point.

Besides the creation of these two funds, the first real attempts of the EU to act in practice in support of lagging behind regions were augmented by accession of Britain, Denmark and Ireland in 1970's, which increased disparities (Bache 2008: 7), as well as other factors such as the economic crisis and the need for guarantees of the functioning of the common market (Horvath 2005: 438). The initiative was marked by the decision for creation of the European Regional Development Fund (ERDF) which started functioning in 1975. The establishment of the ERDF was based on the co-financing principle of equal participation of EU and domestic sources (Bache 2008: 40). Therefore there was a requirement by EU for further involvement of national and regional institutions in the funding and development of the EU Cohesion policy. However at that point the EU does not envision how and whether there should be an institutional model imposed by the EC given the differing political and administrative structures of MS.

The enlargement of the EU with the Mediterranean countries (Greece, 1981, Spain and Portugal, 1986) further increased economic disparities – GDP of all ten most developed regions was about three times higher than that of the ten least developed ones (Horvath 2005: 439). This tendency of increasing regional disparities with each enlargement was symptom for the need of reforms in the principle and focus of the EU regional development funding. The lack of allocation principles impeded the development of an overall and consistent policy on supranational level given the existence of separate funds (ESF, EAGGF) operating without coordination and the lack of national co-funding. Furthermore the Cohesion policy's main focus was on macroeconomic and territorial development, rather than the social dimension which become an important realm later in the EU integration development.

The formal transfer of the responsibility for EU regional development into the EU domain came with the codification of the European Cohesion Policy (Molle 2008: 127) by the adoption of the Single European Act (SEA) in 1987, followed by major reforms in the measures for its implementation – the Structural funds (ERDF, ESF and EAAGGF). After SEA the EU approach shifted in the following directions: first, the cohesion/regional policy became subject to Community measures, which increased EU level of influence on MS; second the notion of structural funds since then officially refers to all existing funds and third, SEA marked the greatest increase in the share of community budget of the Cohesion policy up to 0.46% of the total GDP annually. These measures confirmed the growing importance of the EU Cohesion policy in the EU agenda (Bache 2008: 41; Horvath 2005: 441).

Since the legal basis of the Cohesion policy has been included in the EU legal framework, it was defined by explicit measures in the policy design on supranational and requirement for

their adoption on MS level. These measures consisted of basic principles outlined in the study of Horvath (2005):

- Concentration: MS are required to develop a national Community Support Framework with specific objectives
- Partnership: programs should be developed with the participation of different level of governance - national, regional and local authorities
- Additionality: national co-financing cap for the implementation of the programs
- Programming and planning: the requirement of existence of documents on national level in order to match with the further elaboration of a Community Support Framework that is based on the eligibility of the requested support objectives

Beyond establishing standards that should be adopted by the MS, SEA set the objectives and tools for reducing the economic and social disparities (Article 130A). This reform was continued with the adoption of the Treaty of Maastricht in 1993 which established an additional fund called Cohesion Fund which directly supports not only less developed regions, but countries along with the Structural funds. Hence, the number of financial instruments increased, but diversified – concentrating the major funds on assistance in sectoral development and leaving apart the country specific support.

## ***1.2. The EU Cohesion Policy and Structural Funds between 2000 and 2006***

The challenges of the upcoming EU Eastern enlargement with twelve MS with economic indicators below the EU average gave impetus for restructuring of the financial instruments and rules, as well as setting new objectives and goals of the EU Cohesion policy (Baun 2009:1). The accession of the countries from Central and Eastern Europe had an immediate impact on the policy design in two ways: it shifted the funds' allocation and brought the issue

of establishment of strengthened national institutions that would enhance the absorption capacity of NMS in its three dimensions: macroeconomic, financial and administrative capacity (Molle 2008:142; Bache 2008: 44).

These aspects were addressed in the Agenda 2000 which aimed consolidation of the EU funds by concentrating them on fewer and more indigent regions (Baun et al 2009: 3). Prior to that EC decided on reformulation of funds that are similar to the Structural funds, but support countries in preparation for their accession in the EU. The establishment of these funds was motivated by the need for support of the Eastern enlargement process and enhancement of the future absorption capacity of new member states (Horvat 2005: 91). These pre-accession funds were constructed on the principles of the already operating PHARE program, but along with two other pre-accession funds established in 2000: Special Accession Programme for Agricultural and Rural Development (SAPARD) and Instrument for Structural Policies for Pre-Accession (ISPA). By constructing the pre-accession financial support, the EU was preparing the MS for the operation of the structural support by strengthening existing institutions or building new ones to manage and monitor the flow of EU funding in accordance with the EU guidelines and objectives.

The aims of the Agenda 2000 reform in the EU Cohesion policy as outlined by Horvath (2005) were further simplification and transparency of the financial instruments; strengthen the control of the European Commission in the management of the funds (Baun et al 2009: 21) without obstructing the decentralization trends. In order to reach these goals the number of the objectives was reduced to three:

- Objective 1: support for restructuring in regions that are lagging behind (combined former Objective 1, 6 and 5)

- Objective 2: support for areas experiencing structural conversion: restructuring of industry, decline in urban and fishery (former Objectives 2 and 5)
- Objective 3: support for human resource development including education, training and employment

Despite the concentration and increase in the financial support that EU provides and the new objectives, the management of the funds was not facilitated. There were still no clear EU guidelines on how the SF management institutions on national level should effectively operate in new MS after being created under the EU assistance. An obligation of the NMS is to incorporate these principles in the design of the institutions managing the SF in order to be eligible for the SF support (EC 2003: 92).

### ***1.3. Reforms concerning 2007 - 2013 financial framework***

The further reform of the SF shifted the overall idea, connecting it with targets such as: enhancing the development of MS regions and cities, encouraging innovation, entrepreneurship and development of a knowledge-based economy (Baun et al 2009: 7) induced by the development of the Lisbon Strategy and Gothenburg Goals. The three objectives as such: Convergence, Regional Competitiveness and Employment and European territorial Cooperation remained unchanged as well as the proportion of the funds - the greatest share (81.5 per cent) still going for the Convergence and phasing-out objective. However no further development of the institutional design on SF management authorities was envisioned in the EU guiding principles except within the developed for a first time EU planning document “Community Strategic Guidelines on Cohesion” in 2006.

The elaborated by the EU “Community Strategic Guidelines on Cohesion” linked the Lisbon objective with the EU Cohesion policy. It served as a roadmap to the development of the Cohesion policy program on national level. However, these requirements seemed to be imposed mostly on EU15, rather than the new MS which were not yet obliged to contribute directly to these targets (Baun et al 2009: 8). In order to design a common framework for management of the regional policy on national level, the EC required the elaboration of National Strategic Frameworks (NSRF), proposal for Operation programs, production of annual and three-year reports on the progress of matching the projects with the Lisbon objectives. Thus, the EU attempted to implement institutional framework for the SF management in NMS in order to provide the basis for the development of national regional development policy supported through the EU budget financial schemes. The institutional models were promoted by EU through a multi-level approach and decentralization build upon the above mentioned principles. Thus, EU created a multi-level policy that operates on horizontal and vertical direction, however relying on various institutional settings in each MS and their successful coordination with the EC.

Even though codified, the development of new EU approaches towards Cohesion Policy led to the creation of a multi-tier system without providing explicit criteria of assessment of the role of the institutions responsible for the distribution of the allocated funds on national level. The transplanting of these new institutional regulations and mechanisms by the EU is a process that requires a particular soil that does not exist yet in all MS even after the creation of the pre-accession funding mechanisms (Baun 2009: 5). As some authors discuss in their studies (Keating 1995; Hooghe 2001) all reforms after 1988 of the Cohesion policy were designed to increase the role and capacity of regional and local governments in MS in theory. However, in practice this decentralization approach is hindered by the variety of

administrative institutions throughout the EU MS, their roles and responsibilities and their decision-making power. Thus, the new approach of EU which inevitably was followed by political and administrative reforms in MS at national and sub-national level led to different absorption levels, hence different outcomes (Milio 2007: 432).

#### **1.4. The European Social Fund**

The reason for the establishment of different funds is the verification of their sectoral interventions, which was the rationality for the narrowing down and simplification of the financial instruments in the last Cohesion Policy reform. The European Social Fund is the oldest of the EU Structural funds created in 1952 and therefore its scope and aims has been shifting along with the changes in the directions of European integration impetus. Within the last reform they are narrowed down to five key areas in the domain of the Cohesion policy: support for increased adaptability of workers and enterprises, delivery of better employment access and higher participatory level in the labor market, promotion of social inclusion, promotion of partnership and support for investment in human capital through improved education and training system (ESF website).

In that manner the scope of the ESF funding is matched with the strategic goals on national level and with specific set of institutions responsible for its operation on national level. In the NMS Bulgaria the ESF funds projects through the Human Resource Development Operational Program targeted at increased employment, enhanced education and social inclusion in regions of Bulgaria.

The Cohesion policy funded through the ESF basically operates on three levels: policy, program and project level (Molle 2009: 127). The program principle includes the elaboration



of Operational programs (OP) which incorporate the priority identified strategic areas of intervention. After EC approves each OP its implementation of the programs is left in the national domain. Thus, each member state is obliged to establish the following institutional standards no matter whether they would be part of the existing governmental system or separate newly established institutional framework<sup>3</sup>:

- Managing Authorities: responsible for the management and implementation of the OP (Article 60, Regulation No. 1083/2006)
- Certifying Authority: responsible for certified statements of expenditure and payment processing (Article 61, Regulation No. 1083/2006)
- Audit Authority: ensuring the audits are taking place and control the effective functioning of the management and control systems (Article 62, Regulation No. 1083/2006)

Therefore the responsibilities of the institutions on national level are blurred due to the indefinite EU position - requesting specific roles, but not providing specific criteria and explicit regulations. The multitude of Cohesion policy reforms was consistent in adapting the policy towards the EU integration trends, but inconsistent towards the multitude of national institutional specifics. The adoption of many new regulations, legislation and institutional structures in countries from Central and Eastern Europe (CEE) under the EC pressure in a short time has an impact on the SF management capacity in these countries. While older MS has been subject to the Cohesion policy funding since 1988, when the design of the policy was not so complex and elaborate, NMS have to adapt their regional institutions in a multi-level governance model developed by the EU without clearly defined structure.

---

<sup>3</sup> Even though there are variations of the institutional arrangement of the Cohesion policy and the ESF areas in particular, there are a couple of models that are most frequently accepted. If specified in categories they could be defined as centralized and decentralized.

And thus the institutional deficiencies reflect mainly at the project stage of the Cohesion policy cycle being the actual implementation of the envisioned SF strategies and mechanisms. Through the projects various beneficiaries and stakeholders both from the public and private sector are involved in improving social cohesion. Hence, the administrative and institutional capacity is the crucial linkage of the transformation of strategic planning objectives into delivery of the social cohesion outcomes such as decreasing income and living standard disparities.

## **Chapter 2: Review of literature on regional cohesion and SF implementation**

The existing literature on EU Regional and Cohesion Policy demonstrates the multitude of different aspects and approaches to the topic, but the interrelation between them remains as difficult as the study of European integration in NMS given the dynamics of political and economic reforms in these countries. Some of the literature inputs on the research of older MS could be applied to an in-depth analysis of regional development in the NMS.

### ***2.1. Regional Cohesion***

Authors like Boldrin and Canova (2001), Bradley (2006) have already focused on the issue of effectiveness of the European structural funds by examining only the ex-post effect on the convergence of regional economic performance in old MS. Their research on the effectiveness of the Structural Funds shows some patterns on macro-level in some MS, however they do not analyze any of the NMS. Even though offering empirical evidence on the effectiveness of the Cohesion policy, these studies do not discuss the implementation stage and do not provide in-depth analysis of case-by-case countries as well as the conditions under which their effectiveness could be enhanced in the future. Hence, they do not focus on the importance of administrative capacity of institutions for the level of absorption.

The literature on the EU Cohesion policy which discusses NMS is focused on the enlargement process in CEE and the pre-accession support by introducing the concepts of Europeanization and conditionality (Keating 2003, Hughes 2004, Baun et al 2009: 5, 10, Bache 2008, Anderson 2002, Börzel 2000). Both of these terms have contested and broad meaning, which could be applied to the post-accession period as well. However, Bache (2008) and Börzel (2000) by referring to the Europeanization concept were discussing the effects of the national engagement with the EU, rather than examining the effects of EU on domestic policies.

However EU Cohesion policy has impact on the shaping of domestic policies and institutions which influences the SF implementation.

An attempt for a research on the topic from the EU perspective has been brought up by the assumptions of the negative effects of the EU conditionality (Ederveen 2002; Hughes 2004). The authors have identified a confusing major shift of the EU approach in 2000 when EC attempted to find the best fitting to NMS institutional model – from favoring more decentralized national regional systems to encouraging more centralized structures<sup>4</sup> (Baun et al 2009: 7). This shift in the EU approach renders the comparative institutional assessment in NMS with older MS.

## **2.2. SF implementation**

The literature reflects the EU experts' increasing efforts to examine and analyze the impact of the EU assistance in order to improve the policy design and strengthen the spending discipline (Molle 2007: 120). These attempts are complemented by the research work of Milio (2007) and Horvat (2005), which highlight the importance of institutions and provide a definition of absorption capacity. The authors' definition of absorption capacity covers three aspects of the notion: macroeconomic, administrative and financial (Horvat 2005: 9). According to that demarcation administrative capacity "relates to the ability of the institutions to manage SFs policy according to their rules and procedures" (Milio 2007: 435). Whereas absorption capacity is defined as "the country's/region's ability to spend its allocated resources to meet the programme requirements within the timeframe" (Milio 2007: 433).

---

<sup>4</sup> Baun et al (2009) refers to the shift due to the accession of countries from Central and Eastern Europe during the pre-accession period (before 2004) and the functioning of the pre-accession programs.

According to the outlined existing literature on EU Regional and Cohesion Policy, most relevant to the study of the institution-building and institution adjusting, hence administrative capacity of NMS is the broader concept of Europeanization defined as the process of reshaping of politics in the domestic arena in ways that reflect policies, practices or preferences advanced through the EU system of governance (Bache 2008: 9). This includes the multi-level governance approach of EU in which national institutions adjust according to the design of the EU Cohesion policy on multiple levels. Applying these notions is the most suitable method for process-tracing analysis of the institution-building in Bulgaria during the pre-accession period and the post-accession administrative capacity of the SF national managing authorities and intermediary bodies<sup>5</sup>.

---

<sup>5</sup> Institution-building means “designing management systems and training and equipping a wide range of civil servants, public officials, professionals and relevant private actors.” Instead, institutional capacity is more oriented toward the strengthening of “public administration and organizations that have a responsibility in implementing and enforcing Community legislation” (Leonardi 2005: 142)

## **Chapter 3: Multi-level governance and the EU transplanting of institutions**

The Regional policy has become a pressing issue in the context of EU enlargement, in particular with respect to NMS from Central and Eastern Europe which had to adapt their territorial and governance structure towards the EU multi-level governance approach (Keating 2003). This process referred in the current research as transplantation of institutions in NMS during the pre-accession period by building of legislative and institutional mechanisms towards the EU conditionality requirements in order to achieve the EU Cohesion policy objectives. However the functioning of these transplanted under the EU assistance institutions in the post-accession period seems to be crucial factor for the SF absorption capacities of these countries.

The following section will provide a brief overview of the major directions of the EU imposition of institutions in NMS Bulgaria: territorial – the territorial division and the decision-making power redistribution imposed by the EU related to the multi-level governance (Hooghe and Marks 2001). Both of these dimensions are linked by the institutional-building during the EU accession through: elaboration of national strategic planning documents - NDP, NSRF; initiation of EU pre-accession regional programs; EU progress reports and assessment of the administrative capacity.

### ***3.1. Multi-level governance imposition in the EU NMS***

The adoption of multi-level governance approach in regional development of NMS is an important aspect of the study of EU Cohesion policy on national level. The EU adopted such an approach in order to design SF national management institutions, which will be able to

achieve the common European regional objectives and programs (Keating 2003: 54). Even though not formally and directly imposed, many researchers (Molle 2005, Baun et al 2008, Keating 2003, Hughes 2004) agree on the fact that EU exerts pressure on the MS to adopt structures that will accommodate the EU Cohesion policy priorities. The EU creates the regulatory and institutional conditions and framework within which the MS will comply with the EU cohesion goals. This is part of the efforts for the creation of a multi-level governance dimension where linkages between different policy areas are exercised on various levels (Hooghe 2001, Baun et al 2009:6). The process is described by Keating (2003: 9) as the establishment of renewed connection between territory and function with the purpose of establishing a more socially inclusive and economic efficient policy.

### ***3.2. Transplanting regional models –territorial dimension***

The negotiations for the Eastern enlargement were accommodated within the conditions of the Copenhagen criteria, which are interrelated with the EU requirements for administrative reforms, democratization and protection of minorities in the post-communist countries (Keating 2003: 17). Even though not directly stated, the domestic political reforms were expected to include the establishment of local government level in terms of EU promoting specific administrative structures and efficient institutions to implement the EU Cohesion Policy. For instance Bulgaria started its negotiations with EU in 2000 through the establishment of a complex institutional framework for development of structures and mechanisms on thirty one policy fields outlined by the EU.

The regional reforms in Bulgaria were covered within Chapter 21: Regional Policy and Coordination. This chapter included the implementation of a specific set of requirements which the government should meet and utilize in its national policies: adoption of the EU

Nomenclature of Territorial Units for Statistics (NUTS) classification for EU Structural Funds, increased programming capacity – design of development plan, establishment of multi-annual procedures, close monitoring and evaluation, development of a system that suits the administrative capacity for the management and implementation of the Structural and the Cohesion funds (EC Enlargement).

Each of these requirements was met by strictly following the EU guidelines and incorporating them on the national level. Bulgaria adopted the NUTS classification system by dividing the country into six planning regions in 2004 <sup>6</sup> (Bulgarian NSRF: 46). All regions are defined as NUTS II statistical units, according to the EU regional planning and accession rules (NRDS: 7). This means that all regions in Bulgaria are classified as units that have Gross Domestic Product (GDP) of less than 75% of the Community average. Thus they are eligible for funding under the convergence objective within the 2007-2013 financial framework.

The territorial dimension of the development of Bulgarian Regional policy was covered by the territorial decentralization, which the country initiated for the first time after the fall of communism. This process was developing under the close EU monitoring within the accession negotiation framework. In that sense it's worth pointing out the critique that the European Commission made towards the major national regional planning document in Bulgaria - the newly adopted in 2005 National Regional Development Strategy (NRDS). The European Commission emphasized on the need for increased administrative capacity to manage Structural funds on all levels of Bulgarian government, the increased pace of the institutional reform and the implementation of the stated activities (EC Regular Report on Bulgaria 2004: 59). The SWOT analysis done by the Bulgarian public authorities and

---

<sup>6</sup> Nomenclature of Territorial Units for Statistics (NUTS) is a three-hierarchical classification which breaks down regions in EU into comparable units. It subdivides each MS into a whole number of NUTS 1 regions, which are subdivided into a whole number of NUTS 2 regions (Eurostat)



included in NRDS confirms the EU position – the need of development of the weak and under-developed regional and local institutions in Bulgaria (NRDS). However some of the planned strategies and interventions in the NRDS simply duplicate the EU objectives without providing national instruments and indicators for their assessment<sup>7</sup>. Thus, the building of multi-level governance institutions on national level stays more on paper, rather than being implemented in practice according to the country's specifics.

### ***3.3. Programming of Structural Funds – multi-level governance***

The second dimension of the multi-level governance approach of EU – redistribution of decision-making power is stipulated within National Development Plan (NDP) and the National Strategic Reference Framework (NSRF) - the two major programming documents for the Structural funds implementation in Bulgaria during the 2007-2013 budget period. The latter is directly approved by the European Commission and represents the planning strategy of the operational programs.

The main purpose of the NDP as stated by the Bulgarian government is that it “ensures the development of a programme which fully addresses the EU Strategic guidelines” (NDP: 154). Even though the NDP elaborates on that claim and provides an overview of each of the priority areas with the EU guidelines, it doesn't not envision a strategy how the national MA of the SF will ensure such a level of coordination and how this decision-making power will be coordinated on national and supranational level. Given the adopted approach in the NDP “to structure and present strategic choices” (Agency of Economic Analysis and Forecasts) the NDP is more successful in demonstrating the compliance of the country with the EU requirements rather than ensuring real applicability and feasibility of the Bulgarian SF MA.

---

<sup>7</sup> The NRDS envisions the implementation of major principles on which the EU Cohesion policy builds upon (NRDS: 83-92)

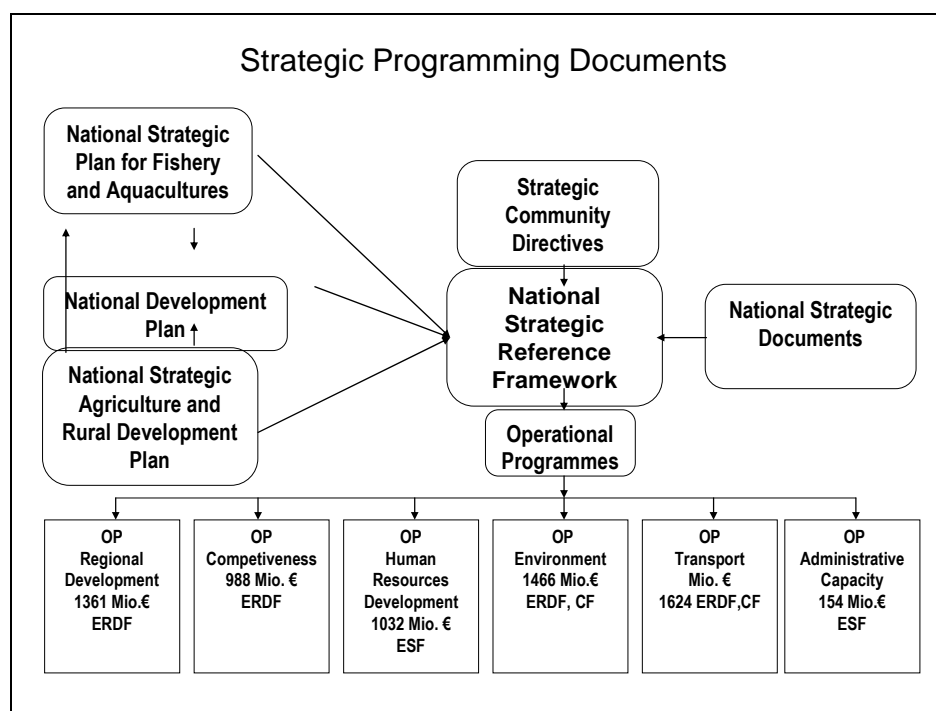
More successful in fulfilling its purpose is the second strategic planning document - the NSRF – developed on the basis of the NDP and approved by the European Commission. It provides not only a plan for the Bulgarian regional development, but a strategy how the Structural funds assistance will enhance Bulgarian regional development (Agency for Economic Analysis and Forecasting). In that manner the NSRF defines the role of the SF in the regional development of Bulgaria within the EU financial framework 2007-2013.

The greatest asset of the NSRF is that it defines the national parameters of the EU Cohesion policy – the Operational programs, sectors, institutional specifics and financial planning for the implementation of the Structural funds in Bulgaria. It is based on socio-economic analysis and the adopted national strategies (NDRS, NDP). The NSRF prioritizes the planned investments outlined within the NDP, which will boost the following areas: infrastructure development, human potential, social inclusion and development of better business environment (NSRF: 6). Each of these areas is matched with planned actions addressed at operational level by the development of the eight OP (see six of them in Table 1).

In that manner the NSRF contrary to the NDP contains full description of the envisioned administrative structure, mechanisms for implementation, roles and responsible institutions.

The linking between the strategic programming documents and six of the operational programs is presented in Table 1.

**Table 1:** Strategic Programming Documents Linkage



Source: Ministry of Finance

The functioning of these EU imposed institutional mechanisms relies on the national administrative capacity by ensuring implementation, financial arrangement, control and monitoring of the OP in Bulgaria (NSRF: 7). For each OP the design and development of the managing institutions is entrusted to national governments but according to the EU framework - CSG. Even though one of the goals of the EU is promoting decentralization, the EC has not objected and even enforced a very centralized mechanism for coordination of the OP in Bulgaria (EC Regular Report on Bulgaria 2004). Thus, the NSRF establishes “a central level sensitive to regional and local needs, which is responsible for ensuring the integrated approach toward EU funding with respect to planning and implementation” (NSRF: 113).

In order to correspond to the CSG on Cohesion, the NSRF creates a mechanism for coordination of Bulgarian public authorities on the central, regional, district and local levels. In practice within the functioning of this mechanism the participation of the municipalities has

been limited to being beneficiaries in the development and implementation of projects and are given restricted to consultative role in the Monitoring Committees. Another level of governance – regional was set through the Regional Councils established by the Law on regional development adopted in order to satisfy the requirement of the EU for updated and compliant national legislation in the field of regional development (Article 18, Law on regional development). Hence, the inclusion of the regional and local level actors is a formality - restricting their actual participation in the decision making process (NSRF: 113).

### ***3.4. Pre-accession administrative capacity and its assessment***

In order to enhance the institutionalization process in NMS after accession, the EU made efforts to assess the absorption capacity of the countries from CEE by measuring the administrative capacity of institutions during the negotiations process (Georgescu 2008: 3). The studies and reports are based on assessment models of the capability of the national institutions to accommodate the funding mechanisms after the EU accession. The EU recognized ex-post the importance of boosting national institutional capacity through grassroots efforts rather than externally imposed directives. In order to enhance national administrative capacity the EC changed its approach towards further involvement of national and subnational actors in the implementation of the SF schemes.

In the case of Bulgaria regular reports on the negotiation progress were tracing the progress of the administrative capacity of national institutions to absorb the EU funding. A study published by the EC in 2003 based on analysis of results demonstrated the low capacity of the existing public administration in Bulgaria and the lack of its preparedness to fully absorb the Structural funds (Horvat 2005: 8; Garnizov 2006). However neither the national governments, nor the supranational level adopted special measures to enhance administrative capacity. The

Bulgarian government was eager to benefit from the EU Cohesion policy, even though the institutions didn't have enough administrative capacity. The EU was blindly following the required procedures and directives implemented in all NMS. Under these conditions Bulgarian institutions started the implementation of the EU Cohesion policy, even though lacking the sufficient capacity.

The only special support for improving the quality of the institutional settings was envisioned in the functioning of one of the pre-accession instruments (others ISPA and SAPARD) – the program PHARE. The main aim of this pre-accession instrument was to build or strengthen national institutions and their administrative capacity to manage and implement EU policies and funding after the accession. The issues that arose during the implementation of the PHARE programs were indicators of the issues that the domestic bodies will experience during the SF absorption. Moreover the implementation of the PHARE projects overlapped with the initial implementation of the Structural funds due to the delay in the running of PHARE projects (EC 2008). This impeded the opportunity of overall analysis of the lessons learnt during the pre-accession instruments management. However there are some conclusions drawn in the NSRF of Bulgaria (2005: 53). These point out first, the necessity for further strengthening of existing and newly established administrative structures; second, the weak coordination capacity which complicates further the functioning of the institutional apparatus as a coherent and coordinated mechanism; third, human resource development should be promoted in order to ensure the proper function of the OP. Despite the clear indication in the NSRF report that improvements are necessary, there was no follow-up on the national or supranational level to address how and when issues would be remedied.

The problems of the institutions in management and financial control are reflecting on the capability of Bulgaria to absorb the pre-accession funds. The EU has suspected frauds and irregularities in the award of contracts and in the control of the financial schemes in the pre-accession period and lack of political willingness to take measures in strengthening the control over the responsible MA (Report on the Management of EU Funds 2008). The investigations of the EU anti-fraud office OLAF led to the temporary suspension of pre-accession funds and freezing of payments. These strict measures were provoked by the serious concerns by the European Union on the capacity of the SF national administrative structures to secure sound management and control of the EU financial resources. However the Bulgarian government have appointed some of the same institutions managing the programs under PHARE to manage the OP - for instance the Ministry of Labor and Social Protection runs both programs under PHARE and OP Human Resources.

The review of the national strategic planning documents, PAI and assessments demonstrate tendencies in the institution-building and institution strengthening during the Bulgaria-EU negotiation period which are relevant for the post-accession as well. These tendencies are linked to the lack of experience of public administration but eagerness of the country to benefit from the SF - stimulus for the Bulgarian government to be cooperative with the EU in the process. In practice the functioning of the transplanted institutions during the pre-accession period remains problematic and threatens the capability of the country to absorb the EU budget allocations in the post-accession period. As Keating et al (2003:13) discuss in their analysis of the regional challenge of CEE, “regional reform in CEE has produces confusing compromise among various principles with new arrangements...further more complicated in CEE because of involvement of outside agencies”. The conflicting requirements of the EU during the development of its Cohesion policy – promotion of multi-level governance but

opting for centralized management have impact on the national SF management institutions. A more detailed analysis of the OP Human Resources financed through the ESF will reveal the major administrative capacity issues that the national MA and intermediary bodies are experiencing. Even though politicians on EU and national level have taken the decisions on the design of institutions, it depends on the capacity of the administration itself the implementation for the undertaken decisions (Milio 2007: 434).

## Chapter 4: Administrative Capacity of IB of OPHR

The above reviewed major reforms of the EU Cohesion policy, the existing literature on SF and the process of institution-building and strengthening of institutions in Bulgaria demonstrates the lack of explicit and unified criteria for assessing administrative capacity. This lack of unified criteria impedes the evaluation of the impact of the administrative capacity constraints on the absorption rate of structural funds in Bulgaria.

The following chapter proposes a number of criteria for assessing administrative capacity. These criteria are used to examine the progress of OPHR in Bulgaria and test whether administrative capacity of institutions has impact on absorption rate. The discussion of the absorption rate of Bulgaria is confusing given the many factors behind the institutions such as political, cultural, social factors that are influencing it. Thus, this chapter will include: first, a brief overview of the OPHRD - financial plan and institutions; second, concepts, definitions and methods for establishment of administrative capacity assessment criteria; third, results and conclusions from the case study of the OPHR intermediate bodies.

### ***4.1. OPHRD: financial plan and institutions***

The allocated funds under OPHR for Bulgaria are negotiated be up to 1 213 869 575 euros for the whole budget period 2007-2013. However, if there are not enough approved projects according to the financial principle “n+3” the country will loose the allocated funds (Petkov 2009). This financial principle secures the national involvement and commitment to actively manage the national funds. The “n+3” rule requires that the project should be contracted and implemented. Therefore it is important for a country to have a high level of absorption rate – this way the country will benefit from the budget by absorbing the SF through the EU budget to the same as extent as it contributes to it.



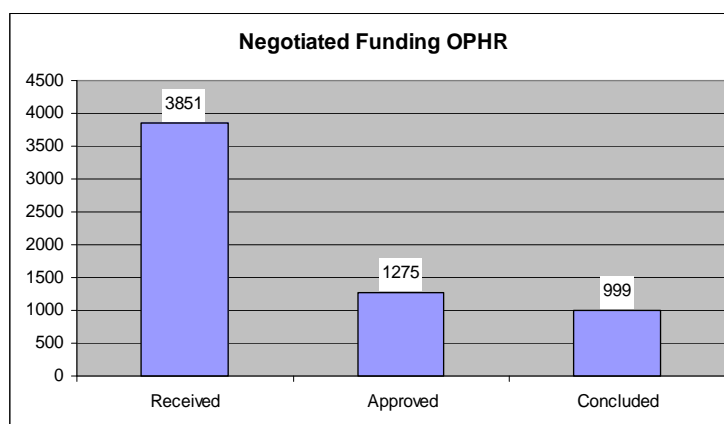
The OPHR officially started in 2007 but the first contracts were signed in 2008. The late start of the OP in Bulgaria, one year after the beginning of the EU budget framework had paradoxical impact on the country turning it into net contributor to the EU budget, even though all Bulgarian regions are eligible for SF support. The inability of the Bulgarian government to design and present for approval the OP in time had placed Bulgaria at a net negative position towards the EU budget. This reflects in the level of 10.54 % signed contracts for the period January 2007 till May 2009 (Report Plugchieva 2009)

The late start of the OP (at the end of 2007) had impeded the beginning of project proposal selection schemes. However till May 2008, six procedures for financial support were started at the cost of 44 850 000 euros, while in May 2009 there were 39 procedures running at the cost of 337.4 mln euros (Report on the Implementation of OPHRD 2009). Since assessment of the quality of the projects is not feasible at such an early stage of implementation, I look at quantitative indicators as possible predictors of success. Figure 1 presents the figures in terms of number of contracts concluded between January 2008 and August 2009. There are 999 contracts concluded out of 3851 received and 1275 approved at the cost of 130.07 mln euros.

**Figure 1:** Negotiated Funding

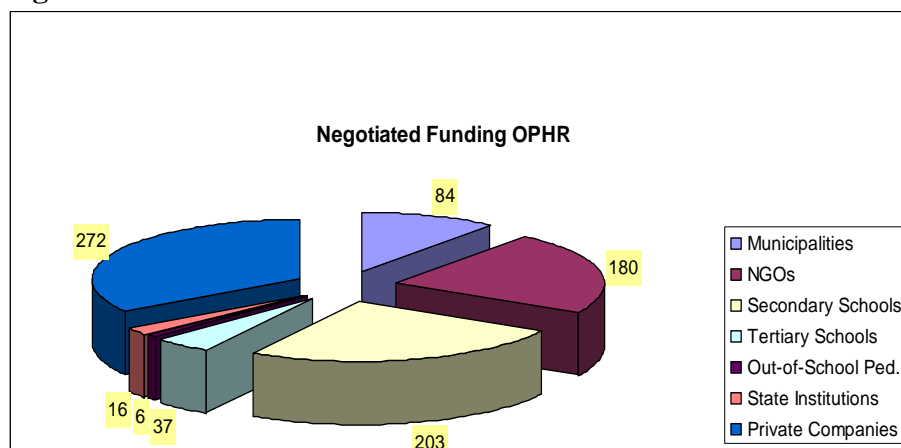
OPHR – number of projects

Source: MLSP



In scope of activity the OPHR covers the largest population which accounts for 100 000 people as well as the most various beneficiaries represented in Figure 2: municipalities, NGOs, schools, universities, academic institutions and private sector (MLSP)

**Figure 2:** OPHRD Beneficiaries



Source: MLSP

Even though the progress in 2009 has been significant in terms of payments, Bulgaria has been granted only advance payments through the National Fund rather than intermediate payments (Petkov 2009). The reason is that two years after the launch of the OPHRD Bulgaria should receive positive completion assessments from the EC on each OP. This means that the opened schemes should be accepted with positive compliance according to the EU requirements. Only after that the EC could allocate the rest of the negotiated funding till the end of the budget period. Then the next EU installments could be transferred to the existing National fund and disbursed to the projects. So far the advance payments have been covered through the National budget until the EC certifies that the money allocated under the operative programs are spent transparently and efficiently so that they enhance economic growth, serve the interest of citizens and create jobs as the spokesperson of the European Commission Dennis Abbott stated (Sofia News Agency)

The intermediate bodies responsible for the procedures, evaluation of the project proposal and contracting are defined in a centralized principle. These institutions are the Managing

Authority – the Ministry of Labor and Social Policies and three Intermediary bodies: the Social Assistance Agency, the Employment Agency and the Ministry of Education. The institutional structure as well as the design and programming of the OPHR were subject to the approval of the European Commission on 3<sup>rd</sup> of October 2007.

For each of the Priority fields of intervention (axes) with the Decision 965 of Council of Ministers of December 16<sup>th</sup> 2005 the MA of the OPHR – The Ministry of Labor and Social Protection has delegated authority within the area of competence of the respective IB. The table below represents the priority axis and the corresponding IB, as well as the amount per axes for the whole budget period 2007-2014 negotiated with the EU. The total Community funding is 1 213 869 575 euros and national counterpart is 182 080 436 euros (OPHR: 139).

**Table 2:** Planned Funding OPHRD per Priority Axis in EUR; Source: MLSP

Priority Axis	Description	Managing Authority	Planned Funding
Priority axis 1	Promotion of economic activity and development of inclusive labour market	Employment Agency	255 mln
Priority axis 2	Raising the productivity and adaptability of the employed persons		218 mln
Priority axis 3	Improving the quality of education and training in correspondence with the labour market needs for building a knowledge-based economy	Ministry of Education and Science	243 mln
Priority axis 4	Improving the access to education and training		194 mln
Priority axis 5	Social inclusion and promotion of social economy	Social Assistance Agency	170 mln
Priority axis 6	Improving the effectiveness of labour market institutions and of social and healthcare services		61 mln
Priority axis 7	Transnational and interregional cooperation	Ministry of Labour and Social Policy	24 mln
Priority axis 8	Technical assistance		48 mln
Total OPHR			1 213 869 575 euro

Other institutions involved in the OP HRD according to the principle of partnership are various public organizations and stakeholders. Apart from the Managing Authorities there is a

Central Coordination unit and an Auditing Unit (OPHRD: 145 – 157). Their organizational structure follows centralized and politicized pattern given the fact that the managers of these units are appointed by the executive branch of the government. This more direct national political control over the complementary management institutions increases the need for external independent monitoring on their work and assessment on the basis of clearly defined criteria. This function is envisioned to be performed within the Monitoring Committees which consist of large representation from all public spheres - regional institutions, ministries, MA of other OP, civil society and trade unions. However the work of the MC remains disclosed for the public and administrative capacity assessment remains out of their prerogatives (OPHRD: 150).

#### ***4.2. Methods of Case Study Analysis***

Given the early stage of implementation of the SF financial instruments in Bulgaria the analysis will focus only on the first two phases of the SF policy cycle – the Management and Programming stage.

The methodology is based on Milio's matrix for administrative capacity progressive stage, as well as on the OPHRD Document (2007: 144 ) and the USAID Institution-capacity measurement tool – Institutional Development Framework (2000 : 9).

Milio's matrix is designed on the measurement of administrative capacity is defined as the “ability of the institutions to manage SF according to their rules and procedures” (2007:435) and for regional governments. However Milio's definition overlaps with the scope of responsibilities listed in the profile of each of the MA and IB in the national OPHRD Program (2007:144). Thus, there are broader categories by which administrative capacity could be separated at each stage: programming, management, monitoring and evaluation. However, in

the case of Bulgaria only programming and management are the administrative capacity progress phases that have been completed. The categories are defined by Milio (2007) but their characteristics are specified according to the Bulgarian case:

- Programming is major responsibility to the assigned MA. It is defined as the process of designing the OPHR Strategy by conducting socio-economic analysis, SWOT analysis, macroeconomic framework, financial plan, defining of priority axis and the delegation of responsibilities to the IB. The more IB are involved in the programming process, the more accurate and effective the strategy is. Moreover the more regional structures are involved from that initial part of the SF policy cycle, the more precise and detailed the analysis is (Molle 2008:191). The programming process under each of the priority axis, which is delegated by the MA to the IBs is as important as the overall programming. The sooner the procedures for collecting and evaluation of projects are undertaken, the better the absorption capacity is. In that process the Project Approval Committees selection by the IBs is crucial for the pace and quality of projects selection. If the IB fail to attract independent and well-qualified experts in these Committees and fail to utilize the MA approval of the selected cluster of clusters, it is difficult to spend the planned funding on the implementation of good quality projects.
- Management includes three aspects that characterize the process. The civil servants' experience aspect is important in terms of the provision of sufficient number of personnel in the MA and IBs, who are well-qualified and experienced in the pre-accession instruments. The Organizational aspect defines the dimension of management – the more centralized and hierarchical, the more difficult and time-consuming is the coordination within a unit and between units. The Communicational aspect is interrelated with the organization structure but involves more actors. The communicational channels should exist not only as means for internal communication

within the OPHRD, but with beneficiaries and other stakeholders. The last aspect of the management of SF is the ability to conclude contracts. This includes the time laps between the receiving of project proposal and the actual contract conclusion. The sooner it the contract is concluded, the actual stage of implementation, respectively intermediary payments through ESF could be initiated.

Together with the activities monitoring and evaluation all these four categories define the administrative capacity of the MA and IBs. Each category is measured by a set of indicators that are presented in Table 3. The categories are adapted from Milio (2007: 437) as framework for analysis but include specific indicators for assessment of the administrative capacity specifically of Bulgarian SF managing institutions.

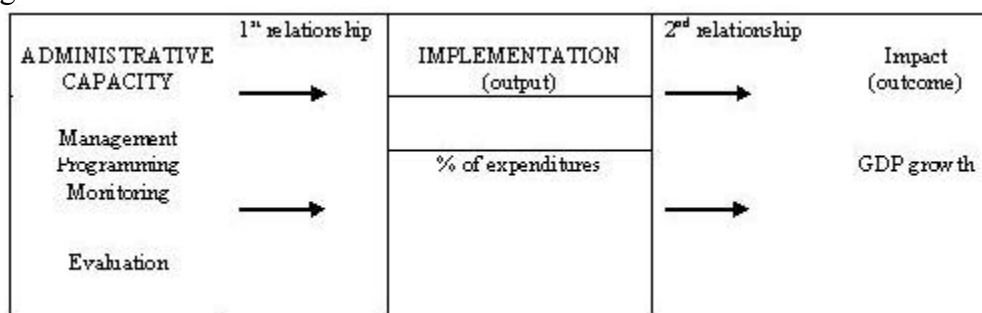
**Table 3:** Indicators and progressive stage administrative capacity

Category	Indicators	Starting	Developing	Consolidated
1. Programming	1.1. Levels of Participation in OPHRD Programme design	Participation only at the final approval	Active participation within the area of competence	Full participation in design and approval of OPHRD
	1.2. Undertake capacity of MA/IBs to launch a Procedure for collection and evaluation of project proposals – time laps	Launch an year after the OPHRD approval	Launch less than an year after OPHRD approval	Launch before or right after the OPHRD approval
	1.3. Project Approval Committees Management - recruitment	Recruitment difficulties – not enough members and lack of experts	Recruitment – utilized – enough Member from various fields	Recruitment of enough members experts in the field
	1.4. Regional Structures	Non- existing	Non-existing before the OPHRD approval	Established before the OPHRD approval
2. Management	2.1. Civil servants' expertise and experience	Newly graduated, not trained and no experience with PAIs	Trained but no experience with PAIs	Trained and experienced with PAIs
	2.2. Organizational Structure	Hierarchical and centralized	Hierarchical and decentralized	Team work methods of work and multi-level structure
	2.3. Coordination between IBs	Only formal channels; irregularity	Appearance of informal channels; irregularity	Regular staff meetings
	2.4. Communication	Limited to communication within the OPHRD MA and IBs	Networking with MA and IBs from other OPs	Regular communication with other OP MA and IBs and beneficiaries
	2.5. Concluding Contracts Capacity	Delay for 1 year after call for proposal opening	Delay less than 1 year after call for proposal opening	Concluding within 6 months after call for proposal opening

The categories are interrelated to form a whole system. The better performance of each level of the system leads to higher level of SF absorption.

The role of the administrative capacity in this system as a variable that influences the absorption is presented by Milio in Figure 3 (2007: 436). The figure shows that the degree of the MA and IB' capacities influences the degree of the output (quantitative measure – expenditure rate). The first relationship - if the capacity is increased the output will be increased as well. When the highest effectiveness of the SFs is reached, the output should be transformed into outcome quantitatively measured by macroeconomic indicators – the second relationship. Hence, the administrative capacity in an indirect way has an impact on the final result.

Figure 3: Causal Chain



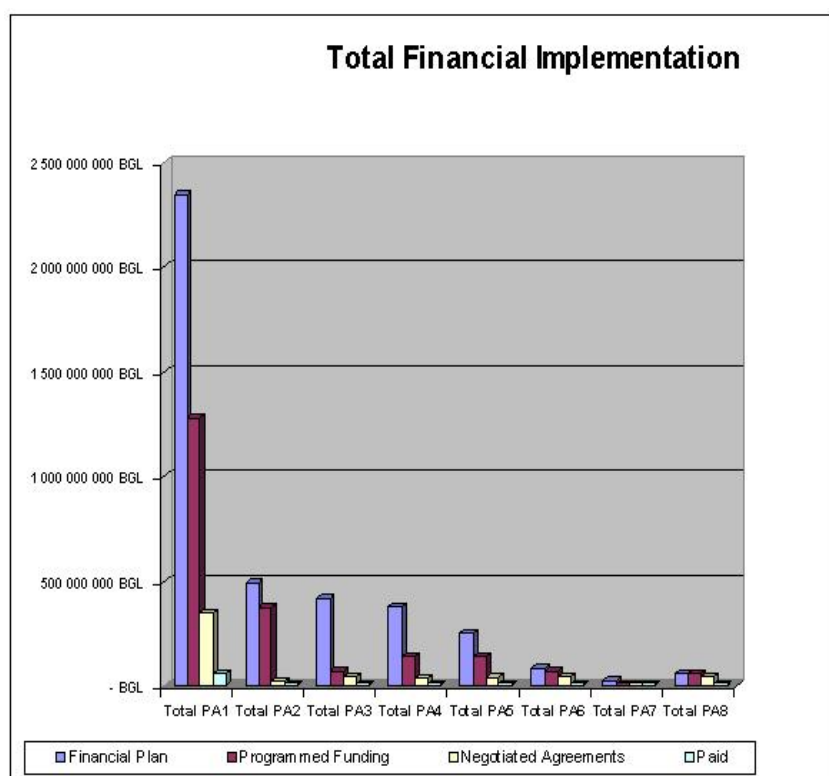
Milio's causal chain (2007): Administrative capacity - Output- Outcome

### 4.3. Case Study

The reasons behind the selection of the OPHRD managing institutions for the core of the analysis beyond the varying level of absorption capacity as Graph 3 demonstrates are the following: First is the fact that OP HRD was not only the first one for the case of Bulgaria to be approved by the EU (November 2007), but the first one to start as well, as Mr. Girginov, Head of Programming and Management Unit in the MA OPHRD stated in an online website interview (Jilkova 2009). Second, the OPHRD managing institutions have the greatest experience in PAI. Third, each of the institutions have similar functions and organizational structure –Directorate “European Funds and International Programs and Projects” of MLSP, Employment Agency, Social Assistance Agency and Directorate “European integration and

international cooperation” in Ministry of Education and Science (MES 2009). The Directorate “European Funds and International Programs and Projects” of MLSP has greater decision-making power as a MA, thus it’s not comparable with the IB. In that manner it should be mentioned that the first three institutions are part of the administrative structure of the same Ministry – MLSP, while the Directorate “European integration and international cooperation” is part of the administrative structure of MES. This fact influences mainly the coordination and communication channels. Therefore the OPHRD is the most suitable for analysis program as being in the implementation stage of the ESF funding allocation. Figure 4 (Source: MLSP presentation Aug 2009) demonstrates the variable level of financial implementation of each the IB and MA given by priority axis and Table 4 – the absorption level. These graphs show that the SAA has the highest absorption rate, while MES has the lowest.

**Figure 4:** Financial Implementation per Priority Axis from January 2008 till August 2009





**Table 4:** OPHRD MA Absorption Level; Source: MLSP

Priority Axis		Allocated Funds (without advance payments)
Priority Axis 1	Employment Agency	0
Priority Axis 2		1 121 657
Priority Axis 3	MES	487 732
Priority Axis 4		1 192 103
Priority Axis 5	Social Assistance Agency	2 727 383
Priority Axis 6	MTSP	0
Priority Axis 7		0
Priority Axis 8		0

This data collection aim to evaluate the administrative capacity of two of the managing units of OPHR: MES and SAA from December 2005 till August 2009. The data collection techniques include two types of resources: 1/ interview data including questionnaire and expert interviews<sup>8</sup> and 2/ direct observations<sup>9</sup>

The above defined categories: Programming and Management based on range of indicators will be measured by the progressive stage of development of institutional capacity adapted from Milio's analysis (2007:436) and the Centre for Development and Evaluation of USAID (2000:9). There are three defined progressive stages on the basis of the averaged score of each institution on all indicators. The progressive stages are: starting, developing and consolidated. Each stage corresponds to a summary score provided in Table 6 which is adapted from Milio's band of scores but calculated on a different numerical scale.

<sup>8</sup> The questionnaires are designed to assess the administrative capacity by certain indicators. There are four categories included: programming, management, human resources and self-assessment. On the basis of the questionnaire was designed the open-ended interviews with managers from each MA and IB of OPHRD.

<sup>9</sup> Personal experience as NGO beneficiary of three of the priority schemes opened for OPHRD call for proposal in the very beginning of the operation of the program in December 2007 and later on in May 2008.

**Table 6:** Band of scores for overall administrative capacity degree

Score	0 – 4.5	4.6 - 9	9.1 – 13.5
Stage	Starting	Developing	Consolidated

Adaptation from Milio (Table 7, 2007: 437)

#### **4.4. Assessment of Degree of Capacity**

To assess administrative capacity, I look at two OPHRD institutions – Ministry of Education and Science as an example of the low fund implementation and the Social Assistance Agency as an example of the high fund implementation.

The analysis covers the level of capacity since the Decision of Council of Ministers in Bulgaria on the institutional framework of OPHRD taken in 2005 as well as (where applicable) reference to the period of pre-accession instruments implementation. Each category, respectively indicators are presented in each of the OPHRD administrative structures. However the lack of an overall report on the administrative capacity of the MA and IBs render the assessment of the administrative capacity from another perspective. All other variables such as political, cultural and social factors are taken as constant.

##### **4.4.1. Programming**

The programming actions are exclusively in the MLSP as a MA, respectively Directorate “European Funds and International Programs and Projects”, whereas the Directorate has greatest prerogatives and competencies. However, according to the different indicators included in Table 2 the IB are included in the process to different extent (OPHRD: 8). First, the MES has been participating only as consulting body in the especially established for the purpose OP HRD Working group. Whilst, the SAA has been actively involved in the development of the basis of the OPHR strategic program – the socio-economic analysis, its

assessment and conclusions as well as the defining of priorities and mechanisms. Second, the importance for earlier undertake of procedure for project proposals selection is indicative of the capacity of the IB to program in its respective priority axis domain. The MES has announced call for project proposals in October 2007 but has concluded contracts almost a year later. Thus, the whole process of project implementation has been initiated with much delay. On the contrary the SAA has been prepared for and launched the project proposal selection procedure in June 2007 and half a year later were concluded the first contracts with the beneficiaries.

The process of project selection is utilized by the establishment of a Project Approval Committees. The MES faced the problem of receiving many projects requesting funds - around 1200 project proposal in comparison with an average of 60 projects within an announced scheme (MES Website). However the number of Project Approval Committee's members wasn't increased despite the huge workload. Whilst the SAA took advantage of the option to request the appointment of more experts from the SAA in order to ensure a more effective selection of project proposals. Therefore SAA was able to initiate the concluding of contracts by attracting more and better qualified experts in the Project Approval Committee.

Another indicator in the programming component of the administrative capacity is the existence of regional structures. The MES started using existing administrative offices within the country after the OPHRD launch. These bodies consist of an expert in each of the Regional cities – 28, which are part of the structure of Directorate of Education (MES). The main task of these experts is to monitor the project implementation process; however, they are not involved in the programming process. On the contrary the regional structures of the SAA are 28 regional directorates: one expert and one financial expert, who are attracted to the

regional unit. Their task covers not only monitoring activities, but regular reports and financial expertise which are used in the programming under the SAA priority axis.

#### **4.4.2. Management**

The second component of the administrative capacity assessment is the management category. The civil servants' experience is crucial for the implementation of the SF programs. Furthermore the experience with pre-accession funds is highlighted as an asset by both EU and OPHRD Strategic Document (2007:63). MES hasn't been successful in attracting experts from the PHARE projects to the Directorate "European integration and international cooperation" in Ministry of Education and Science. Even though the MES had only technical role in the implementation of the PAI without having managing or financial prerogatives, still such personnel is expected to be more skillful and experienced than newcomers in the field. However both the MES and SAA personnel have passed a solid training prior to the official launch of OPHRD. The trainings involved international consultancy work, improvement of analytical skills and self-assessment techniques. Contrary to the MES, SAA was successful keeping more than 80% of their pre-accession experts, even though the civil servants salary in this IB is the least attractive as Ms. Georgieva, Director of the Programming and management Unit has revealed in an interview.

Regarding the organizational structure of the IB there is not an explicit rule how it should be designed except for the guidelines in the Civil Service Act. The hierarchical structure fits best to the overall public administration model utilized in Bulgaria. Still the public administration reforms introduced in the country during the pre-accession period (European Institute) opt for the introduction of the multi-level governance approach in decision-making, flexibility and team work. These methods were introduced in both IB. A paradoxical fact is that the EAA

organization is strictly hierarchical but combines regular staff meetings and reporting as well team work approaches.

The coordination between the IB is important for the completion of the overall financial and implementation plan of OP HRD. Even though there is formal coordination and collaboration procedures according to the NSRF, a more regular meetings and discussions are enhancing the process of project implementation, thus fund absorption. While MES relies more on the formal discussions, the SAA relies on regular and dynamic contacts with the other IBs and MA in order to be sure to be coordinated. For instance such a lack of coordination and not enough research on the public interest and similarity with other priorities between IB leads to the closing of newly opened calls for project proposals (Girginov interview).

Essential aspect of the coordination is the communication and particularly its scope. According to this indicator to some extent during the managing of the projects MES refrains from active contacts with beneficiaries in order to stay independent and unbiased. However, the regular beneficiary reporting process (OP HRD: 148) assumes closer communication with the respective IB. Thus, SAA has found the middle way towards more regular communication with beneficiaries on a specified range of topics that are not threatening the non-partisan assessment in the follow-up monitoring stage as Ms. Angelova revealed in her interview.

The final indicator for the management component of the administrative capacity is the time lap for the contract conclusion. The contract conclusion marks the start of the project implementation and the actual financial absorption of funds by the transfer of the advance payments (Jilkova 2009). According to that indicator MES has the greatest time lap between the project proposal receiving and the contract conclusion – almost a year.

In order to conclude the research findings after discussing each category, there is a total average ranking on the progressive stages identified earlier. Table 7 demonstrates that MES' administrative capacity is still at developing progressive stage, whereas SAA is in the consolidated progressive stage.

**Table 7:** IB OP HRD Administrative Capacity, 2007-2009

Administrative Capacity	MES	SAA
1. Programming	3.5	5
2. Management	3	7
Total average:	6.5	12

Adapted from Milio (2007:439)

The variation in the administrative capacity of the two OPHRD IB requires further research as to the factors that cause this variation. Based on my fieldwork and on the EU-Bulgaria Cooperation and Verification Mechanism report 2008, two factors could be outlined:

1/ administrative procedures and 2/ human resources. The administrative procedures organize the work process, including communication channels, responsibilities, coordination and the design of collecting project proposals procedure. Their complexity and ambiguity in the case of MES could render the whole process. As confirmed by the interviews many procedures were just adapted from the IP without adjusted to the OP HRD specifics. In the complexity of the procedure itself it's lost the responsibility and accountability of the civil servants.

In SAA the procedures are clearly defined in a way that the civil servants have clarity of roles. This has an immediate impact on the communicational culture and information sharing. The simplification of procedure seems to facilitate coordination, communication and effectiveness of work.

The human resources factor has great influence on the administrative capacity. This factor is most vulnerable to political fluctuations and the follow up replacements in the public administration. These reforms slow down the pace of the process and disperse the responsibility. The lack of technical expertise in the MES makes the IB more depend on the human factor.

SAA has been more resistant to shifts in the human resources and seems to affect positively the administrative capacity. Furthermore they are putting efforts in improvement of the technical skills of the civil servants, so that they can benefit from the integration of an electronic management system. The unified management system should be utilized as soon as possible, so that the monitoring and evaluation stages are not so much affected by scarcities and deficiencies of the human resource factor. A good database will collect all the project information and allow for easier internal verifications and audits.

#### ***4.5. Recommendations for Improvement***

Based on the analysis so far, I put forth a number of recommendations with regard to each level of decision-making and implementation: EU, national and subnational. These could be taken into account in negotiating the design and implementation of the next budget period of the SFs and applied not only to the case of Bulgaria, but others as well.

##### **4.5.1. The EU level: inclusion of administrative criteria**

Structural funds, although beneficial, tend to come with some drawbacks such as external imposition by the EU of specific regulations and models of programming and management, which might not manage the administrative structure and capacity of national institutions.

Hence, the elaboration of common EU institutional guidelines is important for the defining of clear set of criteria for the assessment of the administrative capacity in MS. Then the institutions will be capable to assess the effectiveness of their work and draw comparisons. On the basis of this assessment it could be identified issues and respectively solutions. These guidelines will allow MS lacking administrative capacity to improve aspects of their work in an effective manner without only being sanctioned and criticized by the EC.

#### **4.5.2. The National level: flexible administrative procedures**

Even though the spending of the SF in Bulgaria should be highly monitored in order to avoid suspecting of fraud and corruption, the administrative procedures should be simplified and technically modernized. In their current design they have negative impact on the internal as well as external communication and coordination within the OP institutions and beneficiaries of OP HRD. In order to smooth the process the procedures should encourage more transparent and direct way which is envisioned through the new management system.

The utilization of the management system at the same time will serve as a database that allow for references and updates. It will allow all parties in the implementation to do direct financial and management reporting. Thus duplications in the approaches and actions of different departments will be minimized. The management system will allow for smooth information flow, exchange of innovative ideas and reporting. Moreover it will diminish the human resource impact which is often influenced by political and economic factors.



### **4.5.3. The supranational level: increased decision-making participation**

The regional governments and municipalities have positive impact on the absorption level. The more active inclusion of local administration in the process from the programming stage will lead to more accurate and effective regional planning. Being closest to the beneficiaries they can identify most precisely local weaknesses and strengths and propose solutions. Regional governments and administration's increased role should allow for shaping of regional operational programs as in the case of Italy.

First step of this process while the current budget framework is in progress is the increase in municipalities' preparedness for SF absorption by capacity-building trainings and programs. Second, municipalities should actively gather data and analysis on local policies in order to prepare. Third, there should be a pressure exerted by the local government on legislation that will guarantee the inclusion local decision-makers in the SF decision-making process.

These amendments would address the weaknesses of the current EU Cohesion policy design in all levels of governance. The list of recommendations concerns the administrative capacity improvement and could be considered within the negotiation and decision-making process for the next budget framework. If taken into consideration the SFs absorption will be more effective and sustainable, having stronger impact on regional convergence.

## Conclusion

The EU Cohesion policy through its Structural Funds is a major redistribution mechanism for regional convergence. The enlargement of the EU – to include post-communist countries lacking regional governance experience as NMS - increased the complexity of policy. Prior to being funded the NMS undergo a process of transplantation and adjustment of EU SF management institutions. However the EU has not put in place any mechanisms for evaluation of the administrative capacity of national SF management institutions and hence is not able to predict success rates of SFs, measured by absorption of funds.

This thesis has examined what aspects are taken into account during all Cohesion policy reforms since its establishment and shown that the institutional administrative capacity issue was not taken into consideration by the EU decision-makers until the last major reform in 2006. In order to trace the transplantation of institutions in NMS Bulgaria, the thesis has analyzed the process of territorial decentralization, redistribution of decision-making power by the elaboration of the major strategic documents and experience with pre-accession funds.

This analysis has shown that during the pre-accession transplantation process there was a mixture of conflicting approaches and lack of explicit criteria for assessment of the administrative capacity on newly build or adjusted national institutions. Furthermore the EU-imposed models of restructuring have actually led to recentralization rather than decentralization of the Bulgarian SF institutional mechanisms. Therefore the thesis comes up with a set of criteria for evaluation of the SF based on assessment of the administrative capacity applied to two of the managing authorities of Operational Program Human Resource Development implemented in Bulgaria.

The analysis according to performance of the managing institutions in the programming and management stage outlines factors such as administrative procedures and human resources which influence the effectiveness of the public administration. In order to enhance the success of the SF by increasing the administrative capacity of national institutions managing the SF, this thesis recommends course of actions at each level and stage of the policy cycle: design, programming and implementation. All these measures could improve the effectiveness of national managing institutions and utilize the functioning of multi-level governance of EU Cohesion policy. This way it will be ensured that the SF enhance economic growth of regions, serve citizen's interest and prosperity.

However a further research on the last two stages: monitoring and evaluation could provide an overall assessment of the administrative capacity of MA and IB in Bulgaria. Most importantly it will include the other main actors in the process – the beneficiaries. Their capacity is equally important for the absorption of SF and crucial for the final outcomes. Based on these policy-makers in Brussels and Sofia can decide on more decentralized or more centralized management system that will contribute to the decrease of regional disparities and their economic and social consequences in the EU.

## Bibliography

Agency for Economic Analysis and Forecasting. Programming for the Purposes of the EU Funds. 2007. <http://www.aeaf.minfin.bg/en/plan.php> [accessed August 2009]

Anderson J. 2002. Europeanization and the Transformation of the Democratic Polity 1945-2000. *Journal of Common Market Studies* 40, no. 5, 793-822

Bache, Ian. 2008. *Europeanization and Multilevel Governance: Cohesion Policy in the European Union and Britain*. Lanham : Rowman & Littlefield Pub.

Baun, Michael and Marek, D. 2009. *EU Cohesion policy after enlargement*. New York : Palgrave Macmillan

Börzel, Tanja and Risse, T. 2000. *When Europe hits home: Europeanization and Domestic change*, Florence, Italy : European University Institute.

Boldrin Michele and Canova Fabio. 2001. Europe's regions: income disparities and regional policies. *Economic policy* 32, 205-253

Bradley, John. 2006. Evaluating the Impact of European Union Cohesion Policy in Less-developed Countries and Regions. *Regional Studies* 40, April, 189-199

Bulgarian National Strategic Reference Framework. 2007. *Ministry of Finance Bulgaria*. <http://www.eufunds.bg/index.php?cat=35> [accessed July 2009]

Council Decision on Community strategic guidelines on cohesion. Brussels. 21.10.2006. COM 2006/702/EC

Decree 965/2005 of Bulgarian Council of Ministers.  
<http://www.evrofinansirane.eu/content/view/164/20/> [accessed Sept 2009]

Ederveen Sief, De Groot H.L.F. and Nahuis R. 2002. Fertile Soil for the Structural Funds? A Panel Data Analysis of the Conditional Effectiveness of European Cohesion Policy. Discussion Paper no. 10. August 2002. CPB Netherland Bureau for Economic Policy Analysis, The Hague

European Commission. Enlargement. Negotiations. Chapter 21.  
[http://ec.europa.eu/enlargement/archives/enlargement\\_process/future\\_prospects/negotiations/eu10\\_bulgaria\\_romania/chapters/chap\\_21\\_en.htm](http://ec.europa.eu/enlargement/archives/enlargement_process/future_prospects/negotiations/eu10_bulgaria_romania/chapters/chap_21_en.htm) [accessed August 2009]

European Social Fund [http://ec.europa.eu/regional\\_policy/funds/fse/index\\_en.htm](http://ec.europa.eu/regional_policy/funds/fse/index_en.htm) [accessed on July 2009].

European Institute. Library: Publications – Regular reports of the EC. Regular Report on Bulgaria's progress towards accession 2004.

<http://www.europe.bg/en/htmls/page.php?category=113> [accessed August 2009]

Eurostat. Nomenclature of Territorial Units for Statistics.

[http://ec.europa.eu/eurostat/ramon/nuts/basicnuts\\_regions\\_en.html](http://ec.europa.eu/eurostat/ramon/nuts/basicnuts_regions_en.html) [accessed September 2009]

Financial Implementation SF in Bulgaria. July 2009. <http://www.minfin.bg/bg/page/374> [accessed August 2009]

Garnizov, Vasil, Marinov, V. 2006. *Assessment of Municipal and District Capacities for Participation in EU Structural and Cohesion Funds Absorption*. Sofia: UNDP.

Georgescu, George. 2008. Determinants of Increasing EU Funds Absorption Capacity in Romania. Institute of National Economy  
<http://www.oeconomica.uab.ro/upload/lucrari/1020082/16.pdf> [accessed August 2009]

Grief, Avner. 2006. *Institutions and the path to the modern economy: lessons from medieval trade*. Cambridge : Cambridge University Press

Hooghe, Liesbet and Marks, G. 2001. *Multi-level governance and European integration*. Lanham, MD : Rowman & Littlefield Publishers.

Horvat, Andrej. 2005. Why does nobody care about the Absorption? Working Papers 258. WIFO  
[http://www.wifo.ac.at/www/jsp/index.jsp?fid=23923&id=25750&typeid=8&display\\_mode=2](http://www.wifo.ac.at/www/jsp/index.jsp?fid=23923&id=25750&typeid=8&display_mode=2) [accessed September 2009]

Horvath, Zoltan. 2005. *Handbook on the European Union*. Budapest : HVG-ORAC

Hughes, James and Sasse, G., Gordon, C. 2004. Conditionality and Compliance in the EU's Eastward Enlargement: Regional Policy and the Reforms of Sub-National Government. *Journal of Common Market Studies* 42: no. 3, 523-551

Jilkova, Tatyana. Interview with Mr. Plamen Girginov, Manager Directorate "Programming, coordination and Assessment of OPHRD. January 21.  
[http://www.humanresources.bg/index.php?option=com\\_content&view=article&id=331:-q-q&catid=11:temanameseca&Itemid=15](http://www.humanresources.bg/index.php?option=com_content&view=article&id=331:-q-q&catid=11:temanameseca&Itemid=15) [accessed August 2009]

Keating, Mark. 2003. *Regionalization in Central and Eastern Europe: The Diffusion of a Western Model?* In M. Keating and J. Hughes ed. *The Regional Challenge in Central and Eastern Europe: Territorial Restructuring and European Integration*. Brussels: P.I.E. – Peter Lang, 51-67

Law on regional development. 2008. 40<sup>th</sup> National Assembly of Bulgaria  
<http://www.bcnl.org/doc.php?DID=53>

Leonardi, Robert. 1993. *The Regions and the European Community: the regional response to the single market in the underdeveloped areas*. London : Frank Cass

Leonardi, Robert. 2005. *Cohesion policy in the European Union: the building of Europe*. London: Palgrave MacMillan

Milio, Simon. 2007. Can Administrative Capacity Explain Differences in Regional Performances? Evidence from Structural Funds Implementation in Southern Italy. *Regional Studies* 41, no. 4, 429-442

Ministry of Education and Science. 2009. Directorate”Structural Funds and International Educational Programs”[http://www.minedu.government.bg/opencms/opencms/left\\_menu/ministry/structure/ds\\_sfmop.html](http://www.minedu.government.bg/opencms/opencms/left_menu/ministry/structure/ds_sfmop.html)

Moravcsik, Andrew. 1998. *Centralization or fragmentation? : Europe facing the challenges of deepening, diversity, and democracy*. New York : Council on Foreign Relations Press

Moravcsik, Andrew. 1998. *The choice for Europe: social purpose and state power from Messina to Maastricht*. Ithaca, NY : Cornell University Press

Molle, Willem. 2007. *European cohesion policy*. Abingdon, Oxon: Routledge

National Development Plan. 2005. *Agency for Social Analysis and Forecasts*. <http://www.eufunds.bg/index.php?cat=34>. [accessed July 2009]

National Regional Development Strategy. 2005. *Ministry of Regional Development and Public Works*  
<http://www.europa.bg/htmls/page.php?category=264&id=2231&translation=en&page=2>  
[accessed Sept 2009]

Operational Program “Human Resources Development” (CCI: 2007BG051PO001). 2007. MLSP. [http://ophrd.government.bg/view\\_doc.php/DOCUMENTS](http://ophrd.government.bg/view_doc.php/DOCUMENTS) [accessed July 2009]

Operational Program “Human Resources Development”. Ministry of Labour and Social Protection. <http://ophrd.government.bg/> [accessed August 2009]

Petkov, Martin. 2009. The Key Stage of the EU Operational Programs. *Dnevnik*. August 17. [http://www.dnevnik.bg/evropa/evrofinansirane/novini/2009/08/16/770578\\_nastupva\\_kljuchov\\_etap\\_za\\_operativnite\\_programi/](http://www.dnevnik.bg/evropa/evrofinansirane/novini/2009/08/16/770578_nastupva_kljuchov_etap_za_operativnite_programi/) [accessed August 2009]

Regulation (EC) 1081/2006 of the European Parliament and of the Council on the European Social fund and repealing Regulation (EC) No 1784/1999. 21.07. 2006. Brussels  
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:210:0012:0018:EN:PDF>  
[accessed September 2009]

Regulation (EC) 1083/2006. 11.07.2006. Brussels <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:210:0025:0078:EN:PDF> [accessed September 2009]

Report Minister Plugchieva Presentation. May 2009.  
[http://old.government.bg/fce/001/0206/files/Plugchieva\\_otchet-presentacia.ppt](http://old.government.bg/fce/001/0206/files/Plugchieva_otchet-presentacia.ppt). [accessed Sept 2009]

Report from the Commission to European Parliament and the Council on the Management of EU Funds, Brussels, 23.7.2008, COM (2008) 496 final [accessed July 2009]

Report on OPHRD Implementation. 2009. Information sheets. Ministry of Labour and Social Works.

Single European Act. *Official Journal of the European Communities (OJEC)*. 29.06.1987, No L 169, 1

Sofia News Agency. 2009. EC Spokesman Upbeat about European Funding for Bulgaria. August 25. [http://www.novinite.com/view\\_news.php?id=107131](http://www.novinite.com/view_news.php?id=107131) [accessed September 2009]

Treaty Establishing the European Community – consolidated version. Official Journal C 325 , 24 December 2002. <http://eur-lex.europa.eu/en/treaties/dat/12002E/htm/12002E.html> [accessed Sept 200]

USAID. 2000. Recent Practices in Monitoring and Evaluation TIPS – Measuring Institutional Capacity. No.15. Center for Development Information and Evaluation.