

THE REGIONAL POLICY OF THE EU: NEW CHALLENGES IN THE ABSORPTION AND IMPLEMENTATION OF STRUCTURAL ASSISTANCE

COMPARATIVE ANALYSIS

By

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Abstract

This thesis investigates an issue that has settled permanently on the political agenda at both national and European level, namely reconciling regional imbalances through an efficient use of structural funds. It aims at showing that centralization of power should not be considered the sole obstacle for the divergent outcomes observed between the old and new member states. New challenges that have emerged on the surface in relation to the absorption and the optimal implementation of the EU funds and the way they have been addressed by both the national governments and the respective bodies at EU level is further point of examination.

Through examination of the cases of the frontrunner Ireland and a representative of the new beneficiaries of EU regional aid - Bulgaria, deficiencies in the administrative capacity, lack of stable political and economic environment as well as the low level of participation of non-governmental actors are found to affect the ability of the state to optimize the utilization of the inflow of EU money.

An evaluation of whether the regional policy is positioned to adequately address the needs of the newcomers will constitute an additional line of investigation.

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Introduction

The regional policy of the European Union absorbs a significant portion of its budget and occupies an important position in the EU discourse. It is the second largest direction of the outflow of EU money and a powerful incentive for compliance with the Union's conditionality principle. The initial rationale behind its creation (1975) was the need for a balancing effect against the influential Common Agricultural Policy and providing a source for furthering economic growth of member states with relatively small agricultural sectors but which experienced regional disparities. In time, however, its scope expanded and the accession of countries with stronger regional inequalities contributed to its increased salience. Besides enhancing the developmental levels of the different regions and striving for their economic and social cohesion (through financing concrete projects and increasing the competitiveness of the region) the Union is promoting its values and ideas (through the cross-border cooperation element).

The last enlargement waves (2004 and 2007), which brought in 12 states from the Central and Eastern European region, represent a serious test for the Union to effectively bridge the large economic gaps between the old and new member states. It has been estimated by the European Commission that one in four regions (out of the now 271) has a GDP per inhabitant that is under 75 % of the average of the EU 27.¹ Due to the lower standards in the newcomer countries, most of the previous beneficiaries of structural funds assistance are now considered sufficiently developed, hence the amount of money

¹ Regional Policy, Inforegio http://ec.europa.eu/regional_policy/policy/why/index_en.htm accessed May 18, 2011.

was significantly reduced (as for example was the case for Ireland, Spain, UK, Germany and even Greece)². Given the unequal economic performance of the current recipients of structural assistance, the question arose as to whether the policy is efficient enough to create an environment conducive to growth and bring the regional players to the fore.

The trends observed in some countries – difficulties in the effective implementation and utilization of the funds, particularly in the newly accepted countries – are raising concerns among EU officials. Cases of malpractices, absorption deficiency and administrative incapacity are causing the Commission to adopt a stricter language in its evaluation opinions and reports and contribute to a negative outlook of the ability of the new member states to adequately undertake the responsibilities of full-fledged membership.³ They also prove to be stumbling blocks to successful economic convergence and as such represent an interesting and fruitful topic for further examination. By focusing on a representative of the group of cohesion countries of EU-15 – Ireland and analyzing the performance of one of the newly accepted states - Bulgaria, I will attempt to show that centralization does not necessarily impede successful absorption of structural assistance and economic convergence and that administrative capacity is among the main factors for development. Further conditions for convergence will also be assessed, such as historical legacies, political culture and macroeconomic factors conducive to sustainable growth. I would examine the new challenges that have emerged on the surface in relation to the absorption and the optimal implementation of the EU funds and whether they have been addressed sufficiently by both the national governments and the respective bodies at EU level. An evaluation of

² estimated from the Inforegio Factsheets

³ BBC News: EU suspends funding for Bulgaria, July23, 2008
<http://news.bbc.co.uk/2/hi/europe/7520736.stm> [accessed on May 18, 2011].

whether the regional policy is positioned to adequately address the needs of the newcomers will constitute an additional line of investigation.

There are some controversial issues in the context of the regional policy of the European Union and they can be considered in several directions. On the one hand, we have the strict conditionality element, which requires member states to initiate substantial reforms in a number of areas in order to receive assistance. As Martin Brusis points out, however, the Union seems to neglect the different institutional set-up in the post-communist states.⁴ The centralized mode of governance, the traditionally minor role that regional actors play in the decision-making process in most of the Central and Eastern European countries render the reforms rather artificial. This issue has been further explored by Michael Keating, who examines the extent to which western models of regionalization can be successfully applied to the rest of Europe. He also focuses on the territorial restructuring processes that take place in some of the new member states and the difficulties associated with this, as well as the rather passive and underdeveloped civil society in Central and Eastern Europe.⁵ Among the most problematic spheres are the monitoring and control elements.⁶ A response to this argument is the position undertaken by EU officials that the legal and administrative frameworks that have been implemented, despite their deficiencies, represented a step forward and reflect a re-orientation in the thinking of the policy-makers that will yield results in the long-run.

⁴ Martin Brusis (2000). "Institution building for regional development: A comparison of Bulgaria, the Czech Republic, Estonia, Hungary, Poland and Slovakia". *Bertelsmann Foundation and the Bertelsmann Group for Policy Research, Center for Applied Policy Research*, pp. 19.

⁵ Michael Keating & James Hughes (2003) (eds). "The Regional Challenge in Central and Eastern Europe: Territorial Restructuring and European Integration". P.I.E.-Peter Lang S.A. Brussels, pp. 12-13.

⁶ Martin Brusis (2000). "Institution building for regional development: A comparison of Bulgaria, the Czech Republic, Estonia, Hungary, Poland and Slovakia". *Bertelsmann Foundation and the Bertelsmann Group for Policy Research, Center for Applied Policy Research*.

Another point of controversy between the scholars is the focus on the promotion of multilevel governance, achieved through increased cooperation between the national and local authorities – the partnership principle and the re-direction of the major money flux towards the cohesion objective (which actually strengthens the position of the national authorities *vis-à-vis* that of the regional actors). The EU is sending an ambiguous message – it strives to enhance the partnership on a regional level but, at the same time, the decision-making power is left in the hands of the national authorities, as has been the case in the pre-accession period and this has left its imprint over the way the newcomers deal with the post-accession structural assistance.⁷ The position of the critics of the regional policy is therefore that it makes the reforms rather unnecessary – it is the state authorities that will be the ultimate decision-making body on how the money will be allocated. This approach also leaves the states, which do not enjoy sufficiently developed regional independence and decentralization, with artificial territorial divisions based only on the conditionality principle imposed by the Union and not reinforced through genuine transfer of power to the regional level.

A different perspective is presented by Marinov, Bahloul and Slay in their report, where they point out that decentralization and capacity building to absorb post-accession funding need not go hand in hand. In fact, centralization may be more beneficial for more effective implementation of the money, until modernization of state bureaucracies is achieved and partnership conditions are developed between the different tiers in the administrative hierarchy.⁸

⁷ Michael Baun and Dan Marek (2008). “EU Cohesion Policy after Enlargement“. Palgrave studies in European Union politics, Hampshire.

⁸ Vasil Marinov, Hachemi Bahloul, Ben Slay (June 2006). “Structural funds and the new member states: lessons learned”. Development & Transition: Human development in Europe and the CIS, issue 4, pp. 2-3.

As a further line of discussion, especially increasing in importance, stands the question as to the efficiency of the policy in bridging the economic gaps. In other words, are the member states converging to a common standard or is the structural assistance serving the purpose of cushioning the problems arising from the transition to a market oriented economy and a departure from a statist model of governance. In his book analyzing the particularities of EU Cohesion Policy, Willem Molle points out that the adherents of the policy consider it to be “the cement that holds the construction of the EU together”.⁹ They also hold the opinion that without the welfare function of the regional policy the integration project faces a situation of stagnation and the redistribution is the trade-off for the peace, stability and economic growth in the Union. Quite different is the opinion of scholars who look at the statistics and measure the convergence between the economies in the EU. Calculating the economic impact of the structural funds in a number of member states, Sjef Ederveen, Henri de Groot and Richard Nahuis have shown that there exists a positive relation between stable administrative apparatus, strong pre-existing infrastructure and the level of economic convergence. The cohesion support is not a determining factor in achieving a reduction in the regional disparities. Moreover, Frank Barry examines the convergence processes in Spain, Portugal and Greece and casts a shadow of doubt as to the ability of these cohesion countries to successfully cope with the reduction of funds as a result of the last enlargement waves and the introduction on the arena of new targets for structural support. He claims that Spain and Portugal might be able to cope with a reduced amount of funds if they apply their experience and knowledge and undertake the necessary reforms, but Greece will find itself in a rather difficult position, given the slow pace of improvement and the still underdeveloped

⁹ Willem Molle (2007). *European cohesion policy*. Routledge, Abingdon, Oxon ; N.Y., NY, pp. 3.

institutional set-up.¹⁰ This position has been supported by Michael Baun and Dan Marek as well.¹¹ Along the same line Pavlina Nikolova and Polya Katsamunska assess the challenges that Bulgaria faces as it attempts to develop a regional policy compatible with the EU standards. They emphasize the lack of experience of the local administration and the problems accompanying the reforms that are initiated by the government.¹² Overall, it can be said that there are concerns and skepticism as to the effectiveness and proper structuring of the EU regional policy, but the predominant view is more or less favorable and if the Union exhibits a tendency on continuing with the “widening”¹³ process, then regional policy is likely to remain a vital source of lessening the burden of economic inequalities.

My thesis will contribute to the growing amount of literature on the cohesion and convergence capacity of the European economies. It will permit a re-visit of the issue of centralization versus de-centralization, which is the main topic of the debate in the context of the multi-level governance approach to EU politics. The paper will allow for a more thorough investigation of the reasons for the inability of the states to use the structural assistance in an efficient and constructive way. It will also serve to draw lessons for the prospective members lining up at the gates of the EU. Implementation problems inhibit the successful development of the Union as a whole and question its ability to manage an enlarged and diverse, both economically as well as historically,

¹⁰ Frank Barry (2003). “Economic Integration and Convergence Processes in the EU Cohesion Countries”. *Journal of Common Market Studies* Vol. 41, Number 5, pp.897- 921.

¹¹ Michael Baun and Dan Marek (2008). “EU Cohesion Policy after Enlargement“. Palgrave studies in European Union politics, Hampshire.

¹² See Polya Katsamunska (Jan. 2010). “Reform process in Bulgaria: Challenges and perspectives after joining EU”. *Journal of US-China Public Administration*, Volume 7, No.1 and Pavlina Nikolova (Oct. 2007), “The Implementation of PHARE, ISPA and SAPARD in Bulgaria” *A paper prepared for the workshop ‘A Roadmap for the Western-Balkans: Using IPA and other EU Funds to Accelerate Convergence and Integration’*.

¹³ “widening” – anticipating further enlargement waves

community. Important insights will be accumulated regarding the factors influencing convergence and this could help find the right design of the policy to exploit its full potential.

In the thesis, I will assess the way in which the EU is attempting to bring about convergence of standards of living throughout the Union (and whether the cohesion funds available to the members states have contributed to this convergence) and a reduction of the regional disparities between its member states. I will direct my focus on specific case studies and will try to investigate the performances of one of the old member states – Ireland and analyze the inferred results in the light of the experiences of one of the newcomers – Bulgaria. The goal of this comparative analysis would be to see the extent to which the inefficiency in the implementation of the structural assistance is due to administrative deficiency, influence of political culture or if there is an additional force that influences the final outcome.

I have selected Ireland and Bulgaria because in both cases regionalization does not have deep roots. The two countries have not been subjected to comparison and my aim would be to see whether centralization is the cause for the differences in development. The analysis will enable us to determine the degree of influence of remnants of the communist political culture in Bulgaria and the extent to which it has been able to get close to a western model of policy-making. The hypothesis that will be tested along the way would be that centralization of power need not necessarily lead to difficulties in absorbing the funds, but rather the inherent deficiencies in the administrative structures, the lack of civic engagement and the slow pace of economic reforms play a predominant role. All this is complemented by a lack of coherent response

at EU level (mainly expressed in the fact that the structural funds do not take into account differences between the countries but rather impose the same standards for both groups of states), which further exacerbates the difficulties and obstructs the efficient absorption and implementation of the structural assistance and hence, the economic convergence.

I have chosen a comparative method of analysis because it has the capacity to go beyond descriptive statistical measure and towards an in-depth understanding of the historical process.¹⁴ I am going to use as case-based approach since I have selected a low number of cases. Moreover these cases are not selected at random – rather I have chosen them because a common phenomenon is present in both of them (furthermore, according to Della Porta, case-oriented research is an appropriate tool when cases are selected in regard to their relevance to a specific set of hypotheses). The main purpose that will be pursued is to see, given the common element between the countries, what the underlying reason is for the different outcome. The initial hypothesis that will be proved or disproved along the way would be that centralization of power, the inherent deficiencies in the administrative structures and lack of civic support for changes do play a predominant role. However, they are complemented by a lack of coherent response at EU level, which further exacerbates the difficulties and obstructs the efficient absorption and implementation of the structural assistance and hence, the economic convergence.

The primary method that I will employ would be looking of statistical data, both at national and at EU level, national reports and assessment opinions delivered by the EU Commission and secondary scholarly sources. They will be useful in tracing the development and the impact of reforms on the states' ability to absorb and implement the

¹⁴D. Della Porta, (2008) 'Comparative analysis: case-oriented versus variable oriented research', in: D. della Porta, M. Keating (eds.) *Approaches and Methodologies in the Social Sciences*. Cambridge: Cambridge University Press, pp. 202.

funds. In order to trace the development of the EU regional policy and its ability to face the new challenges I will examine the treaties as well as secondary sources at EU level. National development strategies, agencies' reports, as well as opinion polls and surveys will also be utilized in determining the influence of political culture on the capacity of the member states to initiate genuine reforms and enhance the dialogue on all levels of power.

The structure of the thesis will be organized in the following way – the first chapter will focus on providing a historical overview of the developments that have taken place within the area of the regional policy and how this is fitting the multi-level governance framework. The second and third chapters will assess the experiences of Ireland and Bulgaria. Attention will be paid to the degree of convergence, the role played by the structural funds in achieving it and factors facilitating the Irish success and contributing to the slow development of Bulgaria. Another issue that will be touched upon will be the effect of the enlargement in the Irish case (as a result of the decreased structural assistance). While analyzing the performances of the two countries the thesis will deal with the ongoing debate as to whether regional policy is a necessary tool for converging standards or just a cushioning effect of transition to market economy and a way to fill in the gaps of the state budgets.

Chapter 1: Historical overview of the development of the regional policy and the milestone moments that have shaped its current outlook

Achieving reduction of regional disparities and consolidation of economic and social cohesion across the member states has been an important part of the European discourse since the accession of Spain, Portugal, Greece and Ireland, but is increasingly a predominant item on the EU agenda as a result of the eastern enlargements. The different level of development reached after structural assistance commenced, as well as the different levels of utilization of the funds have provoked the attention of the scholars and led to different reasons been pointed out as explanans for these divergences. Territorial restructuring and the need to conform to the European standard classification has been pointed out as a significant reason for the unsatisfactory results coming out from the observations of the Commission in regard to Central and Eastern Europe.¹⁵ Centralization of power as a result of the historical background of these countries as well as part of the EU-15 members (the south enlargement and Ireland) has also been emphasized as contributing to the challenging nature of complying with the EU requirements.¹⁶ The main cause, however, for the different outcomes across the states is the deficiency in the administrative capacity and the lack of experience, which make it problematic for the recipients to make the most out of the EU money.¹⁷

¹⁵ See Michael Keating & James Hughes (2003) (eds). "The Regional Challenge in Central and Eastern Europe: Territorial Restructuring and European Integration". P.I.E.-Peter Lang S.A. Brussels.

¹⁶ See Horvath, Gyula (2000). "Regional Policy Effects of the Transition in East Central Europe". *Informationen zur Raumentwicklung*, Heft 7/8.

¹⁷ See Sjaak Boeckhout et al (2002). Key indicators for Candidate Countries to Effectively Manage the Structural Funds. Rotterdam: NEI.

My analysis will focus on two states, Ireland and Bulgaria, which exhibit significant differences in terms of absorption and implementation of the structural funds and in their economic convergence to EU average. Both countries were characterized by rather weak regional tiers prior to accession and more centralized approach in the construction of the priority areas for EU support. The two states are part of different enlargement periods, which will enable the tracing of the impact of the European Commission's approach in dealing with the regional disparities on the two countries and whether this could be associated with their success or failure to use the structural support to foster sustainable growth and enable the bridging of the gaps between the best performing and least developed regions. The aim of the paper will be to show that centralization does not necessarily lead to low absorption capacity and implementation difficulties. Rather, the level of administrative efficiency will be demonstrated to be instrumental in the impressive Irish performance and a significant factor in the slow level of progress in the case of Bulgaria. Further reasons for the low speed of Bulgarian cohesion will also be examined in order to determine what conditions lead to optimal results. Examining the latter will allow for tracing whether there is an additional factor, such as political culture, that continues to be a significant obstacle for achieving positive results in terms of economic and social cohesion. Inferences will also be made regarding the future of the cohesion policy as an EU tool for providing the necessary incentive for convergence across regions.

The next sections of this chapter will provide a historical overview of the reforms that have been initiated in the development of the EU regional policy, which will provide

valuable insight as to the how the policy has been adjusting to respond to the changing socio-political environment.

1.1. The importance of the 1988 reform

Regional disparities have been implicitly identified as problematic in the founding treaties, where the policy-makers felt the need to point out that the integrative process will attempt, among other objectives, to “*strengthen the unity of their economies and ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favored regions*”.¹⁸ Despite these concerns, no policy was included into the treaty – the issue was addressed under the framework of areas such as environment, state aid or transport. A rationale behind the exclusion of a common approach for overcoming regional imbalances was the fact that this remained a predominantly national prerogative and a rather sensitive issue. The member states were reluctant to vest the Community with the powers to intervene into a sensitive area for most of these countries. The regional policy acquired its specific focus with the establishment of the European Regional Development Fund in 1975. The national considerations were still dictating the way regional needs were dealt with, which was evident by the control that member states had on the way money was redistributed and how it was managed. Examining the landmark moments in the development of the European cohesion policy, Mendez and Manzella point out that budgetary deliberations

¹⁸ Preamble of the Treaty of Rome, 1957
http://ec.europa.eu/economy_finance/emu_history/documents/treaties/rometreaty2.pdf [accessed May 12, 2011].

and bargaining were the determinants of the shares' allocations rather than adherence to the actual priority areas identified at Community level.¹⁹

The Mediterranean enlargement brought the regional disparities to the attention of the Community officials and the interest of the larger contributors to the EU budget resulted in a reform in the way the funds were allocated and gave the Commission greater discretion in the decision-making process. The importance of cohesion among the regions was expressed by the increase in the share of the structural funds in the budget portfolio (intended as a financial injection into the budgets of the countries from the southern enlargement* waves in order to fight the huge convergence gaps and start the preparation of these countries for joining the Single Market project), and the shifting of the focus from allocation of money for specific projects towards financing multi-annual plans. This in combination with the partnership principle that was introduced provided an incentive for the members states to develop long-term strategies and to include sub-national actors both at regional and local level into the formulation of areas that qualify for assistance. Moreover, the Community emphasized that the assistance is to be supplemented by national contribution (the additionality principle), thereby attempting to make regional policy a permanent item on the national agenda of the recipient member states.

Besides laying down the fundamental principles of the cohesion policy that continue to guide the member states in tackling regional deficiencies through structural assistance the innovations undertaken in 1988 again fuelled the discussion over the multilevel governance model of European politics. This is defined by Liesbet Hooghe as

¹⁹ Gian Paolo Manzella and Carlos Mendez (Jan. 2009). "The turning points of EU Cohesion policy" (A Working Paper written in the context of the report "An Agenda for a reformed Cohesion Policy"). *European Investment Bank Luxembourg, European Policies Research Centre*, pp. 10.

* Greece, Spain, Portugal and Ireland

the diffusion of governance along different tiers of authority – European, national, regional, local, with the aim of creating networks of shared competencies and cooperation.²⁰ The theory can be viewed as an attempt to reconcile the supranational – intergovernmental debate. It does not deny the role of the states in the decision-making and policy formation, however, it stresses the fact that authority is no longer solely monopolized by the national government but is shared with sub-national and supranational actors. Moreover, the model emphasizes that new channels for preference expression are formed that transcend the national governments and provide opportunity for cooperation.²¹ The 1988 reform has been regarded as a milestone moment in the development of the regional policy at EU level since it not only put regional imbalances firmly among the priorities of the European agenda, but also attempted to reduce the distance between the supranational EU level and the domestic actors. Thus it strived to reduce the legitimacy gap and give sub-national actors a way of providing input in the decision-making as well as performing a controlling function on the activities of the central authorities.

1.2. *The 1993 and 1999 reforms*

The next wave of reforms coincided with a major period in the development of the integration project, namely the Maastricht Treaty (signed 1992 and entered into force 1993) as well as changing geo-political climate. The projected completion of the Single

²⁰ Liesbet Hooghe (1996). *Cohesion Policy and European Integration: Building Multi-Level Governance*. Oxford University Press, New York, pp. 18.

²¹ Liesbet Hooghe and Gary Marks (2001). “Multi-Level Governance and European Integration”. Lanham: Rowman & Littlefield Publishers, pp. 3-4.

Market, the accession of Austria, Finland and Sweden and the shifts occurring in the political space in Central and Eastern Europe necessitated further reforms of the regional policy. In terms of scope, however, the reforms were rather limited. A larger share of the budget was devoted to tackling regional disparities. The Cohesion Fund was re-located to provide support for the infrastructure development and environment protection in the member states, whose gross national product (GNP) is less than 90 % of EU average. A specific feature of the fund was that only member states were eligible for funding and the national plans are to be congruent with and promoting the EU objectives, and they should not lead to excessive government deficit.²² Initially, four countries qualified for assistance from this fund and the money was intended as a financial injection in their budgets to lessen the negative effect of the Single Market. The Union was also faced with the need to accommodate the large fisheries sectors in the Nordic states, which were negatively affected by the accession. A special fund, Financial Instrument for Fisheries Guidance (FIFG) was dedicated to assisting the states with the reforms, as well as the introduction of an additional objective to include some isolated and less populated areas in Finland and Sweden.²³ Another major part of the 1993 reform is the emergence of the Committee of the Regions, an auxiliary institution with primarily advisory functions.²⁴ Simplification of procedures, a transfer of management to national level implied by the principle of subsidiarity, according to which decisions are to be taken at the level that can

²² Regional Policy – Inforegio: *The Cohesion Fund at a glance*

http://ec.europa.eu/regional_policy/funds/procf/cf_en.htm [accessed May 16, 2011].

²³ Gian Paolo Manzella and Carlos Mendez (Jan. 2009). "The turning points of EU Cohesion policy" (A Working Paper written in the context of the report "An Agenda for a reformed Cohesion Policy"). European Investment Bank Luxembourg, European Policies Research Centre, pp. 16.

²⁴ Art. 13.4 of the Consolidated version of the Treaty on the European Integration, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0013:0045:EN:PDF> [accessed May 16, 2011].

assure optimal results at minimal cost were also part of the modifications made to increase the efficiency of the policy.

In a similar fashion the 1999 reform has to be seen in the light of the sixth enlargement wave in Central and Eastern Europe, as well as a way of facilitating the implementation of the Lisbon agenda – shifting the focus towards sustainable growth, more job opportunities and increasing the competitiveness and modernization of the member states' economies. The principles agreed by the 1988 reform were further reinforced with slight modifications. The number of objectives and initiatives was decreased – the former from six to three, the latter from 13 to just 4. A performance reserve was an innovation that was introduced as an incentive for better performance. After a mid-term evaluation on behalf of the Commission of the proposed projects on the basis of indicators agreed by the member states, it was to be allocated to the development plan that was exhibiting the best results.²⁵ As with the previous reform package, it attempted to increase the efficiency of the cohesion policy through simplifying the technical requirements (but providing clearer definitions of obligations and monitoring) and placing an emphasis on a decentralized way of management – giving the national governments more discretion as to selecting and proposing the regions eligible for funding and implementing the operational programs. The regulations adopted in view of the 1994 – 1999 programming period also reveal that they enjoy greater freedom in applying the partnership principle – it remained in their prerogatives to allow domestic as well as supranational actors to take part in the decision-making process.

²⁵ Art. 44 of the Council Regulation 1260/1999 of 21 June 1999 laying down general provision on the Structural Funds (pp. 35) <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1999:161:0001:0001:EN:PDF> [accessed May 18, 2011].

The current programming period (2007-2013) witnessed modifications as well. The three objectives were renamed to Convergence, Regional Competitiveness and Employment and Territorial Cooperation and the with the exception of the INTERREG program, which was included into the Territorial Cooperation part, all the other initiatives have been terminated. The large inflow of member states from Central and Eastern Europe necessitated an increase in the budget allocated to the structural funds. The drive towards efficiency and results has also been given expression in this set of changes. The procedures were further simplified and more tasks are now delegated to the central governments. The evaluation and control element was also transformed – it was made more flexible and by making the mid-term evaluation optional has allowed the member states more room for maneuver and adaptation.

Two tendencies can be traced in the development of the regional policy at EU level – a move from intergovernmental logic to supranational level and a resurgence of the importance of the central governments and a move from a purely redistributive reasoning to a more market oriented approach. The policy has been commenced as an intergovernmental bargain between the relatively rich member states in order to achieve efficient exploitation of the Single Market, but evidently from the 1988 reform has gradually moved to appropriate supranational focus and involve the Community in shaping the regional politics at national level. The partnership principle was among the important innovations that have been preserved in the current design of the policy (albeit in a modified form). The simplification of the procedures and the flexibility attached to the selection of regions eligible for funding as well as the monitoring process, which is to be agreed upon by the national authorities in consultation with the Commission, tend to

undermine the arguments of the proponents of the multi-level governance approach. The member states seem to be delegating tasks to the community level when they expect that the utility that will be achieved will be higher than the price to be paid – they increased the significance of the Commission in the design and management of the funds after the southern enlargement waves in order to ensure that the contributors will receive value for their financial input. At the same time, however, they also modified the partnership principle, so that they preserve discretion as to who will be involved in the decision-making and how this involvement is to be operationalized. The current developments suggest that efficiency is favored over democratic legitimacy, especially given the lack of experience on the part of the new member states as well as difficulties in achieving economic conditions fostering employment and regional development.

The second trend that can be distinguished is the move away from redistribution to a market-oriented approach that requires the member states to develop a national framework that is oriented towards self-sustainability, continuous growth and the creation of job opportunities. This observation is supported by the 1988 and 1999 reforms, which was intended to facilitate the implementation of the goals delineated in the Lisbon agenda. The additionality principle requires the member states to provide a financial contribution to the achievement of the selected objectives. Moreover, monitoring of the progress of the member states has increased in importance to ensure that the beneficiaries are moving along the path to knowledge-based and competitive economies with regard to social cohesion and modern administration.

The next parts of the thesis will examine the cases of Ireland and Bulgaria in order to determine the conditions that have led to the different outcome in both countries.

The conditions prior to accession and experiences from the programming periods will be examined and national development plans will be used in an attempt to determine the cause for the divergences. It will also test the hypothesis that centralization may not necessarily be the factor inhibiting absorption of funds and in the absence of well developed administrative traditions and experience can ensure effective and practical use of the invested resources.

Chapter 2: The Irish performance

This chapter will focus on the experience of a representative of the group of countries referred to as the “cohesion states” (Ireland, Spain, Greece and Portugal) – Ireland. In the scholarly literature in the field Ireland is referred to as an exemplar of economic convergence and increase in the standards of living and the “best pupil in the class” in terms of absorption of funds and their efficient implementation.²⁶ After briefly discussing the economic status-quo prior to EU accession and commencement of structural assistance, the analysis will shift to factors that contributed to the Irish spectacular performance in the 1990s. Large foreign investment inflows, sound macroeconomic policy as well as well-organized administrative structures had an important impact on the development of the Irish economy and its convergence to EU standards. It will be also shown that the tradition of centralization of policy-formation and decision-making has not impeded the progress of the country but instead has increased the efficiency of the invested resources in boosting national growth, which has thereafter allowed the country to shift the focus to inclusion of the regions in the formation of sustainable regional development plans and projects.

Another favorable condition that has exhibited a positive effect on the Irish convergence is the level of civil engagement in the process – a tradition of social dialogue has been developed between the labor unions and business entrepreneurs, which provides stable political environment conducive for investment. In line with the second aim of the thesis – assessing the issue of continuous efficiency of structural funds and the

²⁶ Irene McMaster (2008). “Ireland.” in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek, New York: Palgrave Macmillan, pp. 96.

debate whether they bring convergence, the chapter will also address the impact of the recent financial crisis on the Irish economy

2.1. Coming from behind – reasons for Irish backwardness prior to the 1980s

Ireland has been the focus of interest of scholars engaged in the analysis of the impact of the structural assistance on the EU member states. The rationale behind this phenomenon is to be found in the extraordinary boom that characterized its economy for a relatively short time since the start of funding – Ireland has started with a lower level of development compared to the other cohesion countries and had managed to achieve results that put it well ahead of the other beneficiaries of EU money.

The period between 1950 and 1970s found the country with a large share of the agricultural sector and economic environment characterized by protectionism. Drawing lessons for Turkey, Özenen's report on the effect of the structural funds on Ireland's development points out that in the abovementioned period the average growth rate of the country was estimated at 91.5 % as compared to 241.4 % for Greece and slightly less for Spain and Portugal.²⁷ Unlike other post-war countries, the Irish economic model featured relative isolation from international trade, high tariffs, which were preventing investment, and overdependence on trade with the United Kingdom. Frank Barry identifies further factors contributing to the negative results in the pre-accession period, namely low level of education attainment and the role of the state in supporting uncompetitive industries.

²⁷ Cem Galip Özenen. "The Effects of Structural Funds on Ireland's Development and Lessons for Turkey", State Planning Organization, General Directorate of Economic Sectors and Coordination, Department of Infrastructure and Services <http://ekutup.dpt.gov.tr/ab/ozenencg/irlanda.pdf> , pp.8

As particular examples for the latter he identifies airline and telecommunications industries, where the large degree of state intervention had led to lack of development and modernization.²⁸ Another difficulty the country had to deal with prior to its accession to the EU was emigration, which resulted in large diasporas in the United States and the United Kingdom. This had been possible due to relative ease of access to both countries and the language advantage.²⁹

Reforms were initiated in an attempt to increase the openness of the economy, which were expressed mainly in relaxing the rules on foreign ownership, thus encouraging investment. In order to encourage the development of the manufacture sector, the Irish government also removed the tax on profits derived from exporting manufactured goods. The liberalization wave continued with Ireland's participation into a free trade agreement with the UK and its entry into the EU in 1973.³⁰ As indicated in this section the relative late start of the initiation of reforms in the country, combined with its geographical location (the close proximity to Britain) contributed to its late start of catching up to the economies of the other western European states. John FitzGerald and Frank Barry highlight that another factor that distinguishes Ireland from the other cohesion countries is that it has not enjoyed a long history of independence. It has adopted practices from its larger neighbor, such as a decentralized collective bargaining system characterized by the relative strength of both the central government and the trade unions and the uneven relationship between the two. This puts Ireland as well as Britain

²⁸ Frank Barry (2000). "Convergence is not Automatic: Lessons from Ireland for Central and Eastern Europe", *The World Economy*, 23, issue 10, p. 1379-1394.

²⁹ Alan Barrett, 1999. "Irish Migration: Characteristics, Causes and Consequences: IZA Discussion Papers 97, Institute for the Study of Labor (IZA).

³⁰ Frank Barry (2003). "Economic Integration and Convergence Processes in the EU Cohesion Countries", *Journal of Common Market Studies*, 41, issue 5, pp. 901.

in an unfavorable position because systems where the central government has the upper hand or in the other extreme – very strong trade unions generally tend to perform better than systems that stand in the middle. As the authors further point out this has limited the opportunities for achieving a higher degree of openness to international trade.³¹

The EU accession opened new realms of opportunities for the Irish economy to develop and contributed to a rapid convergence of Irish living standards to levels close to that of the European Union during the 1990s. It provided support for the agricultural sector and made the country a net beneficiary of structural assistance. Until the adoption of the Single European Act in 1987, Ireland received 1,432 million ECU from the EU structural funds.³² This was deemed a necessary concession on the part of the older member states to enable the country to tackle the difficulties arising from adjusting its economy to a highly competitive environment. It also allowed for achieving a stable environment conducive to investment, largely due to the flexible legal system in relation to foreign ownership, the language and cultural similarities and none the least the fact that Ireland had the advantage of being among the first states to undertake the necessary measures to attract foreign investment.³³

Other reasons for the remarkable growth of the Irish economy can also be singled out such as moderation of wages, reforms in the sphere of education which enabled the availability of skilled labour to meet the market demand as well as stable political environment – there has been agreement on the part of both the ruling elites and the

³¹ John FitzGerald (November 1999). “The Irish Economic Boom”. *The Economic and Social Research Institute*, Dublin, No. 56 and Frank Barry. “Convergence is not Automatic: Lessons from Ireland for Central and Eastern Europe”, *The World Economy*, 23, issue 10.

³² Liesbet Hooghe. *Cohesion Policy and European Integration: Building Multi-Level Governance*. Oxford University Press, New York, 1996 pp. 325

³³ Frank Barry. “Convergence is not Automatic: Lessons from Ireland for Central and Eastern Europe”, *The World Economy*, 23, issue 10, pp. 1392.

opposition parties that EU accession would be essential for the convergence and catching-up of the Irish economy.³⁴

2.2. Overview of the structural assistance received by Ireland by periods

The areas considered of key importance for the development of the economy (and therefore receiving the lion's share of the funds) were agriculture, improvement of the infrastructure with the aim of making the economy more competitive and attractive for foreign investors, services sector and human resources.

Between 1989 and 1999 Ireland's position in regard to the funds received had been facilitated by the fact that the country (due to its small size and poor state of the economy) was able to receive Objective 1 priority funding, which resulted in an inflow of financial investments in infrastructure, job training schemes and projects aimed at improving the environment. The increase of funds that was introduced with the Maastricht Treaty coincided with a time of economic transformations in the Irish economy. While before 1989 the country maintained a level of GDP that was between 62 and 66 % of the EU average, in 1994 it converged to 89% of the EU average in 1994 and to 105% in 1999.³⁵ The trade liberalization that occurred as a result of the reforms and the entry into the single market was smoother in Ireland than in Spain, Greece and Portugal, because of the improved investment opportunities in the country and the modernization

³⁴ Irene McMaster. "Ireland." in EU Cohesion Policy After Enlargement, ed Michael Baun and Dan Marek, New York: Palgrave Macmillan 2008, pp. 97-98.

³⁵ Fitzpatrick Associates Economic Consultants. "Ex Post Evaluation of Objective 1, 1994-1999 National Report – Ireland", January 2003, pp. 114 available at <http://www.ceri-sciencespo.com/archive/jan05/deaef.pdf> [accessed May 18, 2011]

and competitiveness that came out as a consequence of the foreign involvement. A feature that characterizes this period is that focus has been out on achieving improvement of the economy on a national level – therefore the investment areas that were delineated as priorities were development of the physical infrastructure, financial injection into the private sector as to encourage innovation and increase investment as well as developing the human resources of the economy by means of professional training and programs for job retraining.³⁶ Though convergence as a result of EU structural aid is a contested issue since other factors might have contributed to the economic growth and it is difficult to assess the pure effect of the funds, it is essential to mention that the funds can have indirect effects on the economic condition of the recipient country by providing a stimulus for reforms. This proved to be important elements that eased up the Irish transformation and helped the country achieve remarkable growth rates.

During the period of 2000-2006, Ireland faced another challenge. The country entered into a transitional period, in which it did no longer meet the requirement for eligibility under the Objective 1 (due to its rising standards), but it received transitional funds in order to ensure that a sudden discontinuation of funding does not undo previous work, but consolidates it. In addition to these transitional funds the country continued receiving funds under the Peace program. The total amount of funds was estimated to 3.32 billion euros from the Structural Funds and 797 million euros from the Cohesion Fund.³⁷ Regional disparities also became evident. The country was divided into two NUTS regions: the Border, Midlands and Western Region (BMW) and the Southern and

³⁶ Frank Barry, John Bradley and Aoiffe Hannan. “The Single Market, the Structural Funds and Ireland’s Recent Economic Growth”. *Journal of Common Market Studies*, Vol. 39, no. 3 September 2001 pp. 544

³⁷ Inforegio factsheet: Cohesion Policy 2007-2013 Ireland, October 2006
http://ec.europa.eu/regional_policy/sources/docgener/informat/comp/comp_ie.pdf [accessed May 18, 2011]

Eastern Region (SE), which reflected recognition of the fact that more resources needed to be allocated for reducing the gap in the income levels. A factor contributing to these discrepancies is the lower level of education, especially in the BMW region where only a small part of the working age population has a university degree or equivalent.

Further causes inhibiting the growth in that region include underdeveloped urban structure and weak industrial productivity combined with a large share of the agricultural sector.³⁸ Therefore the bulk of EU funds were aimed at financing projects for improving infrastructure, building human capital and supporting initiatives in the business sector in the two regions. We can see from the two periods that before 2000, the main goal was to improve the state of the economy as a whole, whereas after that the focus was mostly on formulating two distinct regional development programs and much less was allocated to national programmes. EU Cohesion Policy also contributed for the economic growth of Ireland, though to a lesser degree, since the main part of the financial aid was coming from the structural funds. It provided assistance to the government in the implementation of series of projects aiming at introducing innovative techniques to the administration officials and the policy-makers.³⁹

The current programming period, 2007-2013, poses even further challenges for the growing Irish economy. The advent of the twelve new member states with levels of development significantly below the EU average has been expressed in reduction of the funds available for Ireland.

³⁸ Irene McMaster. "Ireland." in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek, New York: Palgrave Macmillan 2008, pp. 98

³⁹ The Irish Regions Office: Impact of EU structural funds in Ireland (1989-2006) <http://www.iro.ie/EU-structural-funds.html> [accessed May 18, 2011].

Allocations 2000-2006¹ Million EUR, 2004 prices		Allocations 2007-2013¹ Million EUR, 2004 prices	
<i>Cohesion Fund</i>	797	<i>Cohesion Fund</i>	
<i>Objective 1</i>	1 345	<i>Convergence</i>	
		<i>Statistical Phasing-out</i>	
<i>Phasing-out</i>	1 813	<i>Phasing-in</i>	419
<i>Objective 2</i>		<i>Regional Competitiveness</i>	
<i>Objective 3</i>		<i>and Employment</i>	260
<i>Community Initiatives</i>	158	<i>European Territorial</i>	
		<i>Cooperation</i>	134
Total	4 113	Total	813
(1) - Comparisons need to be made with great caution given the change in regional eligibility, and the number and nature of the objectives in the two programming periods. - The 2000-2006 amounts have been corrected to match the 2004 prices (as in the case of the financial perspectives 2007-2013). - Figures are net of allocations for the rural development and fisheries instruments in both periods.			

Source: Inforegio factsheet October 2006

The European Union approved its eligibility for funding under the second and third objective, namely for projects aiming to enhance the competitiveness, employment and attractiveness prospects of its regions.⁴⁰ The way the cohesion countries will deal with the reduced amount of funding will be a useful way of determining whether structural funds provide conditions for sustainable growth by focusing spending in specific areas designated by the EU as impeding development and causing inequalities or serve as complementing the national budget.

2.3. Deciphering the recipe for success

This section will emphasize further conditions that have allowed Ireland to utilize EU assistance and bring its economy to levels consistent with the EU average. In addition to the sound reforms, which have provided a stable environment for investment, the

⁴⁰ Ibid

country has also exhibited high absorption capacity – “the extent to which a member states is able to fully spend the allocated financial resources from the Structural Funds in an effective and efficient way”. The definition of the latter is taken from Boeckhout et al, where the authors examine key indicators for effective management of the EU funds. The three determinants of success, identified in their report are macroeconomic stability, financial capacity or the ability of the state to provide the necessary co-financing of the approved projects and administrative capacity – the aptitude of the national or local authorities to draft the plans in due time and to fulfil the technical requirements imposed by the European Commission.⁴¹ Similarly to the other beneficiaries of the EU funds, an essential incentive for joining the Community for Ireland had been the expected inflow of resources – necessary for re-structuring its economy. Therefore, a highly practical approach had been adopted, as Laffan points out that special units within the relevant ministries were entrusted with the task of getting acquainted with the formal and procedural requirements related to the absorption of the funds as to take full advantage of the allocated finances.⁴²

A feature that is typical for Ireland is that at the commencement of the structural assistance, the governing system was highly centralized. This is reaffirmed by the fact that throughout the 1990s the entire territory of the country was considered a single region. As Laffan points out, this facilitated the central authorities to direct their efforts into drafting and implementing strategies aimed at promoting national convergence, with

⁴¹ Sjaak Boeckhout, Sjaak, Boot, Luc et al. “Key indicators for Candidate Countries to Effectively Manage the Structural Funds”. Rotterdam: *NEI Regional and Urban Development*, 2002, pp. 2

⁴² Liesbet Hooghe (1996). *Cohesion Policy and European Integration: Building Multi-Level Governance*. Oxford University Press, New York, 1996 pp. 326.

little consideration of regional and local interests.⁴³ The overview of the Irish development in the preceding section shows that this had little impact on the successful utilization of the money and that it has been rather a means of focusing the efforts in optimizing the benefits from the EU accession.

The issue of regionalization appeared in the third programming period (2000-2006), when the focus of the EU agenda shifted to ensuring competitiveness and social cohesion – the underlying rationale behind the reforms introduced by the Lisbon agenda. However, even the designation of the two regional programmes (Borders, Midlands and Western Region and Southern and Eastern Region) could be interpreted as a pragmatic method of adaptation to EU requirements in order to satisfy technical requirements. The establishment of the Regional Authorities, in an attempt to comply with the requirement for cooperation between the different levels of governance, was viewed as formality and though they exhibit some functional prerogatives, their power remains consultative. The bulk of the authority is concentrated on national level and dispersed between the different departments. A reason behind that resistance to decentralizing, especially in the early period of structural assistance, was the fact that regional and local administrative units did not possess finance and taxing prerogatives and would have to resort to national support in order to comply with the additionality requirement (co-financing of the projects).⁴⁴ More efforts were undertaken in enhancing the regional tier of governance in the last two programming periods. In its national development plan, the government set

⁴³ Brigid Laffan. “Ireland: A Region without Regions – The Odd Man Out?” in “Cohesion Policy and European Integration: Building Multi-Level Governance” ed Liesbet Hooghe (1996) Oxford University Press, New York, , pp. 320.

⁴⁴ Nicholas Rees. “The Reform of the EU Structural Funds: administrative adaptation and the prospects for regionalization in Ireland.” (*Paper prepared for presentation at the Biennial Conference of the European Community Studies Association*), Department of Government and Society, University of Limerick, Ireland

down the tasks of the national, local and regional authorities and ensured more monitoring functions on the part of the last two groups. However, the allocation of resources and the implementation of the programmes still lie in the hands of the central government.⁴⁵ Therefore, regionalization does not necessarily correspond to efficiency, especially in cases where there is lack of deeply entrenched roots of multi-level governance.

An additional factor can be pointed out that also undermines the efforts towards more dispersion of power. A tradition of social cooperation can be observed in the Irish society, which renders the partnership principle as an unnecessary addition to already existing dialogue between actors at different levels. O'Donnell's study on the relation between the industrial policy, social partnership and the European Integration and its effect on the Irish transformation, points out that due to practices of rent-seeking and profit-seeking behaviour in the 1950s and financial crisis that plagued Ireland until 1980s when the economic actors became aware that small states can gain more from a formal and legal integration, where the state can establish a common position through dialogue, rather than intergovernmental way of tackling problems and involvement of powerful domestic actors on the European arena.⁴⁶ The strategic document identified challenges for the Irish development, published by NESC, described the main elements of the social partnership and underlined the fact that the government is actively involved in encourage the formation of interest groups in some wider policy areas and favours a problem-

⁴⁵ Irene McMaster. "Ireland." in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek (2008), New York: Palgrave Macmillan, pp. 114.

⁴⁶ Rory O'Donnell (Dec. 1998). "Ireland's Economic Transformation: Industrial Policy, European Integration and Social Partnership". Center for West European Studies, European Union Center, University of Pittsburgh, Working Paper # 2, pp. 12.

oriented approach.⁴⁷ Such an approach benefited Ireland in several ways – it did provide for the stabilization of the economic environment and it kept the central role of the government. It also provided the strengthening of the civil engagement in the policy formation and increased the soundness of the reforms and their acceptance by affected parties. The EU accession has exerted pressure on the way Ireland has dealt with its territorial policies and has moved the country towards a more regional approach. Nevertheless, the reforms that were undertaken show functional considerations and pragmatic reasons associated with ensuring a maximum flow of EU funds.

2.4. *The impact of the recent financial crisis*

The recent financial crisis that hit the world economy had an inverse impacted the Irish economy and put the effectiveness of the Cohesion policy under question. It pushed regional considerations and decentralization attempts aside as the country tried to save its banking sector. Among the measures undertaken by the government have been the introduction of bank guarantees, recapitalization of banks or even nationalization – with the goal of securing savings and resuming the flow of credit.⁴⁸ The crisis has exposed the weaknesses in the banking sector as a result of an imprudent fiscal policy and a lack of monitoring mechanism. It has also contributed to a growth setback that threatened to erase the positive results achieved in the past decade. The fifth cohesion reports identifies

⁴⁷ NESC, *Strategy into the 21st Century* (Dublin: National Economic and Social Council, 1996), pp. 266 [http://www.nesc.ie/dynamic/docs/NESC%2099%20\(Chap%209-14\).PDF](http://www.nesc.ie/dynamic/docs/NESC%2099%20(Chap%209-14).PDF) [accessed May 18, 2011].

⁴⁸ National Economic and Social Council: “Strategy into the 21st century”. Dublin (1996), pp. 5 [http://www.nesc.ie/dynamic/docs/NESC%2099%20\(Chap%209-14\).PDF](http://www.nesc.ie/dynamic/docs/NESC%2099%20(Chap%209-14).PDF) [accessed May 18, 2011]

a sharp drop in GDP in most of the cohesion countries and rather low prospects of public spending as a result of the worsening of the world economy. It also noted the increase in the public sector debt in the case of Ireland as well as over 10 % budget deficit in 2009.⁴⁹

One of the underlying principles of the cohesion support is the additionality element – the co-financing of the projects in the priority areas identified in the national plans. Given the strenuous conditions that forced Ireland to resort to international bail-out plan, the efforts of sustaining the path of reducing the regional imbalances and maintaining employment and investment are put to a serious test. It also strengthens the argument that cohesion policy inputs tend to have a conditional effect on the convergence process of the beneficiaries. It was efficient in the case of Ireland in the early programming periods due to the ability of the national administration to clearly identify the sectors in need of assistance and to implement sound reforms leading to increased trust in the foreign investors. It showed deficiencies in incorporating the regional actors in the process, however, the centralized approach did not prove an obstacle in the convergence rate of the country in the 1990s. The next part of the paper will test whether that holds true for second case selected for examination.

⁴⁹ European Commission: “Investing in Europe’s Future”. Fifth Report on Economic and Social Cohesion, (Nov. 2010), pp. 207
http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion5/pdf/5cr_en.pdf [accessed May 18, 2011].

Chapter 3 Challenges faced by the new member states – the case of Bulgaria

The last chapter of the paper will deal with the reasons for the difficulties experienced by one of the representatives of the last enlargement wave – Bulgaria. Based on the analysis of the structural assistance in Ireland, the focus of the present chapter will be directed towards examining whether centralization of power, which is evident in both cases had a predominant impact on the slow level of development exhibited by the latter. The main line of reasoning in this section will be to show that concentrating the locus of power on national level will have a negative effect on the ability of the country to absorb the funds in an efficient manner when it is combined with lack of political stability and well-grounded macroeconomic policies as well as limited involvement of non-state actors and remnants of communist political culture. The inferences deducted from the analysis may be useful for the prospective member states in relation to practices to be avoided during the reforms process and a better communication to be achieved between the EU and the respective governments so that the required adjustments to be implemented efficiently instead of given just a formal consideration.

Territorial re-structuring, lack of genuine reforms, limited or non-existent civil engagement and deficiencies in the administrative capacity of the state have been emphasized in the scholarly literature as factors inhibiting the successful application of the structural assistance in the newly accepted members of the European Union.⁵⁰ Both

⁵⁰ See Sjaak Boeckhout, Sjaak, Boot, Luc et al. Key indicators for Candidate Countries to Effectively Manage the Structural Funds. Rotterdam: NEI 2002 accessible at http://www.evaluate.cz/dokumenty/hodnot_zpr_eu/souhrnna_studie.pdf and Michael Keating and James Hughes (2003) (eds). The Regional Challenge in Central and Eastern Europe: Territorial Restructuring and European Integration. P.I.E.-Peter Lang S.A. Brussels.

2004 and 2007 enlargement waves introduced on the European arena states with levels of development ranking very low compared to the former EU average, thereby expanding the gap between the richest and the poorest members. Bulgaria has been among the group of countries facing severe challenges in adapting its structures and policies in line with the EU requirements. The following sections will attempt to assess the extent to which the abovementioned issues have obstructed the progress of the country to make full use of the EU funds in alleviating regional disparities and achieving economic growth. First an overview will be provided of the state of development of the regional policy in Bulgaria and the allocation of funds for the current programming period. This will be followed by an analysis of which of the factors that were seen as negatively affecting the convergence of the economies of the beneficiary states and the development of an ingenious regional growth. In order to complement the picture, the last section will attempt to look at further reasons for the slow progress of the country.

3.1. Overview of the developments in Bulgaria prior to accession

Similarly to the group of states that acceded to the EU in 2004, Bulgaria emerged out of the collapse of the Soviet system with a centrally planned economy, which attached priority to the overall development of the economy and addressed problematic areas on a sub-national level through a top-down approach rather than tackling imbalances through delegating tasks to the regional level and engaging them in the process. It also had to face a twin challenge, on the one hand they have to initiate a transformation from a state socialist environment to a market economy, where the rules

are being defined through a process of calculating costs and benefits and encouraging competitiveness. On the other hand, the country was confronted with the need to adapt to a western approach of policy making and abandoning the way planning was executed during socialist times.⁵¹ High unemployment rates during the 1990s and intra-regional disparities combined with turbulent political environment further increased the pressure on the economy. Despite the fact that regional policy development was put on the national agenda prior to 1999 (when a Regional Development Act has been formally adopted) the country lacked a solid legal framework and a publicly approved strategy in addressing the imbalances that sharpened in the post-socialist period.

During the 1990s, difficulties in formulating a coherent and unified concept and strategy for achieving a long-term growth of its regions continued to plague the political environment in the country. As Minkova points out in analyzing the role of regional actors in Bulgaria, the initiatives and intervention plans formulated by the government had a short-term perspective and did not transform into functioning policies. They were mostly drafted and implement through different ministerial branches and sponsored by the national budget.⁵² The regions also lacked institutional and financial capacity for participating in the creation of a sustainable approach. The prospect of joining the EU and filing of the application for membership in 1995 seemed to push the development of a regional development plan on the agenda. A Regional Development Act was adopted by the Ministry of Regional Development and Public Works in 1999 as a way of creating of an official and integral regional policy, soundly funded and publicly announced. It was

⁵¹ Dimitrova S. and Sirak M. (2005), *Regional Policy Goes East: experiences from Bulgaria and Slovakia*, pp. 59-74 in Hudec O. (ed), *New Members – New Challenges for the European Regional Development Policy Conference Proceedings*, Faculty of Economics, Technical University of Kosice, Slovakia, pp. 6.

⁵² Milena Minkova (2004). "Defining the New Role of the Regions in Overseeing and Coordinating Regional Development in Bulgaria". *Central European University, Center for Policy Studies*. pp. 6

the first conscious attempt of the policy-makers to regulate the processes connected with the development of the regions. A major problem, however, was indicated by the Commission and it related to the lack of compatibility of the Act with the European legislative framework and the more specifically with the regulation 1260/1999 delineating the general provisions in relation to structural funds. This necessitated a revision of the document and the adoption of a revised version in 2004.⁵³

Pre-accession funds were intended to aid the new member states to transform their economies and political environment and to be able to undertake the responsibilities coming with a full-fledge membership. Bulgaria had been eligible for funding under PHARE, ISPA and SAPARD instruments. The experience the country acquired during this period has been substantial and yet, areas of concern were outlined that were also to become major obstacles for the country's successful use of the post-accession structural and cohesion instruments. In her paper, assessing the implementation of the pre-accession mechanisms in Bulgaria, Nikolova stresses that the attempt to increase delegation of tasks to sub-national level has been hampered by over-reliance on the Commission's expertise in the formulation of programs and that the complexity of the technical requirements proved a heavy burden on the relatively small and inexperienced administrative capacity the country possessed. Learning through mistakes has been the main approach undertaken by Bulgaria in its dealings with the pre-accession funds and despite the fact that the exposure to this type of assistance helped the state familiarize itself with institutional models and benchmarks for the performance of its administration, the results were undermined by the slow speed of the reforms and by frequent reshuffling of officials to

⁵³ Ibid, pp. 10

respond to requirements coming from external factors.⁵⁴ Another problem associated with the structural aid prior to accession was the fact that the money was allocated to areas that did not necessarily respond to the actual needs of the regions. For example as Monastiriotes observes, the bulk of PHARE funding was directed at cross-border regions, while they not always were the ones that needed the greatest support.⁵⁵ The lack of experience of the local administration could also imply that funding tended to concentrate in the relatively developed and industrialized regions with sufficient resources to co-finance the projects – thus leading to even further gaps between the regions.

In 2007, the country became a net beneficiary of the EU structural funds. For the current programming period 6.9 billion euros in total are to be allocated under the three objectives.

	Convergence			Regional Competitiveness and Employment		European Territorial Cooperation	Total
	Cohesion Fund	Convergence	Statistical phasing-out	Phasing-in	Competitiveness		
Overall financial allocation EU 27	69.578	199.322	13.955	11.409	43.556	8.723	347.410
Indicative financial allocation for Bulgaria	2.283	4.391				179	6.853

Source: Inforegio factsheet October 2006

The plan agreed by the Commission and published officially delineates improvement of the infrastructure, investing in research and development and stimulating business enterprises (and the ones that are to receive the lion's share of the funds) as the main components of the policy. Projects that will bring Bulgaria in line with the EU environmental standards as well as encouraging employment measures (such as work

⁵⁴ Pavlina Nikolova (October 2007). "The Implementation of PHARE, ISPA and SAPARD in Bulgaria" A paper prepared for the workshop 'A Roadmap for the Western-Balkans: Using IPA and other EU Funds to Accelerate Convergence and Integration', pp. 11, 17

⁵⁵ Vassilis Monastiriotes (June 2008). "The Emergence of Regional Policy in Bulgaria: regional problems, EU influences and domestic constraints". Hellenic Observatory Papers on Greece and Southeast Europe, GreeSE Paper No. 15, pp. 18

training programs and workshops) take up the rest of the assistance.⁵⁶ The funds, however, prove to be a rather daunting challenge for the country – the signals coming from Brussels indicate slow speed of reforms, concerns as to the low absorption level due to administrative deficiencies and the insufficient monitoring mechanisms.⁵⁷ The next section will attempt to show that lack of experience of the administrative apparatus (resulting in incapacity to manage the funds), the underdevelopment of the monitoring mechanisms, the slow judicial reforms and the divergence between the priority areas identified as problematic for the affected regions and the reality inhibit the optimal use of the structural assistance.

3.2. *Explanation for the insufficient Bulgarian performance*

After the initial enthusiasm serious difficulties rose to the surface in the transition from pre- to post-accession structural aid. Bulgaria found it difficult to maintain a steady pace of reforms and to ensure their actual implementation. Reports were coming from the Commission criticizing the slow and inefficient progress in the areas of institution-building and administrative capacity in the country as well as the inability of the state to restrain the high level of corruption and address the judicial deficiencies. The national strategic report published in 2009 put emphasis on delays that have been observed in the implementation of the programs due to the complicated administrative procedures and the

⁵⁶ Regional Policy InfoREGIO: European Cohesion Policy in Bulgaria
http://ec.europa.eu/regional_policy/sources/docgener/informat/country2009/bg_en.pdf

⁵⁷ Report on the Management of EU Funds in Bulgaria, July 2008
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/522&type=HTML> [accessed May 18, 2011]

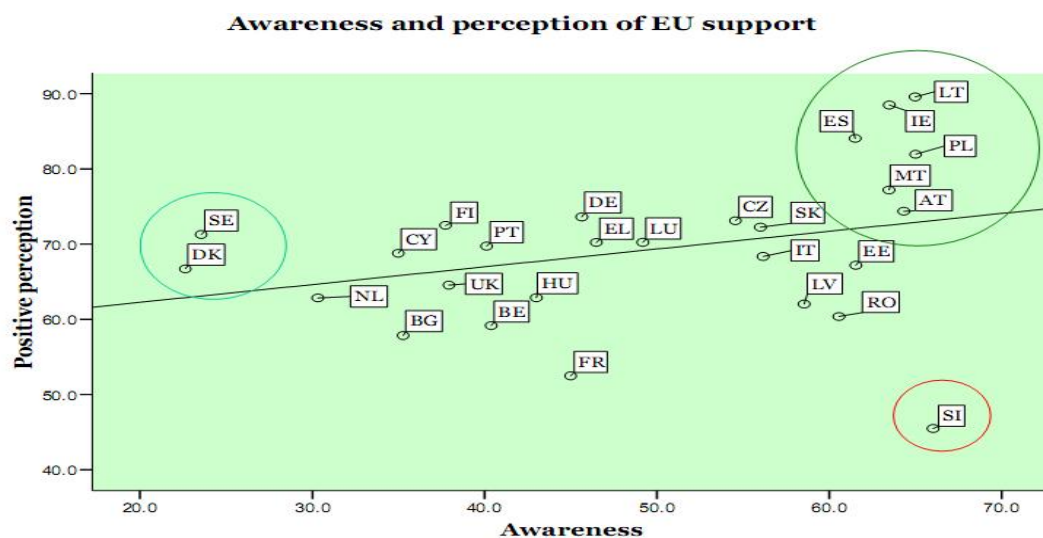
inadequate responses of the managing authorities.⁵⁸ This prevents the beneficiaries from optimizing the use of the available resources and undermines the efforts directed at enhancing the coordination between the centre and the underdeveloped regions. The trend observed in the country is that usually the projects that are approved come from regions with well-established administrations and qualified staff. Unlike in the case of Ireland, where the accession and the structural funds have contributed to an increase in the foreign investment and have boosted economic growth, in the case of Bulgaria, the major benefits of foreign capital have been regions with sufficiently developed and modernized infrastructure and ease of access from Western Europe.⁵⁹ The same tendency has been observed by Gyula Horváth as well, in his study on the effect of EU regional policy on the transition economies in Eastern Europe. He notes that large urban regions and regions along the western borders tend to win in the transformation process, whereas the industrial centers and backward rural regions emerge on the losing side.⁶⁰ By opening its economy and facilitating the inflow of foreign investment Ireland had benefited from two factors – it had been among the first countries to develop an environment stable enough for transnational entrepreneurs and it offered an English-speaking setting, which definitely tipped the balance in its favor. These conditions do not seem to be present in Bulgaria, which explains the desire of the multinational corporations to locate their industries in the larger cities with modern infrastructure and highly qualified work force.

⁵⁸ Strategic Report of the Republic of Bulgaria for 2009, pp. 22

⁵⁹ Martin Brusis (2000). "Institution building for regional development: A comparison of Bulgaria, the Czech Republic, Estonia, Hungary, Poland and Slovakia". *Bertelsmann Foundation and the Bertelsmann Group for Policy Research, Center for Applied Policy Research*, pp. 3

⁶⁰ Gyula Horváth (2000). "Regional Policy Effects of the Transition in East Central Europe". *Informationen zur Entwicklung*, Heft 7/8, pp. 427

Further challenge for the new member, which was also identified in the strategic report, is the lack of well-developed information campaigns facilitating the preparation of the projects and explaining the specificities of the technical requirements. This has resulted in the submission of incomplete applications and ultimately to rejection of the funding.⁶¹ This could also be regarded as a signifier of the low level of civil engagement in the country, which combined with the relatively few training programs initiated by the government to familiarize the relevant actors with the rules and procedures associated with the application process, leads to even greater distance between the two sides. A survey conducted in 2008 by Eurobarometer also speaks in favor of that trend.



Source: Flash Eurobarometer

As can be seen from the graph public awareness of the support provided by the EU cohesion policy in their respective region is rather low in Bulgaria (around 35 %) in comparison with the other newly accepted member states. Moreover, when asked whether they think that the cohesion policy has benefited their region there was hesitancy

⁶¹ Strategic Report of the Republic of Bulgaria for 2009, pp. 22.

in their answers. Another rather significant trend emerging from the survey is that for the Bulgarian citizens television was the primary source of information about the impact of the EU Regional policy on their country.⁶² This passive attitude of the population should be a source of concern for the policy-makers especially considering one of the underlying principles of the policy – namely the partnership principle. Investing more efforts in establishing effective institutions and involving non-governmental actors in the policy-making process will give more credibility to the reforms and as in the Irish case will ensure their effective implementation. It will also ensure transparency and provide corrective mechanisms for the government actions.

Major reason for the insufficient rate of absorption and implementation of the allocated resources and an area, which attracts criticism both from above (the European Union) and from below (the citizens) is the unsatisfactory performance of the judiciary and the high rate of corruption. Bulgaria has faced similar problems during the pre-accession assistance. The country became notoriously famous for irregularities and fraud cases in the absorption of the three funds ((ISPA, SAPARD and PHARE)) that were available to it prior to entering the EU. During the 2008-2009 period lack of financial and administrative control led the European Commission to conclude that Bulgaria had disregarded the interests of the Union and as a result the country was denied access to part of the pre-accession funds. Moreover, the country had to return part of the allocated resources.⁶³ In respect to the fraud and misappropriation cases, in both 2008 and 2009, Bulgaria took the first position and in the Commission's report that was issued in 2009 –

⁶² European Commission, Flash Eurobarometer: "Citizens' perceptions of EU Regional Policy" <http://www.eeagrants.bg/docs/eurobarometer-summary.pdf> [accessed May 18, 2011].

⁶³ „Растат измамите с еврофондове в България”, вестник Труд 20 април 2011 (Rise of the cases of misuse of the European Structural Funds in Bulgaria, Trud newspaper, April 20, 2011). <http://www.trud.bg/Article.asp?ArticleId=863124> [accessed May 18, 2011]

the highest number of investigations as well as the highest amount of money that had to be recovered were noted to come from the same member state.⁶⁴ Another indicator for the challenging road ahead in overcoming the remnants of the communist political culture is a World Bank report, published in 2008, measuring the effectiveness of governance in selected countries.

Table 1 Governance indicators for select EU member states

	Voice and accountability (%)	Political stability and absence of violence (%)	Government effectiveness (%)	Regulatory quality (%)	Rule of law (%)	Control of corruption (%)
Bulgaria	65.4	57.2	60.2	66.3	50.0	57.3
Romania	61.5	50.0	53.6	62.0	50.5	53.4
Czech Republic	77.4	70.2	80.1	79.5	73.3	66.0
Hungary	87.0	66.8	72.5	85.9	73.8	69.9
Latvia	72.6	73.6	73.5	82.4	63.8	68.4
Greece	81.3	63.0	71.1	73.2	67.6	68.9
Great Britain	92.8	61.1	94.8	98.0	93.3	93.7
Germany	95.7	75.0	90.5	91.2	94.3	93.2
France	92.3	61.5	85.8	82.9	89.5	91.7

Source: Polya Katsamunska (adapted from the World Bank database)

As is evident from the table above, Bulgaria's scores are lowest in comparisons with the other members of the last enlargement waves with corruption and rule of law being the worst performing indicators.⁶⁵ The inability to tackle these deficiencies had led to closer international scrutiny and pressure for persistence with the reforms. This has fueled public discontent and contributed to a further drop in the level of trust in the governing structures. Despite the strong government commitment, recognized by the European Commission in the reports, the real value of the reforms can be seen by their application in reality. Converting them into practice remains a weak point that is to be addressed in the future if Bulgaria is determined to resolve regional disparities and use the EU funds in achieving sustainable growth rates. The next section will briefly suggest

⁶⁴ European Commission: *Protection of the European Union's financial interests-Fight against fraud-Annual Report 2009*, pp. 31 http://ec.europa.eu/anti_fraud/reports/commission/2009/en.pdf [accessed May 18, 2011].

⁶⁵ Polya Katsamunska (Jan. 2010). "Reform process in Bulgaria: Challenges and perspectives after joining EU". *Journal of US-China Public Administration*, Volume 7, No.1, pp. 2-3.

several factors that could also be seen as challenging not only the country under analysis but also the other new member states that have emerged of planned economies and are undergoing a transformative process of complying with new rules and standards.

3.3. *The role of the EU in the transformative process*

Apart from deficiencies on the national level, in order to get a complete view of the reasons for the unsatisfactory outcomes, the role of the EU and other international actors need to be examined. The fact that there is no uniform and standard model that can be applied to all the states in an equal way and the increased involvement of the European Commission in the regionalization process seem to have a rather negative effect on the cooperative mood of the new members. The governing elites in the new states perceive the Commission's engagement in their internal affairs as an attempt to impose a certain method of decentralization.⁶⁶ The different conditions and set-ups in the new member states and their incompatibility with the western European standards seem to be of little importance and consideration. Moreover, if we compare the cohesion states in EU-15 and the new groups of beneficiaries of structural assistance, a different approach is to be detected. The old member states had more discretion in constructing their territorial classifications and the Commission exhibited less influence over the process. It has been, however, an active participant in the same process in the new member states applying rules that might not address and recognize the needs of the post-socialist states. This

⁶⁶ James Hughes, Gwendolyn Sasse, Claire Gordon."EU Enlargement, Europeanisation and the Dynamics of Regionalisation in the CEECs" in "The Regional Challenge in Central and Eastern Europe: Territorial Restructuring and European Integration". ed. Keating, Michael & James Hughes (2003), P.I.E.-Peter Lang S.A. Brussels, pp. 75.

opens up the possibility that the newcomers will formulate policies under international pressure, which will be hard to implement thereafter. In Bulgaria, in particular, regionalization has posed challenge due to the lack of complete financial independency and re-structuring that has put territories with different cultural and ethnic traditions, which makes the adaptation process even slower and more difficult for the affected regions.

Furthermore, as Monastiriotis points out, other international actors, such as the IMF and the World Bank, which have a vested interest in ensuring effective implementation of the resources, invested in the transition economies, tend to favored a more centralized approach and emphasized the liberalization of the market and the stabilization of the economy.⁶⁷ This has contributed to the absence of coherent conception about regional development in the 1990s and tends to create confusion in the member states because of the divergent nature of the requirements. It also indicates that there seems to be a disagreement when it comes to searching for the right balance between sustainable growth and reducing regional imbalances. Though the Irish economy showed progressive development since the commencement of the structural assistance, there were substantial imbalances between the richer Southern and Eastern part as opposed to the Borders, Midland and Western regions. In the case of Bulgaria, the communist past has left the sub-national level dependent both in terms of finance and administrative capabilities.

⁶⁷ Vassilis Monastiriotis (June 2008). "The Emergence of Regional Policy in Bulgaria: regional problems, EU influences and domestic constraints". Hellenic Observatory Papers on Greece and Southeast Europe, GreeSE Paper No. 15, pp. 24

Conclusion

This thesis has undertaken an investigation of an issue that has settled permanently on the political agenda at both national and European level, namely reconciling regional imbalances through an efficient use of structural funds. It aimed at showing that centralization of power should not be considered the sole obstacle for the divergent outcomes observed between the old and new member states. Through examination of the cases of the frontrunner Ireland and a representative of the new beneficiaries of EU regional aid - Bulgaria, deficiencies in the administrative capacity, lack of stable political and economic environment as well as the low level of participation of non-governmental actors were found to affect the ability of the state to optimize the utilization of the inflow of EU money.

The two cases were chosen due to the relative weakness of the regional tier in both countries, which allowed a comparative analysis of other factors that have led to a successful performance in one of them and serious difficulties and slow level of progress in the other. The paper attempted to contribute to the growing literature assessing the impact of the EU efforts to bridge the gap between the regional developments of its heterogeneous member states through an analysis of the extent to which the reforms that were undertaken to give the policy its current outlook have matched the real needs of the affected regions. This has been made possible by providing an example from the initial beneficiaries of regional aid and contrasting its experience to one of the newcomers in the group of cohesion countries. The inferences made from the analysis concur with the hypothesis that the concentration of power at the centre is not negatively correlated to the

successful absorption and implementation of the inflow of European financial assistance. The positive impact of the structural funds is dependent upon the institutional set-up and the sound policies carried out by the national governments. Additional factors that enhance the convergence process lie in initiating measures that promote social dialogue and raise the public awareness of the opportunities present to them to give an input in the policy-formulation process. Besides looking at the national level and identifying the major components that have facilitated or inhibited progress, attention was also paid to the influence of the European Union and other international actors on the transformative process in the Central and Eastern European states. The fact that their requirements for providing assistance have a divergent focus causes further confusion in the minds of the Bulgarian policy-makers trying to reconcile the differences.

The first chapter gave an overview of the major changes that characterized the development of the EU regional policy and emphasized the debate between diffusing power among different level of governance – supranational, national and sub-national, on the one hand and the concentration of authority in the hands of the national level, on the other. It also stressed how the reforms that were initiated reflected the predominance of one of the approaches over the other. The 1988 reform gave more discretion to the supranational level and through the introduction of the partnership principle attempted to empower the position of the regional actors in the decision-making process. The subsequent reforms, however, aimed at containing the increasing influence of the European Commission and restoring to a certain degree the authority of the member states. A shift of focus was also notable towards encouraging the sustainable growth of

the regions through increasing the competitiveness of the industries and enhancing investment in the research and development sector.

The second and third sections focused on the impact of the structural funds in two particular member states and what the underlying reasons were for the exemplar performance of Ireland in converging its economy to EU average and the respective laggard position of Bulgaria in the process. Political elites, cognizant of the important role played by the funds, opening the economy and facilitating the inflow of foreign investment as well the careful formulation of the programming documents ensured the high rate of absorption of the money in the Irish case. The cooperation that existed between the business entrepreneurs and the labor unions provided for the stable and sound implementation of the reforms. The most essential element in the Irish success was the time and efforts invested in improving the administrative capacity of the state and its familiarity with the complex set of technical requirements to be met in order to make a maximum use of the allocated resources.

On the other spectrum stands one of the laggards in the restructuring process. The lack of clear concept regarding the development of its regions coupled with a poor institution building on sub-national level and disengagement of the local and regional actors have prevented Bulgaria from optimizing the benefits that have come with the accession. The high level of corruption and the inefficient judicial reforms have pushed the European Commission to resort to applying sanctions in order to force the country to comply with the requirements. The slow level of reforms also prevents Bulgaria from establishing reliable managing structures, the result of which is the high number of cases of misuse of European funds and being stigmatized as the outlier in the group.

Further research could focus on the role of the structural funds on the convergence of the economies of the heterogeneous group of member states in view of the rapidly changing macroeconomic environment and prospective enlargements. Identifying the impact of the recent financial crisis might provide valuable insight as to the ability of the Union to absorb and manage the growing number of potential beneficiaries of structural assistance.

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