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**ASSESSMENT AND CONCLUSIONS OF THE EFFECT OF THE EUROPEAN UNION FINANCING IN THE BULGARIAN MUNICIPALITIES**

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**Petko Petkov**Sofia University “St. Kliment Ohridski” – Sofia, Bulgaria [petko.ivailov@gmail.com](mailto:petko.ivailov@gmail.com)

**Abstract:** The Bulgarian municipalities are part of the structure of the state government and the place where the local self-government is implemented in the Republic of Bulgaria. In this respect, it is important to take a picture of the ability of municipalities to effectively attract, structure and manage financial resources. In practice, the limited budget resources of the Bulgarian municipalities have turned European projects into an alternative opportunity to implement regional development policies. On the other hand, the successful absorption of European funds has a prerequisite for the realization of a number of important projects for the regions. The widespread "addiction" to EU money is fully understandable given the modest ability of municipalities to provide their own capital costs themselves. Strange is the understanding in municipalities of attracting funds, although it has become common practice for the attracted funds not to spend on the essence, which creates the sense of corruption. This situation generally sounds logical, but in practice when it comes to subsidies - it is easily reversed. In a small country like Bulgaria, the attraction of foreign capital on a project basis can work for the public benefit, but it can also have a strong destructive effect.

In the context of an ongoing economic crisis, Bulgarian municipalities increasingly rely on EU funds for investments in their infrastructure, urban environment, roads and public facilities. Citizens and businesses expect this basic infrastructure to create prerequisites for normal living and economic activity in all settlements.

Bulgaria is beginning to absorb EU funds with lower levels of unemployment than those currently in place. Overall, today's situation in Italy and Greece is an absolutely similar example. With a cautious approach, we can not easily overlook the fact that EU funds can have a strong destructive effect on normal business conditions in one country and on its competitive environment.

From the above, we can draw direct conclusions, first of all, we must emphasize that the effectiveness of European funds can not and should not replace governments' efforts to improve the business environment and the fact that a country can not become rich only through European funds. At present, Bulgaria absorbs EU funds, does not use them. At the heart of the process of absorbing EU funds is not the effect of the funds but their reporting. Financial instruments are not uniquely perceived by municipalities as they are associated with much greater financial commitment on their part. Namely, they offer flexible and more sustainable economic management models for objects that can be effectively managed. Generally speaking, these are tools (equity, guarantees, loans, etc.), other than the grant that municipalities are accustomed to relying on European funds.

**Keywords:** financial resources, urban environment, municipalities, economic crisis

**INTRODUCTION**

The Bulgarian municipalities are part of the structure of the state government and the place where the local self-government is implemented in the Republic of Bulgaria. In this respect, it is important to take a picture of the ability of municipalities to effectively attract, structure and manage financial resources. In practice, the limited budget resources of the Bulgarian municipalities have turned European projects into an alternative opportunity to implement regional development policies. On the other hand, the successful absorption of European funds has a prerequisite for the realization of a number of important projects for the regions. The widespread "addiction" to EU money is fully understandable given the modest ability of municipalities to provide their own capital costs themselves. Strange is the understanding in municipalities of attracting funds, although it has become common practice for the attracted funds not to spend on the essence, which creates the sense of corruption. This situation generally sounds logical, but in practice when it comes to subsidies - it is easily reversed. In a small country like Bulgaria, the attraction of foreign capital on a project basis can work for the public benefit, but it can also have a strong destructive effect.

EU Cohesion Policy is a transfer of funds from richer countries to the poorer and started in 1989 with the beginning of the first programming period. Its budget is € 69 billion and is available to beneficiary countries until 1993. The next programming period begins in 1994 and continues until 1999 with a budget of € 168 billion - it is noted that the budget grows roughly two and a half times, to have new members accepted. The third round of EU funds absorption program started in 2000 and ended in 2006. At that time, the budget grew to 213 billion euros, with new 22 billion added at the time of joining the new member states. All of this gives us reason to look for the effects

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of European funding in municipalities. Moreover, in urban agglomerations the challenges are related to the growing population and lack of infrastructure to meet its needs (shortage of educational establishments, traffic problems, etc.), whereas in rural areas these investments aim at mitigating the processes of depopulation and dwelling business. The process of attracting funds under European programs is essentially complex and labor-intensive and in practice requires experience and accumulation of project funding.

### EXPOSITION

In the context of an ongoing economic crisis, Bulgarian municipalities increasingly rely on EU funds for investments in their infrastructure, urban environment, roads and public facilities. Citizens and businesses expect this basic infrastructure to create prerequisites for normal living and economic activity in all settlements. These investments solve different problems both in urban and rural areas. In the 2014-2020 programming period, the EU budget represents an impressive 347 billion. For the next period, however, for the first time in 23 years, the projections are to reduce the budget by 11 billion euros. The discussion of the reasons leading to this result is complex and many different points of view are struggling, each with its own logical arguments. This gives us reason to approach the comparative analysis to assess the living standard of the population and the pace of its purchasing power. We also need to see how life has changed in the country since 2007. Here, however, we need to outline several limitations on changing citizens' lives. The approach requires that we take into account indicators such as standard of living, national well-being, purchasing power, unemployment rate, economic growth, etc., which can bring out the overall picture of the socio-economic development of the Bulgarian people and their standard of living. In this direction, it is difficult to trace the effect of EU funds or, in other words, how the effect is measured on the basis of other indicators related to people's lives. So we have to make it clear that it is high time to accept that European funds are an incentive for development and prosperity, not a way of personal gain. It is public opinion that the effect of EU funds is difficult to trace, and we can hardly conclude that there is a clear change to better living conditions in our country, even though we have been absorbing funds for the European taxpayer for over 10 years now.

First of all, the community of a municipality should be aware of the main source of funding according to their category. At the end of 2012, the government approved a National Spatial Development Concept that categorizes cities in 5 levels and which is the basis for demarcating funding under the various programs. Cities of the first to third level as well as some fourth-tier cities (67 cities in total) will be funded through Integrated Urban Reconstruction and Development Plans under the Operational Program "Growth Regions 2014-2020" (OPRD). All other cities and probably the villages of the 67 municipalities whose urban centers will be financed under the OPRD will be financed under the Rural Development Program (RDP) 2014-2020. This distribution differs significantly from the territorial scope of the programs of the current programming period where OPRD financed the entire territory of 86 municipalities from urban agglomeration areas and key small-scale investments in the remaining 178 municipalities. In practice, this territorial allocation means that the RDP budget for municipal measures will have to cover the needs of much larger territory and the population and competition for the funds under this program will increase.

Bulgaria is beginning to absorb EU funds with lower levels of unemployment than those currently in place. Overall, today's situation in Italy and Greece is an absolutely similar example. With a cautious approach, we can not easily overlook the fact that EU funds can have a strong destructive effect on normal business conditions in one country and on its competitive environment. After a careful analysis, we can outline the possible negative effects of absorbing EU funds in maladministration, which lead to the following findings:

- The need for national co-financing

This creates a need for solidarity not only from the EU but also a commitment expressed through national funding. In our conditions, most people would say that when they give us 3 billion, it is normal for us to co-finance from 300 to 600 million. Yes, this is undoubtedly the case, but the problem is that sometimes co-financing is required by operational programs that do not in any way speed up the growth of the economy, raise quality of life or reduce unemployment.

- The need for co-financing by the specific beneficiary

It is related to the implementation of large infrastructure projects in small municipalities and may force the municipality to pay a deduction of several times its annual budget. The municipality received this amount through credit, and finally business and citizens spent years paying outrageous taxes incompatible with the services they received against them.

- The separation of EU funds into sectors that do not help to increase wealth

An example of this is OP "Environment". This OP helps in all cases to improve the quality of life, but investment in sectors that reduce unemployment, increase welfare and employment must be a priority.

- Effect on wealth

It is noticeable in countries which have been beneficiaries in EU programming periods, and then lose that quality. During the absorption of European funds, a certain group increases their standard of living. Following a sharp halt in the process of investing foreign capital, they continue to have high employment requirements, but the labor market can not offer them.

- Effect of expulsion

This is expressed as a negative effect from the EU funds, which is also recognized by the International Monetary Fund. Often, in practice, private investors who have ideas for successful business projects are refused to invest if a project can not be implemented under one of the operational programs.

- Effect of the allocation of too much resource in monitoring and application under the OP

Private companies devote more and more of their employees' time to discovering and tracking the opportunities and ways to apply for an OP, the chances of success and the resources they need instead of focusing on optimizing and developing oneself.

- Effect of concentrating the state's strongest administrative capacity in units related to EU funds

This effect is noticed at both central and municipal level that the best administrative staff are working in European funding directorates. Here we have to ask the logical question - whether the funds received by the taxpayer in Bulgaria deserve worse management than those obtained from Europe?

- Effect of bad methodology for project evaluation by the managing authority and procurement criteria inadequate for normal business environment

This is most often the result when we see poorly implemented projects due to the fact that the criteria for approval of a project do not provide for freedom in the preparation of the project by the beneficiary. The second reason for poor projects is the award criteria - companies are forced to give too low prices to win, thereby sacrificing the quality of a project.

- Effect of corruption in the area of EU funds

The fight against corruption is one of the strongest negatives, because corruption in the application of a subsidy principle for the allocation of funds is very dangerous. It creates inequality in the access conditions of different private companies, which may lead to a company being able to absorb EU funds much faster and easier than its competitors. This would lead to the possibility of "dumping" market prices and the bankruptcy of companies that remain loyal and apply for a subsidy under the general rules.

- Effect of project destruction

In practice, these are projects that started just before the beginning of the programming period - this effect is noticed in the sectors where a private company can receive a start-up subsidy. In this way, projects that are not implemented under an operational program are put to the knees to sell their product at prices that are practically bankrupt because they can not cover their loans.

One of the main "lessons learned" in the current programming period is the fact that the competitive selection of projects creates prerequisites for preparation and approval of many quality projects that are not realized due to a shortage of financial resources. This leads to unnecessary design and preparation costs which remain at the expense of the municipalities and unnecessarily burden their administrative capacity. Since these shortcomings have been reported by the Ministry of Regional Development and Public Works, the idea was born in the next programming period to be funded on the basis of precise planning through the integrated plans that are being developed for the 67 cities and will be financed under the Operational Program in the area of regional development, after which the municipalities will be able to start the preparation and the design of the projects, which will have relatively "guaranteed" financing. The role of the beneficiary municipalities under the programs is to offer funding mechanisms that ensure adequate pre-allocation of the resource or criteria to prevent funds being scattered.

The most frequent mistakes in municipal infrastructure proposals are incomplete working projects and, most importantly, inaccurately prepared quantitative-value accounts (KSUs). When a KSC is incorrectly prepared and not corrected when the project is being prepared, it leads to a mistaken technical assignment for contractor selection and finally to implementation difficulties. A small percentage of municipalities do not consult with the Managing Authority in detecting errors, which would help them to adjust the budget. So at the end of the project the necessary costs are not covered. The reason for this problem is that the experts responsible for project preparation in the municipalities are not experts in the field so that they can not verify that the projects and the KSC have been prepared correctly. At the same time, within the municipality there are experts from other departments who can correct them. A possible solution to the problem is to organize a working group of experts from each municipal

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European project in order to make full use of the municipal capacity. The most paradoxical is that projects fail because of delays on the part of the municipal administration, for example, when preparing the technical documentation in which there are documents for agreement between the different departments of the same administration. Quite often the different departments in the municipality do not provide the necessary assistance to those responsible for the given municipal project and delay internal procedures. In the name of the successful investments of the municipality, its management must implement appropriate measures to prevent such cases. Any contract with a contractor as a result of a public contract to the municipality requires a guarantee of the final result, usually representing from 1% to 3% of its value, but it is entered in the relevant period. Often, when extending the contract due to delays, municipal officials forget about the guarantee and thus expire before the end of the contract. Thus, the contractor has no obligation on the quality of the final result, which can bring enormous damage to the municipality. The strange thing is that in the electronic era, instead of reducing bureaucracy and paper documents, they continue to increase within the framework of tenders by municipalities. For example, municipalities require documents such as a certificate of current status and annual financial statements of the companies, which are public information contained in the Commercial Register. This is a violation of the provision of Art. 23, para. 4 of the Commercial Register Act. Another trend that has recently been noticed is a discrepancy between requirements for public procurement experts and the subject of the procurement itself.

### CONCLUSION

From the above, we can draw direct conclusions, first of all, we must emphasize that the effectiveness of European funds can not and should not replace governments' efforts to improve the business environment and the fact that a country can not become rich only through European funds. At present, Bulgaria absorbs EU funds, does not use them. At the heart of the process of absorbing EU funds is not the effect of the funds but their reporting. Financial instruments are not uniquely perceived by municipalities as they are associated with much greater financial commitment on their part. Namely, they offer flexible and more sustainable economic management models for objects that can be effectively managed. Generally speaking, these are tools (equity, guarantees, loans, etc.), other than the grant, to which municipalities are accustomed to rely on European funds. They will be widely applied to sites such as sports facilities, cultural infrastructure, car parks, urban transport and other sites managed on an economic basis, use for a fee. For good effect of the EU funds, their good management is necessary, taking into account all possible negative effects of them in collaboration with carrying out the necessary reforms to create a good business environment and last but not least the existence of a good overall institutional environment.

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