Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

OPINION

of

THE ECONOMIC AND SOCIAL COUNCIL

on

"THE POLICY OF ECONOMIC, SOCIAL AND TERRITORIAL COHESION IN THE EU"

(FIFTH COHESION REPORT)

(own-initiative opinion)

Sofia, 2011

The 2011 action plan of the Economic and Social Council /ESC/ envisions the development of an opinion on

"POLICY OF ECONOMIC, SOCIAL

AND TERRITORIAL COHESION IN THE EU"

(FIFTH COHESION REPORT)

The preparation of the opinion was assigned to the Regional Policy, Sustainable Development and Environment Commission and the International Cooperation and European Integration Commission

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The draft of the opinion was reviewed and approved by both Commissions on their meeting held on 02.01.2011 and submitted for examination by the Plenary Session of ESC.

At its Plenary Session held of 21.02.2011 the Economic and Social Council adopted this opinion.

CONTENTS

Abbreviations used

CEB	Council of Europe Development Bank
ENPI	European Neighbourhood and Partnership Instrument
EMFS	European Mechanism for Financial Stability
EU	European Union
EC	European Commission
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
ERDF	European Regional Development Fund
ESF	European Social Fund
ESC	Bulgarian Economic and Social Council
IPA	Instrument for Pre-Accession Assistance
CF	Cohesion Fund
NAP	National is Development Plan
CP	Convergence Programme
NSRF	National Strategic Reference Framework
AEAF	Agency for Economic Analysis and Forecasting
ESPON	European Spatial Planning Organisational Network
INTERREG	Interregional Cooperation Programme
INTERACT	Good Governance of European Territorial Cooperation Programme 2007-2013
JASMINE	Joint Action in support of microfinance institutions in EU
JASPERS	Joint Assistance in Supporting Projects in European Regions
JESSICA	Joint European Support for Sustainable Investment in City Areas
URBACT	Urban Development Integrated Programme

I. Conclusions and Recommendations

The Economic and Social Council (ESC) believes that the Cohesion Policy produces benefits for all regions through direct investment and indirect commercial benefits, as well as support for pan-European priorities such as environmental protection, education, research and innovation.

ESC supports the concept of the importance of European Cohesion Policy for overcoming the negative consequences of the economic and financial crisis on the European economy and for achieving the objectives of the Europe 2020 Strategy to achieve "smart, sustainable and inclusive growth." The Cohesion Policy of the EU creates opportunities for investment in the competitiveness of all European regions and increased funding of the developing ones or those lagging behind.

Changes in the Cohesion Policy are objectively necessary and are associated with the long-term consequences of the crisis, the EU's lagging behind in innovation, and the more efficient use of public funds in the Union. The reform of Cohesion Policy, however, should not lead to conditions for substantial reduction of European funds to less developed regions because this will deepen regional disparities and ultimately the realisation of common European goals for sustainable and inclusive growth.

With respect to the amendments of the Cohesion Policy ESC supports:

1. *Improvement of the cycles of planning and managing the Cohesion Policy* so as to ensure that strategic objectives translate into investment priorities; The creation by the European Commission of a common strategic framework which combines the purposes of the Cohesion Policy and the investment priorities of the Cohesion Fund, the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development, and the European Fisheries Fund will increase the effect of investment in cohesion;
2. *The determination of strategic priorities in line with the objectives of Europe 2020 in a comprehensive strategic framework* and specifying those priorities, the means to achieving them, the coordination of resources from various funds in development and investment partnership contracts at the national level;

3. *The possibility of less developed regions to receive funds for more than two or three priorities*. Mandatory priorities may include "smart specialisation" of the region, high level of education, flexible security and environmental protection. The Cohesion Policy should help compensate for the lagging behind of regions less developed than the EU average.
4. *The opportunity to provide grants for regional inventive projects in the field of social innovation* which take into account specific areas such as social inclusion of young people without basic and secondary education and initiatives for the acquisition of skills and creating employment for minority groups, etc. The principle of additional funding should be applied to achieve stated objectives.
5. *The formulation of measurable objectives and performance indicators for implemented initiatives in support of regional cohesion.* Indicators should be interpreted unambiguously, they should be statistically verifiable, they should be able to account for the impact of the Cohesion Policy, and the information about them should be easily accessible.
6. *The introduction of preliminary assessment of* the impact of cohesion programmes.
7. *The provision of the participation of regional authorities in developing the National Reform Programme, partnership agreements and operational programmes , as well as in their implementation and monitoring.*
8. *The idea that in the negotiations on the financial framework of EU 2014 - 2020 no significant cost reduction for the Cohesion Policy should be allowed.* Regardless of the structure of the future multiannual financial framework for the period 2014-2020, the resources for Cohesion Policy must be provided for and it should maintain its crucial significance for the development of the EU. This option is contained in the document "Review of the EU budget", which notes that "The Cohesion Policy should be the main instrument for achieving the objectives of the Strategy Europe 2020" for smart, inclusive and sustainable growth in all regions of the EU. Just like for the time being Community resources should be directed to the poorest regions and Member States in accordance with EU commitments to respect the principle of solidarity.[1]

[1] Cf. pp 12-13 of the Review of the EU budget, Item 3.3. Cohesion Policy and Strategy Europe 2020, COM (2010) 700 final, 19.10.2010.

9. *The practice of the Cohesion Fund to support Member States whose gross national income per capita is less than 90% of the EU average.*
10. *The specificities of every fund should be reported according to their function in the overall structure of the Cohesion Policy by relating the means provided by them to a specific group of objectives of the Europe 2020 Strategy.* For example, the EU Budget Review states the necessity of directing the aid provided by the European Social Fund to the achievement of the objectives of the Europe 2020 Strategy for inclusive growth. "A comprehensive European initiative for employment could raise the skills of workers, their mobility, flexibility and social inclusion through collaborative initiatives in education, employment and social integration. An important way of social integration is the integration of minorities (Roma and immigrants) in which the actions of social inclusion and protection of legal rights are closely linked with the overall EU approach to immigration." [2]
11. *The extension of the scope of financial instruments and combining different methods of financing,* for example by using public- private partnerships, increased public investment through financial engineering instruments and others.
12. *The use of OPs as tools for conducting the Cohesion Policy* and annual progress reports, simplifying the policy's system for implementation by reducing unnecessary bureaucracy and improving the formulation of goals and policy evaluation. Simplification of the methods of reimbursement for funds received and the use of similar procedures for the implementation of different operational programmes .
13. *The urban development programme* to become part of the overall strategic framework and to support regional development without opposing the development of large towns to that of small ones and other types of settlements.
14. *Planning funds for building administrative and institutional capacity* and assistance for efficient management of the Cohesion Policy at both the national and regional level.

The Economic and Social Council believes that *the introduction of financial sanctions for the infringement of fundamental macroeconomic conditions* in relation not

[2] pp 15 Review of the EU budget, Item 3.3. Cohesion Policy and Strategy Europe 2020, COM (2010) 700 final, 19.10.2010.

only to the Cohesion Fund but also the rest of the EU budget *will obstruct the implementation of Cohesion Policy initiatives and will additionally restrict regions' access to financing. Regional policy should not be used as a sanction* to ensure financial stability of Member States because local authorities are not responsible for the implementation of the Stability Pact. The introduction of such sanctions will certainly affect the interests of the beneficiaries of EU funds.

II. Introduction and general context of the Cohesion Policy of the EU

1. What is today the Cohesion Policy of the EU has been applied since 01.01.2007 During the period 2007 - 2013 it reflects the "agenda" of Lisbon and Gothenburg and is aimed at achieving the three overarching objectives: *convergence, regional competitiveness, employment and territorial cooperation* . Since its establishment until today the Cohesion Policy has achieved a number of successes but at the same time it has been repeatedly subjected to criticism. Currently in the EU there is a wide-ranging debate concerning its reformation. Some of the parameters of future Cohesion Policy are already set by the European Commission by the publication of the Fifth Report on the Commission for Economic, Territorial and Social Cohesion in the Review of the EU Budget. Another part of the parameters is yet to be specified.

2. The objectives of the Cohesion Policy for the period 2007 -2013 are the following:

2.1. **The Convergence objective**[3] is aimed at supporting the growth and the creation of jobs in the least developed Member States and regions by improving the quality of investment in tangible and human capital, the development of innovation and a society relying on knowledge, adaptability to economic and social changes, protection and improvement of the environment and administrative efficiency. Structural funds support the development and achievement of real convergence (reducing disparities and balancing the socio-economic performance of underdeveloped and advanced regions in the EU). Particular attention is paid to

[3] The seven OPs in Bulgaria supported by the Structural Funds and Cohesion Fund for 2007-2013 are aimed at achieving the Convergence objective of the Cohesion Policy of the EU.

enhancing the institutional capacity and efficiency of public administration, including the management capacity for planning and programming EU funds.

The territorial scope of programmes under the Convergence objective is defined by regions on level NUTS 2 of the common statistical classification of territorial units in the EU meeting certain economic criteria. The programmes within this objective may cover more than one region as is the case with Bulgaria. The European Regional Development Fund, the European Social Fund and the Cohesion Fund contribute jointly to the Convergence objective.

2.2. **The Regional Competitiveness and Employment** objective aids regions that remain outside the Convergence objective by strengthening their regional competitiveness and the level of employment in them. This objective is achieved through investment in innovation and supporting the development of the knowledge society, promoting entrepreneurship, protecting and improving the environment, improving the accessibility, developing the labour market, etc. In order to achieve these aims it supports regional programmes containing measures promoting economic changes in industrial, urban and rural areas by strengthening the competitiveness and attractiveness of regions while taking into account existing economic, social and territorial disparities. This type of regional programmes is financed from the ERDF. In order to achieve these aims the objective supports national programmes providing measures to help people adapt to economic changes in accordance with the priorities of the European Employment Strategy aimed at ensuring full employment, quality and productivity of labour and social inclusion. The second type of programmes is financed by the ESF.

2.3. **The European Territorial Cooperation objective** aims at furthering harmonious and balanced integration of the EU through its support of regions important for EU Affairs (innovation, environment, etc.). It also aims at strengthening cross-border cooperation through joint local and regional initiatives, cooperation between countries, regions and the creation of transnational and trans-regional networks. Actions under the European Territorial Cooperation are funded by the ERDF.

During the period 2007 - 2013 Bulgaria participates in programmes for cross-border cooperation with all neighbouring countries. The programmes for cross-border cooperation on the internal borders of the EU , i.e. the borders with Greece and Romania, are financed from the ERDF; the programmes for cross-border cooperation on the external borders of the EU, i.e. the borders with Turkey, the Republic of Macedonia, the Republic of Serbia, (these three programmes are financed from the ERDF as well as from the Instrument for Pre-Accession Assistance (IPA) of the EU); The programme for the Black Sea basin (financed from the ERDF as well as from the European Instrument for Neighbourhood and Partnership (EINP)); The South East Europe Transnational Cooperation Programme; the Interregional Cooperation programme INTERREG IVC; the INTERACT II Programme for operative cooperation; the ESPON 2013 Operative Programme (European Spatial Planning Observation Network); the URBACT operative programme II.

BUDGET ALLOCATION OF EU COHESION FOR THE PERIOD 2007 – 2013							
Objectives	**Objective 1** **CONVERGENCE**		**Objective 2** **REGIONAL COMPETITIVENES AN EMPLOYMENT CAPACITY**	**Objective 3** **EUROPEAN TERRITORIAL COOPERATION**			**TOTAL** **Objective 1** **+** **Objective 2** **+** **Objective 3** **+ Technical Assistance ***
				Cross-border cooperation	**Trans-national Cooperation**	**Interregional cooperation**	
Funding (Million Euros)	282,855		54,965	8,723			**347,411 ***
% of tot funding	81.5%		16 %	2.5%			100 %
Financial Instruments	ERDF + ESF + CF, of which:		ERDF + ESF	ERDF programmes:			
	ERDF + ESF 213,277 million Eu = 61.5%	CF = 69,578 million = 20%		INTERREG IV A	INTERREG IV B	INTERREG IV C URBACT INTERACT II ESPON	

*** -** at current prices. The value of technical assistance is 868 million Euros (0.2% of the total Cohesion Policy)

Figure 1. Budget allocation of EU cohesion for the period 2007 – 2013

Source: "The Community Strategic Guidelines on Cohesion 2007 - 2013" http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/index_en.htm

3. **The Fifth Report of the Commission on Economic, Social and Territorial Cohesion in the EU** analyses the contribution of the European Cohesion Policy to the growth and the balanced regional development across the Union. The Report contains a detailed assessment of the economic and social status, environment protection and development trends in the EU regions and presents several options for adapting the policy to the new conditions following 2013

The Cohesion Policy produces benefits for all regions. The performed analysis shows that between 2000 and 2006 investment in the Cohesion Policy :

- has contributed to the creation of nearly 1.4 million new jobs, it has supporting small and medium enterprises and encouraged of research and development;
- it has also created learning opportunities for millions of women, youth, persons in a vulnerable social position and unemployed persons, it has helped each year to nearly 2 million people to find work through their involvement in various training programmes;
- transport links are upgraded by building or improving the quality of thousands of miles of road and rail network and the modernisation of ports and airports;
- it has improved the environmental conditions for millions of European citizens, bringing the quality of drinking water and waste water treatment to EU standards.

The report also shows regional differences in certain areas that are exceptional in proportion (productivity, infant mortality and vulnerability to climate change, etc.) and provides suggestions for changes in the policy.

The Fifth Report of the Commission on Economic, Social and Territorial Cohesion in the EU sets out new challenges for this European policy which should be taken into consideration by Bulgarian regions. They stem from the identified problems and the guidelines for their solution in the Europe 2020 Strategy, The EU Budget Review of October 2010, the leading initiatives for the implementation of the Europe 2020 Strategy, the EC Communication on the Regional Policy's Contribution to Sustainable Growth in the EU of 26 January 2011, etc.[4] .

4. *The necessary changes in the Cohesion Policy* can be summarised as follows:

- the objectives of strategic planning in the areas of cohesion should meet the objectives of smart, sustainable and inclusive growth of the Europe 2020 Strategy;
- future expenses on cohesion in the EU should be concentrated on fewer priorities that are consistent with these objectives and each Fund should contribute effectively to their achievement;
- better conditions and incentives should be created to ensure that funds earmarked for the Cohesion Policy are used effectively and are linked to the achievement of concrete results[5] . A possible stimulus for this is part of the allocated funding to be offered to regional authorities depending on the quality of their work and achievements in the context of the respective programmes.

5. The Cohesion Policy has a crucial importance for overcoming the negative impact of the economic and financial crisis on the European economy because it functions as an investor in the competitiveness of all European regions and important financial source for the development of underdeveloped regions. Thus it becomes a factor for the creation of stable macroeconomic environment and could contribute to increasing the effect of the *European Financial Stability Facility*[6] in particular Member States. This fund aims to ensure the financial

[4] COM (2011) 17 final , The contribution of regional policy to sustainable growth in the Europe 2020 Strategy, Brussels, 26 January 2011

[5] "To ensure more value for money, we need to make the policy even more effective, in delivering concrete and measurable results," stated Regional Policy Commissioner Johannes Hahn at the presentation of the report. "More than ever before, the ESF must be put at the service of a true European employment initiative, helping people find a job fast. Cohesion Policy will be instrumental in achieving the EU's employment and social targets as part of the new Europe 2020 strategy." said Laszlo Andor EU Commissioner for Employment, Social Affairs and Social Inclusion.

[6] On 10 May 2010 finance ministers of the 27 EU countries agreed on a package that will ensure financial stability of the Eurozone.

stability of the Eurozone and consists of three separate mechanisms [7] amounting to a total of EUR 750 billion:

- A Crisis Stability Fund of EUR 60 billion controlled by the European Commission (The fund is modelled on the existing mechanism for financial support for the balance of Member States outside the Eurozone and allows the Commission to lend funds to world markets using as collateral the total EU budget. Member States will be collectively responsible for these loans);
- The company is instituted with a special investment purpose, i.e. European Financial Stability Mechanism worth EUR 440 billion[8];
- and a contribution of the International Monetary Fund amounting to no more than EUR 250 billion.

6. The Fifth Report of the European Commission on Economic, Social and Territorial Cohesion in the EU also offers ideas for simplifying the system for implementation of the Cohesion Policy in the EU, reducing bureaucracy and improving goal setting and policy evaluation.

[7] The decision of the European Central Bank to buy government bonds on financial markets complements the European Fund for financial stability.

[8] European Financial Stability Mechanism (EFSM) is a company formed by the 16 Eurozone countries on 9 May 2010 and registered in Luxembourg on 7 June 2010 under Luxembourg law . The purpose of EFSM is to preserve the financial stability of the European Monetary Union by providing temporary financial assistance to Eurozone Member States experiencing difficulties. To achieve this goal EFSM may, with the assistance of the Office of Debt Management in Germany issue bonds and other debt securities to raise funds to provide loans to countries in financial difficulties. Emissions will be backed with guarantees totalling EUR 440 billion by the Eurozone countries calculated on a proportional basis according to their participation in the capital contributed by the ECB. EFSM can be triggered only after the request for support from within the Eurozone has been submitted and an action programme has been agreed with the European Commission and the IMF. This is possible only when the country is unable to obtain a loan on world markets at reasonable terms. Any financial assistance given by EFSM and IMF will be bound by strict political conditions. The three main credit rating agencies awarded the AAA rating of EFSM.

III. Fundamental ideas for reforming the Cohesion Policy

These ideas are detailed in the Fifth Report of the European Commission on Economic, Social and Territorial Cohesion in the EU published on 11/18/2010 every three years the EU publishes such a report detailing the progress in the stated areas and the ways in which EU, national and regional authorities have contributed to it. The Fifth Cohesion Report is a document of 264 pages which analyses the effects and results of the EU Cohesion Policy over the last seven years (2000-2006). It compares the growth and the share of employment in every region including those of the 12 new Member States which joined after 2004.

The main ideas for reforming the Cohesion Policy cover several groups of problems:

- increasing the added value of this policy for Europe;
- strengthening governance;
- simplifying the management mechanism and the overall structure of the policy.

1. Increasing the added value of the Cohesion Policy for Europe

The necessity to seek ways to increase the efficiency and added value of European Cohesion Policy stems from the increased challenges in an EU-wide and international context including the negative social consequences of the global economic and financial crisis.

The Fifth Report on Economic and Social Cohesion concludes that the European Cohesion Policy has contributed to the economic and social development of regions and the welfare of European citizens. However, the added value and effectiveness of the policy are subject to frequent criticism, most often because of their difficulty of measuring its results. The little available funding for this policy must be allocated among a wide range of activities of crucial importance for the development of the EU.

The new strategic framework of European Cohesion Policy is determined by the EU Budget Review[9]. The EU Budget Review of the European Commission is a document that

[9] The EU Budget Review COM (2010) 700 of 19.10.2010

underpins the debate on the future financial framework after 2014. It defines and justifies the importance of the main spending policies of the Union in the medium and long-term period and seek an optimal mechanism for financing the revenue side of the EU budget. Major cost policies need to ensure the implementation of the top priorities of the Union as well as add high value to cost and stress solidarity as a basic principle of the EU. For the current programming period 2007 - 2013 nearly ¾ of the total EU budget are aimed at two European policies: the Cohesion Policy and the Common Agricultural Policy. They will be reformed after 2014 and many of the ideas for reform are contained in the Fifth Report on Economic, Social and Territorial Cohesion of 10 November 2010 and the European Commission Communication on the Future of the Common Agricultural Policy published on 18 November 2010[10]

The Cohesion Policy will be implemented through the application of financial instruments into new areas and combining different methods of financing - *in the use of public-private partnerships for example.* Sound financial management of the instruments of Cohesion Policy can lead to increased public investment. To achieve this goal, the European Commission has developed *tools* together with the European Investment Bank, European Bank for Reconstruction and Development and the Development Bank of Council of Europe. They assist Member States and regions in the implementation of financial engineering schemes.[11]

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[10] COM (2010) 672 final, Brussels, 18.11.2010, The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future

[11] These mechanisms include:

- **JEREMIE (Joint European Resources for Micro, Small and Medium Enterprises)** is an initiative of the Commission, EIB and the European Investment Fund (EIF) to improve access of small and medium enterprises (SMEs) to finance. Its instruments include securities, venture capital, guarantees, loans and technical assistance ***leading to a multiplying effect of EU funds through the use of revolving financial products instead of grants.*** EIF and national and regional authorities create tailor-made circumstances schemes for SMEs in all sectors. It is expected that by means of JEREMIE SME's access to finance, including to resources from the ERDF which amount to around EUR 2,5 billion, will be significantly improved in nearly 20 EU Member States.
- **JESSICA (Joint European Support for Sustainable Investment in City Areas)** is an initiative of the Commission in cooperation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), in order to promote sustainable investment, and growth and jobs, in Europe's urban areas. It connects Member States, regions and towns with the European banking and financial sector in order to achieve more and better investment in urban areas. Resources under Operative Programmes which are to be invested within the scope of JESSICA may be transferred to ***Urban Investment Funds*** while co-financing may be obtained from municipalities, banks, pension and investment funds.

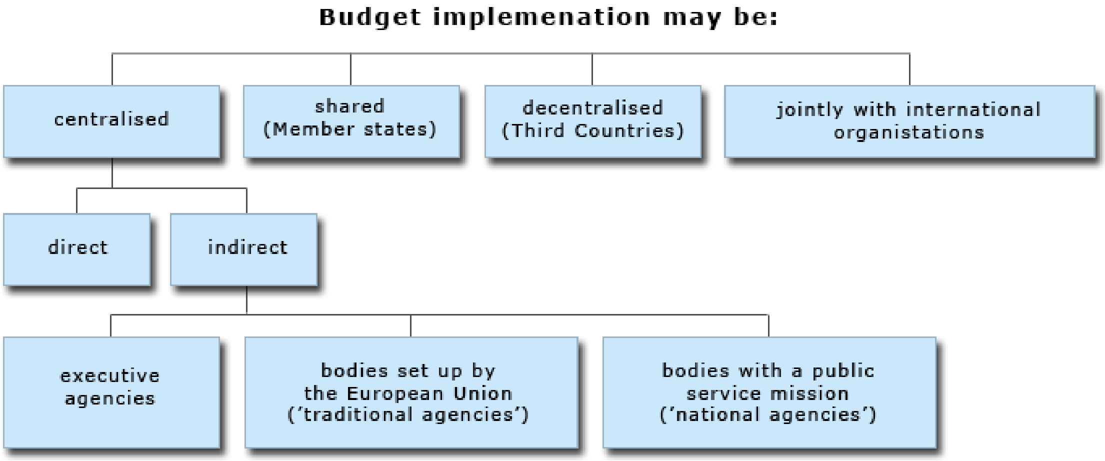
2. Strengthening management

The EU Budget Review offers *a new strategic programming approach* for the Cohesion Policy. Within this approach the Commission adopts *a common strategic framework* by which the general and concrete objectives of the Europe 2020 Strategy are translated into investment priorities. This common strategic framework will apply to all EU programmes with direct and shared management[12] and will have clear objectives: better coordination between European policies, greater efficiency of invested funds and clear target orientation of EU expenditure (i.e. costs should be focused on some of the strategic priorities of the EU).

Fig.2. Methods for the management of budget implementation

- **JASPERS (Joint Assistance to Support Projects in European Regions)** is ***a joint mechanism for technical assistance of the Commission, EIB and EBRD for the realisation of large projects*** on the territory of the 12 Member States that joined the Union in 2004 and 2007. It was created due to the lack of experience and institutional capacity in the "new" Member States. JASPERS started operations in autumn 2006 and is currently working successfully at almost full capacity in all 12 Member States - beneficiaries. The activities within the framework are carried out from three Operative Offices in Warsaw, Vienna and Bucharest in which 54 specialists are currently working on 227 projects.
- **JASMINE (Joint Action to Support Micro-Finance Institutions in Europe)** is an initiative aiming to ***improve the access to funding of SME and socially excluded persons (including representatives of ethnic minorities) who want to become self-employed persons.*** This initiative is in line with the Lisbon Strategy for Growth and Jobs and aims at making small loans and micro-crediting more accessible in Europe and so meet demands that have so far remained unsatisfied.

[12] In **the case of direct centralised management** the budget is implemented by the Commission (e.g. in this category fall budgets for administrative costs, parts of the budgets for research, energy and transport). In **the case of indirect centralised management** the budget is implemented by the executive agencies at the Commission. The Commission bears the overall responsibility for the implementation of the budget in case of the direct and indirect centralised management. In **case of decentralised management** the budget is implemented by third parties. In **case of joint management** the management of funds and programmes is delegated to international organisations. **Shared governance** is used in the areas of agriculture and *cohesion*. In this case budgetary funds are managed jointly with Member States but the responsibility for the proper execution of the budget falls primarily on Member States.



Source: Annual Reports for Financial Year 2007, Appendix 1. Financial information for the general budget, page 341, 10.2008.

The common strategic framework will cover CF, ERDF, ESF, European Agricultural Fund for Rural Development and European Fisheries Fund. Based on the investment priorities set out therein, the EC will conclude with each Member State *a development and investment partnership contract*. These contracts will be consistent with national reform programmes of each Member State, describe the coordination of EU funds at national level, define national investment priorities and objectives, and identify the relationship between national and European funding for each of the targets. One of the most important policies in the scope of the development and investment partnership contract is precisely the European Cohesion Policy.

3. Streamlining and simplifying the system of management

The current policy framework of EU cohesion is defined by *Community Strategic Guidelines* [13] on Cohesion which set the principles and priorities of the Cohesion Policy and

[13] Council Decision of 6.10.2006 2006/702/ES for Community Strategic Guidelines on cohesion, the EU Official Journal, 29. 10. 2006

outlines ways for European regions to utilise EUR 308 billion made available to them through regional development programmes for the period 2007 - 2013 The guidelines aim to provide a balance between the objectives of the Programme for Growth and Jobs and territorial cohesion. Member States have used these guidelines as the basis for developing it their national strategic priorities and National Strategic Reference Frameworks for that period. These guidelines are consistent with the revised Lisbon Strategy. Pursuant to the guidelines, programmes co-financed within the Cohesion Policy should be focused on three priorities:

- improving the attractiveness of the Member States and regions and towns by increasing their accessibility, ensuring adequate quality of service and protecting their environment;
- promoting innovation, entrepreneurship and the growth of the knowledge economy through research and innovation, including developing new information and communication technologies;
- creating more and better jobs by attracting more people into entrepreneurial activity, improving adaptability of workers and increasing the investment in human capital.

The purpose of reforming the European Cohesion Policy after 2014 is to achieve a greater impact of the made investments. *The essence* of this reform, as mentioned above, is twofold - increasing the concentration of financial resources (EU and national) and increasing the emphasis on the achieved results. *The reform* will pass through two successive stages: the formulation of mandatory European priorities and the election of each Member State of two or three priorities on which to concentrate.

The thematic concentration of investment within the Cohesion Policy which will take place in the process of choosing national priorities will not preclude the financing of specific needs of concrete target groups or the development of different innovative approaches at the local level - common grants have been previewed to guarantee these two aspects of the Cohesion Policy.

4. General structure of the Cohesion Policy

The main documents which Bulgaria has developed as an EU Member State in the current programming period are: the National Development Plan[14] of the Republic of Bulgaria for the period 2007 -2013, the National Reform Programme[15] , the Convergence Programme[16], and the National Strategic Reference Framework (NSRF)[17]. These documents set national targets and policies in the context of European ones and have a direct impact on the implementation of individual measures in the area of the Cohesion Policy.

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[14] National Development Plan of the Republic of Bulgaria for the period 2007 -2013, the Agency for Economic Analyses and Forecasting (AEAF), Sofia, 2006 (AEAF was discontinued on 01.07.2010 under Art. 5 of Decree of the Council of Ministers 117/10 June 2010. Its successor is the Ministry of Finance, Directorate for Economic Planning and Analyses.) The National Development Plan (NDP) is a national strategic document which *formulates the Bulgarian long-term public investment programme*. NDP defines the vision, strategic objectives and national development priorities as well as the necessary financial resources and institutional framework for their implementation. To support the programming of EU funds for Bulgaria for the period 2007 - 2013 NDP presents the strategic choice of national investment policy to ensure adequate coordination, justification and provision with resources of activities co-financed with EU funds.

[15] The National Reform Programme 2007 - 2009, AEAF, Sofia, 2006 The National Reform Programme is a key strategic document issued by the Bulgarian government which aims to systematise the efforts of state administration, NGOs and social partners for reforming Bulgarian economy and provide for the achievement of high and sustainable rates of economic growth and employment in the country. *It is prepared in accordance with the Integrated Guidelines for Growth and Jobs* of the European Council for the formulation of policies and measures *to achieve the objectives of the revised Lisbon Strategy.* The main areas of reform are: macroeconomic environment, microeconomic issues, creation of jobs.

[16] The Convergence Programme (CP) of Bulgaria for the period 2006 - 2009, CP 2007 - 2010, CP 2008 to 2011, the AEAF, Sofia. This programme is prepared *in accordance with the requirements of the Stability and Growth Pact (SGP).* It is part of the process of coordinating and monitoring the economic policies of Member States and ensures that the criteria for membership in EMU of EU. Its main objective is to achieve convergence of economic indicators in the country with those of the most advanced Member States. The programme is prepared annually and contains information about the previous, the current, and projections for the next three years. After Bulgaria's accession to the Eurozone the Convergence Programme will be replaced by the stability program.

[17] NSRF is a strategic programme document that describes the support of the Structural Funds during the period 2007 - 2013 for the development of Bulgaria. *The vision* for the development of the country set in the NSRF is the following: *By 2015 Bulgaria will become a competitive EU Member State with a high quality of life, income, and social sensitivity of the public.* This vision combines *two medium-term goals* formulated in accordance with the EU Strategic Guidelines: a) Increasing the competitiveness of the economy in order to achieve high sustainable growth; b) Development of human capital in order to ensure higher employment, income and social integration. In order to achieve these medium-term goals Bulgaria has to focus on *four strategic priorities* – three thematic and one territorial: a) Improving basic infrastructure; b) Increasing the quality of human capital with an emphasis on employment; c) Encouraging entrepreneurship, favourable business environment and good management; d) Support for balanced territorial development.

During the following programming period *the development and investment partnership contract* will replace the National Strategic Reference Framework. Similar to the current programming period in the next one operational programmes will be the main vehicle for the implementation of investment priorities and national targets for individual Member States within the main strategic objectives of the Europe 2020 Strategy (Fig. 3).

Fig. 3. Leading strategic objectives and major initiatives proposed by the European Commission to stimulate economic growth in the EU over the next 10 years

<table>
<tr><th colspan="3">Leading strategic objectives</th></tr>
<tr><td colspan="3">1. Increasing the employment rate among citizens aged 20 - 64 years of age from the current 69% t
at least 75%.
2. Reaching the target investment of 3% of GDP in R&D and particularly by improving conditions for investment in research and development by the private sector and developing a new indicator fo
monitoring innovation.
3. Reducing carbon dioxide emissions by at least 20% as compared to 1990 levels or depending on the availability of suitable conditions - a 30%, increasing the share of renewables in the final energ
consumption to 20%, and achieving a 20% increase in energy efficiency.
4. Reducing the proportion of early school leavers to 10% from the current 15%, and increasing the share of the population aged 30-34 with higher education from 31% to at least 40%.
5. Reducing the number of citizens living below national poverty thresholds by 25% thus over 20 million people will be lifted out of poverty th .</td></tr>
<tr><th colspan="3">7 leading initiatives</th></tr>
<tr><th>Smart growth</th><th>Sustainable growth</th><th>Inclusive growth</th></tr>
<tr><td>Innovation: the "Alliance for Innovation" initiative</td><td>Climate, Energy and Mobilit the "Europe for efficient use o resources" initiative</td><td>Employment and skills: the "Programme for new skills an jobs" initiative</td></tr>
<tr><td>Education: the "Youth in Actio initiative</td><td rowspan="2">Competitiveness: the "Industrial Policy for the Age Globalization" initiative</td><td rowspan="2">Combating poverty: the "European Platform Against Poverty" initiative</td></tr>
<tr><td>Digital Society:</td></tr>
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the "Programme in the field of digital technologies for Europe" initiative.		

IV. Problems related to Bulgaria's participation in shaping and implementing the Cohesion Policy

1. One of the strategic objectives of the participation of Bulgaria in the European integration process is its economic, territorial and social cohesion with other countries and regions in the EU. Although following the accession of Bulgaria to the EU good preconditions were created for the use of Structural and Cohesion Funds for regional development and] increasing the competitiveness of the economy, the actual achievements are modest. The level of welfare of Bulgarian regions occupies one of the last places in the EU. The level of absorption of EU funds is also low. Thus Bulgaria missed real opportunities to reform the economic development of its regions.
2. The reform of Cohesion Policy places new challenges before Bulgarian regions and towns.

   The following actions are possible:

   2.1. **Achieving public consensus on the priorities of economic development of Bulgaria by 2020**. The concept stated in the Fifth Report to negotiate with each specific party the binding conditions within the framework of a coordinated approach combining all relevant EU policies requires the formulation of national priorities as well as the provision of the finances necessary for their implementation. Application of the EU principle of added value requires more clarity with respect to the distinction which problems can be solved only by means of national funding and which need EU funding. The preparation of strategic documents for Bulgaria's development by 2020 should take place through a large-scale discussion involving social partners, research organisations and universities and representatives of NGOs.

2.2. **In the process of preparation and signing of the investment partnership contract to ensure the active participation of Bulgarian municipalities and regions** which can formulate best the needs of regional development. The understanding that Cohesion Policy has a wider range than the Europe 2020 Strategy and its important goal is decreasing regional disparities by providing support to least developed regions and bring them in line with the EU average - should be maintained in this process.

2.3. **Rules and procedures for the management of EU funds at the national level should be simplified.** For example, in order to monitor and verify the expenditure of funds supervising institutions require a number of documents which can often be checked automatically with the respective public administration or some documents may be submitted electronically, etc. The possibility to submit projects and interim reports on them electronically will be an important relief in the process of development and implementation of the projects.

2.4. **The centralisation of the management of the structural and cohesion funds in Bulgaria should be increased.** The role of the Minister of the management of EU funds in the process of managing and controlling the expenditure of the funds should be increased and mechanisms for effective control and coordination should be provided for without affecting the process of *decentralisation of certain activities* (for example the acceptance of project proposals from territorial structures of intermediary units country-wide, the evaluation of such project proposals, etc.).

2.5. **Strict adherence to deadlines for the evaluation of projects and disbursement of funds** within Operational Programmes should be guaranteed in order to enable beneficiaries to plan better their future activities and expenditure, and ensure the faster and more effective absorption of funds provided within Operational Programmes at the national level. The measures to be undertaken could include strengthening the administrative capacity of intermediary units and the managing bodies of operational programmes.

For the development of strong and viable regions in Bulgaria which could participate productively in joint projects with other European regions it is necessary to make serious efforts to give them timely access European funding. This is applies especially to the poorest regions.

V. Replies to the questionnaire "Conclusions of the Fifth Report on the Economic, Social and Territorial Cohesion: The Future of the Cohesion Policy"

1. How could stronger thematic concentration on the Europe 2020 priorities be achieved?

Economic and Social Council believes that the National Reform Programme and the Operational Programmes should include the priorities of the Europe 2020 Strategy. Smart, sustainable and inclusive growth corresponds to the needs of the Cohesion Policy and thus the priorities of the leading initiatives can be identified as compulsory in relation to cohesion and the bulk of EU resources can be directed to them. Allowing a greater number of priorities for the less developed regions and especially the inclusion of areas in the development of the National Reform Programme and Operational Programmes will reduce the risk of neglecting important areas of specific priorities.

Thematic concentration will improve and the efficiency of investment funds will be become more visible when each of the objectives and targets of Europe 2020 that are reflected in the investment priorities receives funding from a separate European fund.

2. Should the scope of the development and investment partnership contract go beyond Cohesion Policy and, if so, what should it be?

The Economic and Social Council believes that the partnership contract should focus on the objectives of the Europe 2020 Strategy while less developed regions are given the opportunity to include initiatives that conform to regional needs. The implementation of many specific regional goals such as improved infrastructure will ultimately contribute to the objectives of the Europe 2020 Strategy in these regions.

To the elements of the investment partnership contract concerning the setting of national investment priorities and objectives, coordination of EU funds at the national level, determining the proportion between national and European funding, etc. may be added a specific clarification of the role of the Cohesion Policy as a factor for creating a stable macroeconomic environment and a statement of its interaction with the European Financial Stability Fund in individual Member States.

3. How could conditionalities, incentives and result-based management make the Cohesion Policy more effective?

The Economic and Social Council believes that in principle linking Cohesion Policy to certain conditionalities, incentives and result-based management is a way of improving its efficiency. The conditionalities must be clearly linked to the stated priorities of these policies for each region and nationally in line with the Europe 2020 Strategy, the development of concrete actions for their achievement at the regional level and their implementation. The conditions should be flexible enough to allow coping with sudden changes in the macro environment which could not be foreseen and which require a change in policy.

The introduction of incentives for the allocation of part of the resources on the basis of achieved results will have a positive impact on the motivation of regions to obtain additional funds. For this purpose, however, it is necessary to develop a reliable system of indicators by which to measure results. These indicators should be interpreted clearly and they should be directly related to the policy. Reporting on these indicators should not be too complex and frequent so as to obstruct the real work on the projects.

The leading initiatives of the Europe 2020 Strategy should be implemented through existing procedures and rules in order to avoid duplication of processes and reporting.

The scope of financial sanctions for violations of the Stability and Growth Pact should not be extended beyond the Cohesion Fund as it would deprive of means areas in the implementation of specific European projects and in case of limited national funding may deepen their problems.

4. How could Cohesion Policy be made more result-oriented? Which priorities should be obligatory?

The Economic and Social Council believes that the Cohesion Policy could be oriented more towards its results if clear and realistic goals are set in the first place. This is possible when applying the bottom up approach and all stakeholders at the regional level take part in their determination. The obligatory priorities must be those which have the greatest contribution to the formation of the GNP and economic growth of the regions.

It is also necessary to make further studies to determine whether in all areas of economic, social and territorial cohesion it is possible to tie funding to results. For example, in social policy and employment results are more difficult to measure.

5. How can Cohesion Policy take better account of the key role of urban areas and of territories with particular geographical features in development processes and of the emergence of macro-regional strategies?

The Economic and Social Council considers that urban areas are major centres of economic growth and their specific problems must be reflected in the development of individual priorities in OPs. In the process of programming support for major cities had to be balanced with the support for smaller towns and settlements where conditions for economic growth should be created.

Therefore, in order to attribute more importance to the Cohesion Policy as well as to the key role of urban areas in development processes and of the emergence of macro-regional strategies, it is necessary to *increase the financing within the programmes that make part of the current Objective 3 "European territorial cooperation" and especially the most successful of them:* INTERREG, INTERACT, ESPON 2013 (the European Spatial Planning Observation

Network); URBACT, regional programmes such as the Black Sea Basin Programme financed from the ERDF and from the European Neighbourhood and Partnership Instrument, transnational cooperation programmes such as South Eastern Europe and cross-border programmes . In this framework this objective obtains only 3% of total funding for Cohesion Policy.

6. How can the partnership principle and involvement of local and regional stakeholders, social partners and civil society be improved?

The Economic and Social Council considers that the partnership principle can be improved by ensuring the inclusion of all stakeholders in the programming and implementation of the projects. More specifically, municipal and regional governments should participate actively in national planning and setting priorities, while NGOs should be involved as partners in the implementation of projects at the local level. The requirement for the involvement of social partners and the civil society should be laid down in the regulations of Structural Funds. Partnership should be included as an indicator for achieved results from the implementation of the projects. More initiatives for promoting the importance of European funding of the Cohesion Policy may be envisioned. EU research shows that "soft measures" in support of regional development are less visible to civil society than infrastructure projects.

7. How can the audit process be simplified and how can audits by Member States and the Commission be better integrated, whilst maintaining a high level of assurance on expenditure co-financed?

The Economic and Social Council is of the opinion that in order to simplify the audit process clear rules for financial reporting, monitoring and auditing should be developed before the beginning of the programming period and obtain the agreement of all Member States. These rules should be widely publicised.

The introduction of joint audits for Member States and the EU can shorten the time of executing the audit. Audits must adapt and conform to the size of the project and eligible expenses. "Creeping growth requirements" (including a number of additional requirements beyond those of the EU) should not be allowed in the scope of audits.

Measures for controlling the risk of infringement will help reduce the tendency of beneficiaries, intermediary units and management bodies to over insure by means of often unnecessary documentation for future audits. With respect to this Member States may created a system for early warning, similar to the one that already exists in the European Commission *as well as a centralised database for exclusion.*

Audits are required for all programmes but should be carried out only on a sample basis.

8. How could application of the proportionality principle alleviate the administrative burden in terms of management and control? Should there be specific simplification measures for territorial cooperation programmes?

The Economic and Social Council believes that the application of the proportionality principle may be simplified by taking into account the size of the project, the amount of co-funding, and the experience of participants in realising similar projects. Greater control should be exercised in projects with more sizeable funding. Simplifying the procedures for submitting projects and introducing electronic filing and interim reports will ease project management.

Specific simplification measures for Territorial Cooperation Programmes could be implemented in various programmes. The issue of simplification of verification procedures for each individual programme should be openly and clearly discussed. For example, in the case of projects under smaller cross-border cooperation programmes with the participation of Bulgaria, at the first level of control the beneficiary and the controller complete the same documents, regardless of whether the project is financed by "soft measures" of up to EUR 10,000 or involves construction work for over EUR 500 000.

9. How can the right balance be struck between common rules for all the Funds and acknowledgement of Funds' specificities when defining eligibility rules?

The Economic and Social Council considers that the introduction of common rules for the use of Structural Funds would facilitate their use. With respect to this the differences between them should be reduced to a comfortable level which, however, does not affect the specificity of individual funds. The development of clear rules for the extension and implementation of mutual complementarity of funds will contribute to the planning and implementation of complex programmes and projects. This is necessary for the resolution of problems by means of measures that rely on financing from different funds. For example, such an area is social exclusion.

10. How can financial discipline be ensured, while providing enough flexibility to design and implement complex programmes and projects?

The Economic and Social Council believes that financial discipline could be guaranteed through legislation providing for stricter penalties for financial irregularities and their application. In Bulgaria, such sanctions are provided by the Penal Code. Increased audit and control after the completion of projects together with the possibility for recovery of obtained funds to be demanded in case infringements are discovered may be one of the measures to achieve financial discipline and flexibility.

11. How can it be ensured that the architecture of Cohesion Policy takes into account the specificity of each Fund and in particular the need to provide greater visibility and predictable funding volumes for the ESF and to focus it on securing the 2020 objectives?

The Economic and Social Council considers that the European Social Fund is the main instrument for promoting social cohesion and supporting employment in Member States. Funding form the ESF must naturally be linked to the objectives of the Europe 2020 Strategy and especially to the goal of inclusive growth so as to promote rather than hinder less developed regions (e.g. determining the amount of aid that can be obtained from ESF).

Regional policy is based on a criterion level of economic development of regions. With respect to reporting at this level a new complex criterion may be developed to include unemployment, employment, level of education of the population - especially the number of people with primary and vocational education, poverty and social exclusion, the number of young people who dropped out of school, access to healthcare, education and other services.

12. How could a new intermediate category of regions be designed to accompany regions which have not completed their process of catching up?

The Economic and Social Council believes that the economic crisis and recession are objective preconditions for the proposal to introduce new intermediate categories of regions. But we need to clearly define the criteria for such intermediate areas and what would be the thematic priorities for assistance in the context of the Strategy Europe 2020. Possible measures for assistance may be directed to the areas of Competitiveness and Employment. The creation of such a category of regions will increase the number of beneficiaries from the Cohesion Policy.

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