

B U L G A R I A

National Human Development Report

2 0 0 6

Are we prepared for European Union funds?

Challenges and opportunities
for local development actors



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The figurine on the cover of the report embodies the idea that every movement happens for a reason. It was chosen for the National Human Development Report to express our belief that supported by EU funds Bulgaria will move forward in its development.

From the UNDP Resident Representative

"Ultimately human development is about the realisation of potential. It is about what people can do and what they can become and about the freedom they have to exercise real choices in their lives."
(Human Development Report, November 2006)

The above is also an idea at the core of the founding of the modern Bulgarian state, which in 1991 was included in the Bulgarian Constitution: "The Republic of Bulgaria shall guarantee the life, dignity and rights of the individual and shall create conditions conducive to the free development of the individual and of civil society." It is also an idea at the core of European culture: 2,350 years ago, Aristotle said "Wealth is evidently not the good we are seeking, for it is merely useful and for the sake of something else" – the something else is the opportunity for people to realize their potential as human beings.

This report is about some of the ways in which Bulgarians can realize their potential. The fact that Bulgarians have potential is reflected in what they have accomplished over the last years – recovering from a deep financial and social crisis just nine years ago, building an EU member state and a place to which tourists, and increasingly investors, flock. It is reflected in Bulgaria being a country categorised as having human development with a ranking 12 places higher than its ranking in terms of income. It is reflected in the value people put on education, and the sacrifices parents and grandparents will make to give their children and grandchildren the chance for a good education.

That Bulgaria has opportunities to realize this potential is demonstrated by the amount of support the EU has committed to help Bulgaria's development in the coming years – 12 billion euro until 2013. But the opportunities are not just about money. There are opportunities for increased investment and trade, but also for much more intense contact with EU member states and their citizens – whether in terms of culture, governance, business, or local development experiences.

However, as all Bulgarians know, along with the opportunities they have to "climb up the ladder of development"ⁱ there are many barriers to this potential being realized. This report is about some of the biggest barriers, including the inadequate capacity there is among all the partners – whether in national government, local government, business and NGOs – to access and to use effectively the EU funds available to Bulgaria. But while the focus is on such capacity related to EU funds, the issues raised are also relevant to the capacities in government and society to manage the many other changes that come with EU membership, including the capacity to define, and redefine the policies needed for Bulgaria's development as an EU member state, so that it is competitive, and so that its achievements translate into increasing human development for all Bulgarians.

Therefore one of the key findings of the report, based on both extensive surveys and comparative studies with other EU member states, is that much more needs to be done to build such capacities and partnerships at the local level. If this investment in capacity is made now, it is much more likely that EU membership will lead to rapid and sustained improvements in human development and, linked to this, to Bulgaria's ability to compete with Europe and within the world economy. Such a transformation will be in the interest of all Bulgarians, and in the interest of all Europeans.

Of course there are many other elements to this, such as sound macroeconomic policy, a stable and well functioning political system, and a justice system seen as effective by both Bulgarians and Europe. But all the above will not translate into improved lives for most Bulgarians, without a dramatic improvement in the capacity of all partners to use the EU funds. Bulgaria could also take a slower "learn by doing" approach, but in a situation where Bulgarians have the lowest incomes in the European

ⁱ Sachs, J., 2006, The End of Poverty.

Union, where there are already some doubts about the benefits of EU membership, and where competition from other countries could make it hard for Bulgaria to “catch-up”, Bulgaria does not have the luxury to take a “go-slow” approach.

As the report highlights, the good news is that more and more people realise this, and there is progress. There is more knowledge of how to do this, and more resources as well, including in a number of new initiatives by the Government. We hope this report helps Bulgarians build on this, and at this crucial moment in the country’s history, create the conditions to build “an enabling environment in which people can enjoy long, healthy and creative lives”ⁱⁱ and where development “expands the real freedoms that people enjoy”ⁱⁱⁱ. We in UNDP are committed to continuing to support Bulgarians in this process.



Neil Bulme
December 2006

ⁱⁱ Mahbub al Haq.

ⁱⁱⁱ Amartya Sen.

FOREWORD

The development of a country seldom sees miracles. Perhaps many envision the following seven years as a kind of miracle for Bulgaria – accession to the European Union will bring to the country not only EUR 12224 billion^{iv}, but also unique development opportunities within the largest economic block in the world.

The results of seemingly accidental events, however, are always predestined by the previous actions of individuals or the society at large. The scope and pace of desired changes in Bulgaria depend entirely on its being prepared to take advantage of these emerging opportunities, in particular how well EU funds will be used to attain economic and social cohesion. Therefore the ability of the participants in this process – the administration, the business and civil society – to stand up to the challenge will be decisive if the quality of life in Bulgaria is to improve.

EU cohesion policies, whose implementation funds Bulgaria will be able to tap effective 1 January 2007, aim at overcoming disparities and achieving cohesive development across regions and member states, including sustainable growth, more jobs and greater competitiveness. The goals of this policy are in unison with the work and mandate of the United Nations Development Programme (UNDP) to promote sustainable human development and to strengthen social capital and good governance.

The concept of human development rests on one fundamental principle – that people are the greatest wealth of any country. Their development, knowledge and dreams are the most powerful and far-reaching engine of prosperity. EU cohesion policies are not only about economic growth – their goal is to create a level economic ground where all social groups will be able to participate equitably. For that reason UNDP – Bulgaria decided to use its Human Development Report for 2006 and to look at the challenges Bulgaria is facing to benefit from these opportunities.

Bulgaria is already experiencing a classical phenomenon of development where positive macroeconomic results are dramatically at odds with the subjective perceptions of society; instead of galvanising stronger optimism for the future, these good results breed pessimism.^v A similar situation may recur after Bulgaria joins the EU because at first direct benefits will not spread evenly. That is why in 2006 UNDP – Bulgaria is looking at the issue of capacity to participate in EU funds through the eyes of local development stakeholders – the business, local and district governments and the non-governmental sector. Besides the central government, these are the three groups of actors whose capability to effectively use EU money will determine whether as many people as possible feel the benefits of EU membership and take part in Bulgaria's development.

Since 1999 UNDP has been consistently concerned with issues of local and regional development. In the course of all these years UNDP has built a comprehensive toolkit to support local development stakeholders. Days before accession, that foundation can be used to improve Bulgaria's preparedness to benefit from the opportunities extended by the EU.

Great opportunities often conceal a wake of problems – it is not by accident that the Chinese hieroglyph for opportunity also stands for risk. There are hardly many people who doubt that EU funds will contribute to Bulgaria's welfare. The key risk associated with EU cohesion policies is not that they will not have an impact but that the impact may be far too small. The experience of the so-called 'cohesion countries' (Ireland, Portugal, Greece and Spain) showed that there are different strategies to implement policies and therefore different results.

During the negotiations for accession the Bulgarian Government managed to gain agreement to the highest share of funds seen as a percentage of the gross domestic product at 3.6% of GDP. It will be a delusion, however, to regard this merely as a diplomatic success because the percentage was made up according to the same formula which was used to determine the

^{iv} Financial perspectives 2007-2013. Agency for Economic Analysis and Forecasts, December 2005.

^v An optimistic theory about the pessimism of transition. Association Global Bulgaria Initiative, 2003 – 2004.

needs of every other country. With a GDP purchase power parity equalling only 32%^{vi} of that in the EU 25 member states, Bulgaria is one of the poorest countries joining the European Union.

That should not be a discouragement. It should be an even stronger incentive to use EU funds more efficiently to promote economic and social cohesion.

The report shares the view that development can only be achieved with the active involvement of the business, and if the implemented projects are economically viable. Funding of ideas that are simply good may contribute to development, but only by chance. From this perspective accession to the EU is often regarded as a collision of two concepts of development – the so-called social and the economic. It is usually argued that a higher level of social protection checks economic growth and vice versa, high competitiveness inevitably undermines social standards. This is an artificial choice. Without economic development there are no means for social policy, and without meaningfully targeted social spending there can be no rapid growth – growth will inevitably be extensive and will never catch up with the most advanced EU countries. For instance, funding in accessible education should be viewed not only as social spending but also as investment in qualified workforce. One example could be potential investments for economic inclusion of the Roma people. Instead of putting a strain on the social system, they could become yet another impulse for Bulgaria's economic growth.^{vii}

At the same time we should never forget that the use of structural funds is public interference with development and the market mechanism. Falling back on these funds should always have a clear rationale, if they are to avoid the opposite effect – instead of providing solutions to existing problems, they could capsule the status quo by funding ineffective programmes that would otherwise have been reformed. EU funds should be a catalyst, not a brake on reform.

Such public interventions are moreover carried out with public money – they are paid for by all taxpayers but directly benefit only some of them. The society expects that the government will compensate market failure, but it demands guarantees that the funds will be used expediently. If public interventions are to be efficient and effective, there must be monitoring and evaluation of underpinning policies and programmes. The best way to do that is to involve representatives of local development actors who bear the consequences of various programme decisions made by the central government. Who can judge the impact of development assistance but those who need development?

The introduction summarises the surveys that provided the basis for the Human Development Report. It outlines the essence of EU cohesion policies, the specific characteristics of the business, the non-governmental sector, local governments and district administrations, and their role in working with the structural funds. The first three chapters of the report focus on key aspects of how prepared are the three groups of local development actors to participate in the structural funds – municipal and district governments, the business and non-governmental organisations. That sequence logically follows the roles that these three groups will play in the utilisation of EU funds. The fourth chapter looks at partnership as the shortest way to development. It presents examples of good practices of several EU member states in improving capacity and highlights the cooperation experience between the three groups of local development participants. General conclusions are provided in the fifth chapter along with recommendations on how to strengthen the capacity of local development actors to participate in the operation of structural funds.

^{vi} Eurostat, 2005.

^{vii} According to a report by the Open Society Foundation, the potential benefits of Roma inclusion currently amount in the range of BGN 30 billion, which is roughly equal to the overall amount of funds Bulgaria is expected to receive from the European Union (considering inflation).

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INTRODUCTION

Until now in Bulgaria we used to speak about the European Union in the future tense. The time has come to start using the present.

And if until recently we were asking ourselves what remains to be done in the months before accession, we must now rephrase the question to what we should do as a member state. Because preparation for Bulgaria's membership in the EU is a process. It does not stop and will not stop on 1 January 2007.

Being well aware that national efforts must continue in the coming years even more purposefully, with a clearer focus and more effectively, UNDP – Bulgaria gives an answer to one of the key questions surrounding Bulgaria's membership in the European Union. The National Human Development Report for 2006 asks: "Are we prepared for the EU Structural Funds?" and gives the answer from the perspective of the local development actors.

Access to massive financial resources provided by EU funds to less developed countries and regions is one of the most desirable benefits of accession. Expectations in Bulgaria and Romania are running high. Money from the structural funds (SF) is likely to be the largest development assistance resource. At least in the near future public policies in these countries (dealing with regional development, agriculture and social issues) will be largely determined by SF requirements and the capabilities for their effective and efficient utilisation.

Massive financial assistance from EU funds is at the same time a major challenge. The scope and pace of development dynamics and ultimately changes in quality of life, will largely depend on Bulgaria's capacity to optimally

benefit from that assistance. Therefore the use of structural funds involves certain risks. The first risk is that the money will not be spent. The second risk is that it will be spent ineffectively – that the financed actions will fail to produce the intended outcome. It is possible that EU money will 'go down the drain', that its use will be 'distorted' through unreasonable and indiscriminate 'handouts.' There is more. Issues of structural funds are always intensely 'political' and may incite conflicts between stakeholders.

In order to minimise risks in the use of EU funds, and if Bulgarian society is to have tangible benefits from the funds, national capacity is required (see Box 1). SF absorption capacity is often associated solely or mainly with the capacities of the central government and a lot has been done over recent years to increase that capacity. At stake are, however, the capacities of all actors involved in the formulation and implementation of development policies and programmes. An important starting point for development of national capacity is to be aware of current levels of SF absorption capabilities and of the main weaknesses and deficits which must be addressed. That is important in order to avoid risks coming from unrealistic expectations about the capacity of local development actors.

This report outlines the current status of the capacity of local development actors – municipal and district governments, non-governmental organisations and the business (see Box 2), to take part in the use of structural funds. Based on that, it provides recommendations on how to address established deficiencies and issues. Because EU funds must not simply be spent – they should make the necessary impact on economic development and hence on human development.

Bulgaria's NHDR – its wider significance

This National Human Development Report, the 10th for Bulgaria, is of special significance for several reasons. It comes on the eve of Bulgaria joining the EU and thus raises many issues of concern before the important changes that membership will bring. Hopefully the new opportunities will far outweigh the costs. But to achieve this, as this report argues, Bulgaria will need to take active measures to create the conditions for more and stronger partnerships, and to build much more capacity among local governments, NGOs and private businesses. Otherwise the opportunities from EU membership will not translate into human development. The analysis and the recommendations which follow deserve to be read widely, within Bulgaria but also outside, especially by persons within the Commission and within other governments dealing with issues of accession.

A second reason for the significance of this report is that it serves as an example of the human development approach applied to a new EU member state. There are too few such examples. In little more than a decade, the human development approach has swept the world – generating interest and headlines in every region and almost every country, rich and poor. Yet so far, the human development approach has been applied to countries in transition and to developing countries but hardly ever within the EU. This needs to be changed. People-centred development – the human development approach

– is of universal applicability and importance. Europe as a whole needs to apply the approach, to consider the questions it will raise about existing patterns of development and the prospects for the future if such patterns continue unchanged. This report on Bulgaria can hopefully serve as a challenge for further reports on other countries.

A third reason of significance relates to the support for development which Europe itself provides for its poorer regions through its structural and cohesion funds, from which Bulgaria will soon be benefiting. A little known fact is that the total of such transfers *within* Europe, as a percentage of total European GNP, is about the same as Europe's programmes of development assistance to developing countries *beyond* Europe. Yet in many respects, the intra-European transfers have shown more success than its aid programmes beyond. Why is this? What lessons can be learned from the system of transfers within Europe – the form and nature of the support provided and the processes of negotiation, planning, monitoring, reporting and evaluation. There are many such lessons to be learnt, as indeed there were from the positive experience of the Marshall Plan more than fifty years ago. Bulgaria's own experience, past and future, could help the challenge of learning these lessons.

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Box 1

HOW WE DEFINE "CAPACITY"

SF utilisation capacity is defined as the extent to which a member state is able to spend its allocations from the funds in an effective and efficient manner. In a national context this capacity has three main dimensions: macroeconomic situation (development capacity), financial and administrative capacity. Financial capacity is the country's capability to co-finance programmes and projects supported by the EU. Administrative capacity is the capability of central and local governments to prepare appropriate plans, programmes and projects, to organise coordination between the key partners, and to finance and oversee implementation by preventing irregularities. Administrative capacity involves three main elements: structures, human resources, and systems and instruments.

Several aspects of capacity are relevant to individual organisations: the legal aspect – does the local development actor have the right and/or obligation to implement the respective activities; the technical aspect – is the actor capable of implementing the activities related to use of funds (depending on structures, human resources, previous experience, etc.); and the financial aspect – can the actor finance the activities related to use of funds.

As far as the individual participants in the process are concerned (the people), capacity can be viewed as a combination of knowledge (information and understanding), skills (the ability to apply what you know), attitudes (disposition) and confidence (in one's abilities).

The report's background

The process of Bulgaria's preparation to use EU funds started back in 1998-1999. For a long time emphasis focused on the national level (the central government). In 2003, however, the Regular Report of the European Commission on Bulgaria's progress to accession placed on the political agenda the need to enhance the capacity of local and regional development actors.

That prompted the United Nations Development Programme to run a series of surveys concerned with the capacity of local development actors. They naturally followed up on the theme of local and regional development, which was central to all National Human Development Reports published between 1999 and 2003.

In 2004 UNDP and the Ministry of Regional Development and Public Works initiated an assessment report on municipal and district capacities to participate in the use of structural funds. In 2005 that report was used in the development of parts of SF operational programmes.

This Human Development Report is based on three expert surveys conducted in 2006 and commissioned by UNDP – Bulgaria:

- Assessment of Municipal and District Capacities for Participation in EU Structural and Cohesion Funds Absorption¹;
- Assessment of the Capacity of Non-governmental Organisations and Businesses to Participate in the Absorption of the EU Structural and Cohesion Funds²;
- Partnerships in Structural and Cohesion Funds Planning and Absorption: A comparative Review of the Practices of Selected EU Member States and Lessons Learned for Bulgaria³.

Municipalities and districts

The survey aimed to provide current data about municipal and district capacities and based on findings to propose

recommendations to address identified issues and deficiencies. The survey was a follow-up to the report 'Assessment of Municipal and District Capacities for Participation in EU Structural and Cohesion Funds Absorption' prepared in 2004. The survey used self-completed standard questionnaires which were distributed in mid-April 2006 to all municipal and district governments. The survey questions to municipalities and districts can be summarised as follows:

- Are they sufficiently informed about the structural funds (and from what sources), do they understand SF goals and requirements?
- Have they set up the necessary structures and organisational preconditions to participate in the utilisation of structural funds?
- Do they have the necessary resources and do they think that they need to invest resources (money and efforts) in order to attract structural funds?
- Do they have the necessary experience to participate in planning processes? (The capability to formulate plans and to participate in programming is one of the critical aspects of capacity to use structural funds. Plans and programmes provide the general strategic and operational framework for project design and implementation.)
- Do they have the necessary experience to participate in project implementation? (Experience with project design and implementation is an important objective indicator to assess SF participation capacity. The EU pre-accession instruments are particularly relevant as they were designed to serve not only as an instrument to address development issues, but also as a preparation tool for using structural funds.)
- Can they work in partnership with other levels of public administration, the non-governmental sector and the business? Can they engage in partnerships between municipalities and districts? (The ability to apply the partnership principle is an indication of national capacity to effectively use EU fund assistance.)
- Which of these aspects reveal the greatest deficiencies and development needs? What constrains capacity, what needs to be done and who can do it?

The survey was representative. The questions were answered by all district governments and 243 municipalities (92 per cent). The questionnaires were completed

¹ Marinov, Garnizov: Sofia, July 2006, <http://www.undp.bg/publications.php?id=1670>.

² Marinov, Garnizov, Georgiev: Sofia, April 2006, <http://www.undp.bg/publications.php?id=1766>.

³ Marinov, Malhasyan: Sofia, April 2006, <http://www.undp.bg/publications.php?id=1606>.

by competent officials or executives and the answers were approved by the mayors or, respectively, district governors. A smaller part of the information was collected through other sources (population numbers, municipal revenues, government staff numbers, etc.).

Non-governmental organisations and the business

The survey aimed to assess the capabilities of the non-governmental sector and the business to participate in the planning and utilisation of EU structural funds and to formulate recommendations in order to increase their capacity. Emphasis was placed on local and regional non-governmental organisations and businesses, considering indications of deficiencies in their capacity and partnership with the public sector. (It is important to note that the group of NGOs involved nationally representative organisations of employers and unions, organisations of agricultural producers, craft makers, etc.).

The survey was based on self-completed questionnaires which were distributed in October 2005. It was preceded by four group discussions involving more than 50 representatives of the two sectors. Two discussions were held in Sofia with representatives of 'national development actors' (national NGOs, employers' organisations and trade unions, business associations, large companies, and experts). The other two groups met in Stara Zagora and brought together representatives of 'local' and 'regional' development actors (NGOs, enterprises).

The survey questions were identical with those for municipalities and districts. The NGOs and the business were asked several additional questions:

- Do they want to participate in the planning and use of funds?
- What are their motives and in what role would they like to participate?
- Can they be, and do they want to be partners to the public administration?

Questionnaires were returned by 419 non-governmental organisations and 474 enterprises. The sample was quota-based. It was not representative and was deliberately slanted in two aspects, giving preference to: (i) the regional and the local level (particularly with regard to

NGOs) insofar as it was targeted at potential partners to regional and local governments; and (ii) organisations and companies that were assumed to be more likely to participate in the use of structural funds due to their size, type and scope of activity (larger organisations were more strongly represented in both groups). That said, the emerging picture is probably more positive than the reality.

The capacities of municipalities, districts, the business and NGOs were analysed on the basis of information provided by the surveyed organisations; as such, it was often subjective and may have been distorted. That does not imply the information was false. Through their answers the district governments and municipalities, the NGOs and the business are sending messages that must be taken into account when formulating policies for their SF participation and capacity development.

Partnerships: a comparative analysis

By studying the experience and practices of several EU member states, the survey aimed to provide a critical mass of information that will make it possible to draw out lessons for Bulgaria and to identify relevant practices that could be put to work in this country.

The comparative analysis was based on national reports for four member states (Ireland, Portugal, Poland and the Czech Republic) drawn up between March and September 2005 by national experts. The reports review partnership in SF planning and utilisation and identify 'best practices.' Parallel to that, the Foundation for Local Government Reform developed a report on partnership practices in Bulgaria.

The surveyed countries were selected deliberately because according to certain indicators (size, level of development and type of EU fund assistance) they are similar to Bulgaria. A balance was ensured between old and new member states.

The comparative analysis was based exclusively on the information contained in the national reports. It sought answers to the following questions:

- What are the similarities and what are the differences

es (the issue, the way it was approached, specific decisions made)?

- What are the 'permanent ingredients' (characteristics that can be observed in all or most countries)?
- What general conclusions (lessons learnt) can be drawn? What are the success factors and reasons for failure?
- Which model (as a whole) appears to be most suitable for Bulgaria? Why?

Centre-stage focus is given to local and regional partnerships and especially deficiencies in Bulgaria identified in the UNDP assessment of municipal and district capacities. That special focus is made necessary by significant internal development disparities (not so much between planning regions but within regions) and by greater challenges in planning and use of structural funds at the regional level (due to large numbers of development actors involved and their more limited capacity, combined with a legacy of centralising tendencies in Bulgarian public policies).

Undoubtedly, there were changes between the time when information was collected for the surveys discussed above and the time when this report was being written. The main tendencies and conclusions, however, hold true because the surveys 'measure' parameters that are slow to change.

EU cohesion policies at a glance

The Structural Funds and the Cohesion Fund are the main financial instruments of EU economic and social cohesion policies (see Box 2). The cohesion policies of the European Union are among the brightest manifestations of solidarity between member states. A portion of the contributions made by members to the Community budget is directed to less prosperous regions and social groups. That approach helps not only the beneficiary countries but also the largest contributors to the Community budget, because their enterprises profit from large-scale investment opportunities and transfer of economic and technology know-how, especially in regions where diversification of economic activities is not yet developed. EU regional policies help all regions so that the entire Community may become more competitive.

An important change in the architecture of EU cohesion policies is that the European Agriculture and Rural Development Fund is leaving the 'family' of structural funds. For the purposes of the report, however, the change is not significant because the approaches, rules and interventions as well as the actors are similar. The conclusions are valid for all EU financial instruments. For considerations of simplicity, the general term used in the report is 'structural funds' (or 'EU funds').

No indiscriminate spending: enhancing competitiveness. Cohesion policies do not redistribute wealth – they enhance competitiveness so that the regions (countries) can fare better on their own. The cohesion instruments only fund actions in areas of national public spending. This is important in order to dispel ideas that the structural funds will massively finance projects, even less so projects that have no direct relevance to the general economic policy of the country.

The experience of member states indicates that cohesion policies do have an impact on development by increasing the physical, financial, human, social and environmental capital of supported countries and regions. Yet the benefits are not only economic. One of the good examples is the partnership principle, which in many countries would not have materialised without the structural funds. The structural funds have a strong influence on national public policies. The key reason is the scope of assistance (see Box 3). In the so-called cohesion countries — and Bulgaria is one of them — assistance from the structural funds will account for 25 to 70 per cent of total investment budgets for the eligible areas.

Not simply absorption: effective and efficient use. Recently attention increasingly goes to make sure not only that the money is being 'properly' spent, but also that implemented actions match the interests of stakeholders and those affected by the actions. The question then is how to create the necessary conditions not simply for absorption (spending of funds within the fixed timeframe and according to formal rules and requirements), but for effective and efficient use of EU funds for the goals of growth and convergence.

In the case of Bulgaria the main issues for effective and efficient use of structural funds stem from unrealistic

THE STRUCTURAL FUNDS

The structural funds are the main financial instrument for implementation of EU cohesion policies. This general term covers several different funds which were set up at different times and for different purposes, but with the common goal to support poorer regions in the EU. Although the report concerns the scope of structural funds until 2006, including community initiatives such as Leader, Urban, etc., the forthcoming changes in the next 7-year period are not significant for the purposes of the report: the approaches, rules and interventions as well as the participants are similar, so the conclusions will remain valid.

For the period 2007-2013 the European Agriculture and Rural Development Fund and the European Fisheries Fund will be removed from the system of structural funds and will become part of the Common Agricultural Policy (CAP). The instruments of cohesion policy will encompass only the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF). Cohesion policy allocations amount to EUR 307.6 billion, representing 35.7 per cent of the EU budget, and focus on a limited set of priority objectives that reinforce the goals stated in the Lisbon and Gothenburg strategies:

- Objective 1: Convergence – support for growth and generation of employment in the least developed member states and regions (having per capita GDP less than 75 per cent of EU average; regions affected by the statistical effects of enlargement; and countries having per capita GNI under 90 per cent). Allocation: 81.7 per cent of cohesion policy funds.
- Objective 2: Regional competitiveness and employment – support for regeneration and economic development of industrial, urban and rural regions and for implementation of the European Employment Strategy (member states and regions not eligible under Objective 1). Allocation: 15.8 per cent.
- Objective 3: European territorial cooperation – promotion of cross-border, interregional and transnational cooperation. Allocation: 2.5 per cent.

Distribution of allocations between countries is based on objective criteria such as population numbers, national and regional prosperity, unemployment levels, and severity of structural problems. The maximum rate of assistance is calculated as a percentage of GDP and includes the structural and cohesion funds as well as the rural development fund.

expectations of the key development actors, lack of absorption capacity, territorial disparities, and lack of co-ordination, communication and transparency. These barriers can and must be surmounted. That is a major challenge for the Bulgarian society and the government. The purpose of the Human Development Report is to help attain that goal.

programme actions and to achieve intended outcomes. Two communities of participants can be discerned depending on who is involved and how they take part in the process (see Chart 1):

- The programme management community, or in short the programming community;
- The development community of potential project applicants.

THE SCOPE OF ASSISTANCE

As a member state, Bulgaria will fall under two of the new cohesion policy objectives: convergence and European territorial cooperation. The expected allocations for the period 2007-2013 exceed EUR 6 billion from the structural and cohesion funds plus EUR 2.3 billion in rural development funds (CAP). According to indicative financial allocations in the National Strategic Reference Framework, around EUR 3.165 billion is expected to come from the European Regional Development Fund, EUR 1.233 billion from the European Social Fund, and EUR 2.283 billion from the Cohesion Fund.

Source: National Strategic Reference Framework, draft of 14 September 2006, www.eufundsbg.

Work with the structural funds: who are the participants?

Resources from the funds are provided to the member states on the basis of programmes, whose implementation involves funding of projects that aim to carry out

The main tasks of the programming community are to design programme documents, to negotiate and agree these documents with the EU (which also involves securing national and external resources for implementation of priorities set out during programming), and finally to manage programme implementation. The actual implementation of planned actions, however, is carried out by the development community, whose aim is to gain access to resources through the operational programmes. The development community involves public, private and non-governmental actors (municipalities and associations of municipalities, development agencies, business associations, other non-governmental organisations, or individual companies). They need to actively develop and support the development of projects, which are the ultimate point of 'intake' of struc-

tural funds and energise local development initiative. The development community is engaged in consultation processes during programming (the elaboration of various planning documents, especially at the local level, may be seen as part of this process).

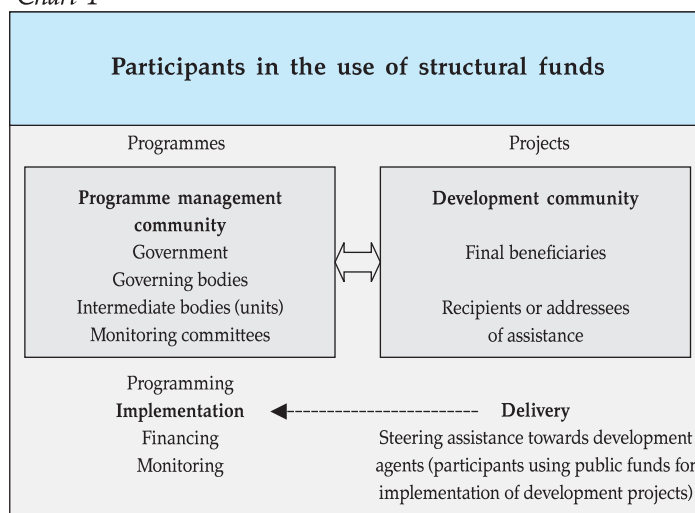
Both communities are equally important. They are like 'communicating vessels.' EU funds cannot be obtained without a strong programming community, respectively without appropriate programmes, structures and implementation systems in place. At the same time if programmes fail to address real needs and priorities, they are bound to have a limited impact. If there is no development community that has the necessary capacity, there is a serious risk that the available resources may not be put to use. We cannot rule out a situation where there is 'supply' (resources coming in the form of programmes) but no 'demand' (project proposals that are relevant, feasible, compliant with requirements and ready to go). There is a risk that there could be more money than projects. This scenario is particularly valid when the potential beneficiaries are outside the central government (self-governing bodies like the municipalities, non-governmental organisations, or private entrepreneurs). Government bodies cannot 'force' these actors to propose suitable projects if they are unwilling or incapable to do so.

Another risk is to perpetuate the vicious circle of low capacity. The report argues that support should be most urgently provided to development actors and communities that have limited capacity. Otherwise there will be a huge risk of bending the meaning of cohesion policies – those most in need usually have the least developed capacity, which limits their access to resources. Lack of resources in turn defeats their chances to catch up with stronger runners.

How to minimise these risks? By purposefully enhancing the capacity of respective development actors to work with the structural funds. The current capacities of both the programming community and the development community raise concerns. The May 2006 monitoring report of the European Commission noted that although the Bulgarian government has developed drafts of all programme documents required, some of them

lack focus and a strategic vision, which will impede co-ordination of implementation. Concern is being expressed about development of ready-to-start project proposals under the structural and cohesion funds.⁴ The EC report from September 2006 stressed that Bulgaria risks not to have a sufficient pipeline of projects at the time of accession and hence may not be able to fully absorb its structural fund allocations.

Chart 1



Box 4

HIGHLIGHTS FROM THE EUROPEAN COMMISSION REPORT, SEPTEMBER 2006

"Programming is progressing as scheduled. However, more progress is needed with regard to the establishment of an adequate pipeline of well-prepared projects. Bulgaria risks not having prepared enough projects upon accession and may hence not be in a position to fully absorb its financial allocation under the Structural Funds."

"In the area of monitoring and evaluation, good progress has been achieved with the completion of the basic pilot system for the Management and Information System. Initial training has started and a comprehensive training programme for all end users has been elaborated. Evaluation units have been established in a number of managing authorities. Nevertheless, capacity building at all levels will need to be reinforced to insure the full absorption of EU funds while respecting the *acquis*. Moreover, project selection procedures and implementation will need close attention."

"The Commission may apply safeguard measures in relation to the EU funds, including financial corrections. Any shortcomings on the proper use of EU funds may delay the disbursement of funds or allow the Commission to claim financial corrections (i.e. reduction on future payments) or to recover payments."

Source: Monitoring report on the state of preparedness for EU membership of Bulgaria and Romania, Commission of the European Communities, Brussels, 26 September 2006.

⁴ Bulgaria. May 2006 Monitoring Report; Brussels, 16.05.2006, p. 31.

The report also noted that despite progress in institutional organisation, capacity at all levels needs to be strengthened to ensure effective utilisation of structural funds (see Box 4).

All these arguments corroborate the need to invest not only in capacity enhancements for SF programme governing bodies or intermediate units. Adequate attention is also needed to increase the capacity of the development community, of the real actors of development. Their capacity cannot be enhanced unless it is first explored. This Human Development Report is taking steps in that direction. It looks at the motivation, willingness and preferable (and sometimes conflicting) ways for SF participation shared by real development actors; it makes an assessment of their capacity, draws a summary of key issues and deficiencies, and offers recommendations to address them. The report speaks in detail about partnership (see Box 5), which is seen as an essential dimension of national capacity to effectively use EU fund assistance.

The impact of partnership

The partnership principle renders higher efficiency, transparency and accountability. That creates a new outlook for the public administration by increasing the citizens' trust in the institutions, and brings the quality of the relations between them to a whole new level. Relations of partnership between the government and the citizens are a fundamental building block of good governance and a necessary condition for attaining a 'development impact.'

Applying the partnership principle is in itself a mechanism to increase capacity for use of national resources. Absorption of enormous allocations from the structural funds would not be possible unless a broad range of local and regional partners – the entire development community, mobilise their efforts to design and submit a large number of top quality projects. In a market economy financial resources are concentrated primarily in the private sector. Robust local and regional partnerships with the private sector open the way for private match financing, which provides additional resources for local and regional projects and drives up overall national co-financing capacity.

The role of real development actors

Municipalities and district governments

Municipalities and district governments are key actors of the development community at the regional and local levels. That municipalities belong to the development community is unquestionable. They are the basic territorial unit of local self-governance and the single autonomous subnational development agent in Bulgaria. In their self-government functions the municipalities have a clearly defined independent realm of competencies, their own — even if limited — financial resources and a relative freedom to dispose with what they have. They are not only potential beneficiaries for a substantial share of EU funds, but also leading agents of development planning at the local level and participants in district and regional planning, as well as indirectly (through the National Association of Municipalities) in structural funds planning at the national level. Local governments, however, should not be always tempted to be the single beneficiaries or leading project partners. That will risk estranging the business and NGOs and will further shrink the less than abundant resources of local governments.

The positioning of district governments is not so clear and unambiguous. According to the Constitution of the Republic of Bulgaria, districts are the basic unit for implementation of regional policies. District governments are deconcentrated structures of the central government; they have no significant legal powers in public investment policies and even less financial resources to undertake public investment. They acted not infrequently as project beneficiaries, including under the pre-accession instruments, and attempts were made to include them within the management system of pre-accession instruments. The way in which the SF management system is taking shape, however, and the trends in the management and access to pre-accession funds over recent years have placed district governments more within the ranks of the development community. Their role is not so much that of beneficiaries (designing and implementing projects), but of initiators, facilitators and coordinators of the activities of other (local and regional) development actors and partnerships between them. That role is fully consistent with their responsibilities for district and regional development planning. Making

regionally-based projects possible is no less important than their direct design and implementation.

NGOs and the business

With some exceptions non-governmental organisations and the business are first and foremost members of the development community (see Box 5). In keeping with the partnership principle, NGOs are also represented in the programming community (as members of monitoring or steering committees). In principle, the business is not directly part of the programming community except when representative business organisations are involved, but it often takes part in planning and consultation processes, particularly at the local and regional levels. This is the place to emphasise the special role of the business in comparison to all other development actors – the business generates public wealth and is the real agent of economic development as a key element of human development. By participating in the structural funds, businesses are in the best position to help balance human development between different regions, districts and municipalities across the country, and to align Bulgaria with other EU member states. All other actors can be called ‘supporters of development’ that facilitate specific public benefits.

Money from the structural funds is provided mainly to public development actors for implementation of public policies. When the enterprises (and to a lesser extent NGOs) are beneficiaries and recipients of funds, they receive money because in this way public policies are put in action. The main beneficiaries (in terms of the bulk of funding), however, will be public actors at the national level rather than at the local level. Therefore a clear distinction needs to be made between: (a) development, where the leading role indisputably belongs to the business; and (b) public development policies, where by definition the leading actors are the public authorities and, in the field, local authorities.

The role of the non-governmental sector is to channel, monitor and use resources from the structural funds, not to manage them. Although some – and relatively few – organisations are directly involved in the work of the programming community, they very rarely take part in structural funds management and decision-making on

Box 5

TYPICAL ROLES OF THE DEVELOPMENT COMMUNITY

The typical roles of development community members include:

- a. participants (through consultations) in the programming and planning process;
- b. beneficiaries of assistance (projects for implementation of specific actions) – independently or in partnership with other organisations (public or private);
- c. contractors (sub-contractors) of project activities for other beneficiary organisations or activities directly assigned by programme management bodies;
- d. participants in consultations for projects of other organisations;
- e. providers of paid/free assistance to other organisations in project design and implementation or in programming and programme management, monitoring and evaluation;
- f. participants in programme monitoring through representative organisations.

specific use of funds, for instance which projects to fund or how to spread allocations across programme priorities. It seems that most NGOs find it difficult to accept that arrangement, and this has its reasons. When spending of public funds is at stake – be they national or from the EU, the responsibility for decisions rests with public authorities. When the partners directly contribute funds to the programme, they can play an active part in decision-making; in all other cases their role is only consultative. Those who ‘put in’ resources to the system have greater rights than those who are generally concerned with development.

The implication is not that the non-governmental sector and the business play only a marginal role. On the contrary. There is hardly a project where the business is not involved in one way or another – as a recipient of funds (beneficiary), a blanket or partial contractor under the project, a supplier of separate goods and services, a facility servicing financial streams (the banks), etc. The non-governmental organisations have the far from easy task to be a lead dog for the national agenda and a watchdog for proper use of public spending.

The non-governmental organisations and the business feel that EU accession and the structural funds harbour certain risks. The risks for the business are better known. They concern its ability to cope with competitive pressure in the EU market and to comply with new requirements and commitments (for instance, concerning the environment, working conditions, etc.). Risks for the

NGOs are associated primarily with their potentially restricted access to resources. Until now the pre-accession instruments (Phare in particular), community initiatives and bilateral donors extended substantial financial assistance for civil society development, which was used exclusively by non-governmental organisations. Unless some special approach is put in place, far fewer organisations will have access to resources under the structural funds modality and many organisations will be surprised and disappointed. The experience of the new member states (and similar trends are already to be seen in Bulgaria) shows that 'traditional' donors fall back upon accession. Furthermore, the new cohesion policy sets out to integrate community initiatives within the basic operational programmes, whilst project application and implementation procedures are estimated to be far more

demanding and requiring a high degree of 'organisational maturity.' If support to NGOs is not set out in advance in the programmes, they may be largely cut off from direct absorption of new resources, which may entail dramatic consequences.

The first step in order to broaden and improve the participation of civil society organisations and the business in the use of structural funds is for 'policy makers to be better aware of the potential of these groups to work with structural funds.'⁵ But, being aware of their potential will not be sufficient. Being aware of their actual capacity to participate is imperative to avoid risks in the absorption of structural funds. The Human Development Report gives a snapshot of that capacity together with suggestions how to fill the gaps.

⁵ Civil Society as Partners in EU Structural Funds, European Citizen Action Service, November 2004 (www.ecas.org), p. 4.

Chapter 1.

MUNICIPALITIES

AND DISTRICTS

1.1 Overview

By all accounts members of local governments should be among the most enthusiastic supporters of Bulgaria's quick accession to the European Union. Local governments will be one of those structures of governance that will gain substantial development opportunities and a much greater role. A no small amount of projected EU assistance of nearly EUR 12 billion for the period 2007-2013 will go directly to municipalities and will directly affect their citizens and the local business. While there should be no illusions that the municipalities will gain more power or direct access to the management of structural funds, local governments will be able to become a significant development player.

Districts will also have a chance to realize their potential and to participate more actively in national development, because they may become an effective coordination tool between municipalities – a role that until now they have rarely been given the opportunity to play.

The group of 265 municipalities and 28 districts may at first appear less numerous than businesses and non-governmental organisations, or they may appear too numerous for the span of Bulgaria's territory. If compared to many EU member states, Bulgarian municipalities are relatively large. They are strongly differentiated in terms of economic structure, development levels and living standards. For example, two-thirds of Bulgarian municipalities – 177 municipalities having not more than 20,000 inhabitants, account for less than one-third of local investment spending.⁶ The main division line runs between municipalities with population over (all district cities) and under 50,000 people, and the most problematic municipalities are those with less than 10,000 inhabitants. Regardless of their limited financial opportunities

and powers, municipalities make up between 16 and 20 per cent of national investment spending, which indicates their important role in national development.

Although on the level of planning regions the North-west and to a lesser extent the North Central planning regions appear to have multiple problems with respect

Box 6

DECENTRALISATION IN BULGARIA

Bulgaria is a relatively centralised country with two territorial levels of governance — municipalities (265 in 2005) exercising local self-governance and 28 districts which are deconcentrated administrative structures of the central government. There are also 6 planning regions comparable to NUTS II regions in the EU, which are not administrative territorial units and are used for the purposes of regional statistics, regional policies and planning.

The administrative territorial reform in Bulgaria may not be considered to be complete. A constitutional amendment will most probably be voted before the end of 2007 to intensify the process of decentralisation. Distinctions will be introduced for establishing the size of central and local taxes. The municipal councils will be assigned competences to determine the size of local taxes pursuant to conditions, procedure and limits established by law. The municipal councils will also choose the types and sizes of local fees from types of fees determined by the National Assembly.

The mismatch between decentralisation of powers and decentralisation of resources, which the amendment to the Constitution will seek to correct, is the prime issue for local governments. Despite 'visible' decentralisation, territorial governments are overdependent on central budget appropriations. It is doubtful that they are capable to effectively perform their broad competencies defined by law on such resources. Expectations about strong and immediate decentralisation in the management of structural funds with a prominent role for regional and local governments may involve additional risks. The experience of the Czech Republic and Poland shows that even when the local and regional governments have broad powers, their participation in the implementation and hence planning of public interventions is limited. Centralisation is not necessarily a bad approach to EU fund management, especially in the face of substantial development deficits on a national scale. What is important is to carefully balance the powers of local governments against the resources they get for implementation. At the same time measures to enhance capacity for utilisation of EU funds should not be used as an alibi for failure to deliver on long-standing intentions for decentralisation.

A long line of issues is pending with regard to the potential creation of a second tier of self-government. In 1995 the government drafted basic guidelines for administrative territorial reform, which envisaged transformation of districts into a second tier of self-government, but the reform did not take place due to the economic crisis of 1996-1997. In its governance programme of 2001 the government planned a broad public debate which failed to materialise. A similar objective was laid down in the decentralisation strategy and the government's programme in 2005.

⁶ Operational programme for regional development – Socio-economic analysis, 2005, p. 57.

to most of the criteria reviewed in this section. Smaller and larger municipalities have come closer on all indicators compared to 2004 and positive changes are more visible in smaller municipalities, but there are still substantial disparities.

1.2 Self-assessment of preparedness to participate in the use of structural funds

Instead of improving, the self-assessment of municipalities about their preparedness to participate in the structural funds, is lower now than it was two years ago. In 2006 only 26 per cent of local governments claimed to be fairly well prepared, down by 16 per cent compared to 2004. In the course of two years the proportion of municipalities which estimate they are ill-prepared has substantially increased from 2 to 15 per cent. Those who felt they were partially prepared accounted for 59 per cent. These ratings place the municipalities closer to the business and indicate considerable differences from the non-governmental sector.

Similar trends were observed for district governments, although variations against 2004 ratings were less explicit — 25 per cent of those interviewed said they were fairly prepared (down by 13 per cent); 64 per cent claimed

they were partially prepared (up by 26 per cent); and 11 per cent felt they were not prepared (down by 14 per cent).

The seeming paradox of growing self-criticism as preparedness improves is most likely the result of a better understanding what will be really needed in the EU, because of increasingly active measures to prepare municipal administrations, accumulation of experience and the dawning and wider realisation of the real challenges. The natural outcome is that fewer municipalities feel fairly well prepared. Data about objective growth of municipal capacities validate this interpretation. From this perspective negative trends in self-assessment of preparedness are in fact a positive sign, indicating transition from a wishful discourse about structural funds to real work.

Size continues to be a significant differentiating factor for SF preparedness, though with the proviso that smaller municipalities do not always view themselves as being less prepared. Municipalities with more than 50,000 inhabitants and especially those with more than 100,000 residents generally presented a more favourable outlook: 56 per cent said they were fairly prepared, 44 per cent were somewhat prepared, and none said they were not prepared. The situation was more adverse in municipalities with less than 50,000 people and especially communities under 10,000 people: 20 per cent were fairly well prepared and 64 per cent were somewhat prepared.

Divergence between objective improvements and subjective self-assessment may negatively affect the motivation of municipalities, but it is a safeguard against unrealistic expectations and will urge municipalities to undertake more vigorous and focused actions to get prepared for using the structural funds. The picture of preparedness looks different when the weight of objective criteria is considered, such as available specialists who are familiar with structural funds or the resources of municipalities to provide match financing (see Box 7).

Information is everything. Information has the highest impact on preparedness. Second in importance is whether there is a special person or structure in charge of SF preparations. The third most important factor is the size of the municipal administration, where the number of university graduates is not so essential. Short-

Box 7

AMONG THE MUNICIPALITIES THAT CLAIM TO BE RATHER PREPARED FOR SF ABSORPTION:

- 30 per cent have no project experience with pre-accession instruments and 8 per cent have no project experience altogether;
- 31 per cent are poorly informed about the structural funds;
- 34 per cent are capable of co-financing projects with no more than BGN 50,000 a year;
- 26 per cent are unable to pay for project development costs;
- only 3 per cent have not assigned responsibilities for EU funds, but for 19 per cent of municipalities those responsible are also in charge of other matters;
- 13 per cent have one single employee dealing with project design and implementation;
- 31 per cent have one single employee using English;
- 21 per cent have less than 40 per cent of staff members with university education;
- only 3 per cent do not have any trained employees, but 23 per cent of municipalities have only one or two trained staff members, and 21 per cent have no employees who were specifically trained about the structural funds.

age of information was ranked by municipalities as a bigger barrier than financial limits. That indicates the extent of informational deficits and also shows that municipalities have largely abandoned the habit of pointing to a lack of funds as the single excuse.

Properly qualified people are the critical factor.

The municipal administrations are generally small and that creates issues, especially where employees have lower or inappropriately geared education. The prevalent numbers of municipalities have from 31-50 staff members (30 per cent) to 51-70 employees (27 per cent), but 8 per cent of municipalities have less than 30 employees. The proportion of specialists with higher education is low and varies over a very broad range, from less than 20 per cent to over 80 per cent (see Chart 2). Staff shortage is most severe in the smallest municipalities, where work on projects is concentrated in a limited group of people, and specialists proficient in English are far too few.

The municipalities engage on average around 7 employees to work on projects, but one-third of municipalities have only one or two project staff.

The average number of English-speaking staff is 2.8 persons per municipality, or merely 3 per cent of all municipal employees. Comparisons with 2004, when the average figure was 2.6 people, or 3.5 per cent of all employees, reveal a relapse on this indicator.

Distribution of human resources is quite uneven across municipalities in terms of people trained over the past three years in essential areas related to SF utilisation, notably strategic planning and project development (see Chart 3). Municipal employees who were trained in these areas in the past three years account for 6 per cent, up by 0.7 percentage points compared to 2004. Smaller and medium-sized municipalities reported a higher increase (at 44 and 49 per cent respectively), but they are still more disadvantaged because, regardless of the higher proportion of people trained, they are constrained by 'critical mass' (very few people in absolute terms).

District governments are ahead of municipalities on a number of human resource indicators such as staff numbers, university graduates, project specialists, separate units dedicated to structural funds, etc.

Chart 2

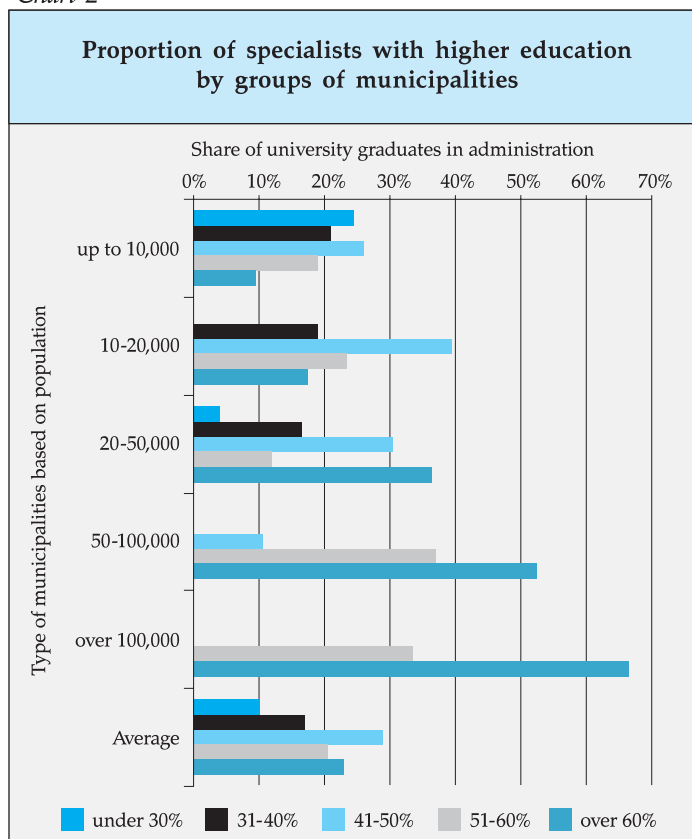
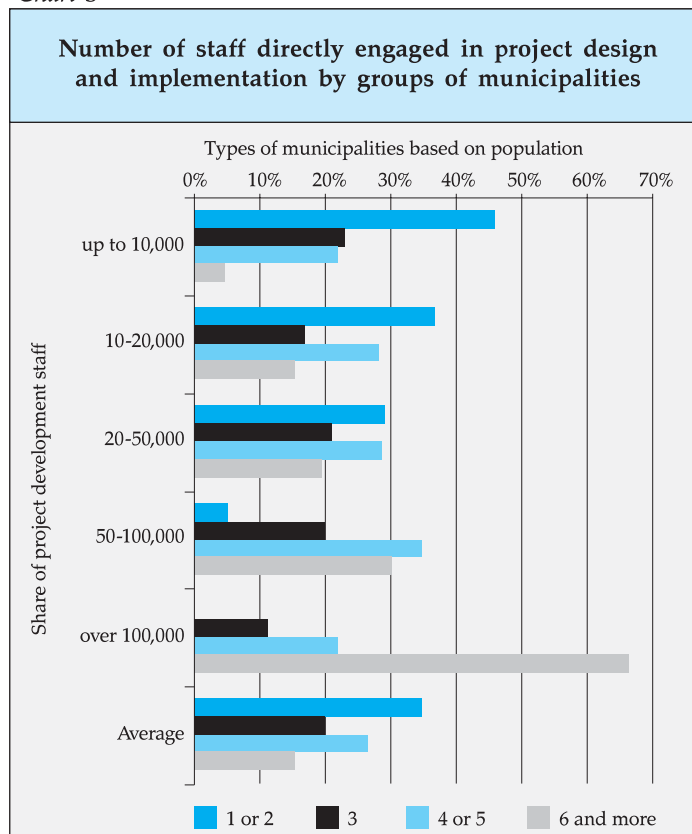


Chart 3



The issue of trained specialists is bound to become more and more critical because the margin between public and private sector salaries will remain quite significant and the drain of personnel will continue. That the number of English-speaking specialists is in fact diminishing instead of growing confirms that trend.

Officer in charge of EU funds: a rare bird. Significant positive changes have occurred in district governments after 2004 in terms of EU fund specialisation. More district governments now have special units (61 per cent) and fewer employees are engaged with additional tasks (25 per cent).

Changes in the municipalities are marginal, but **fewer municipalities do not have in place a unit or a person responsible for EU funds.** Of all municipalities, 38 per cent have a dedicated unit, 23 per cent have one employee with a single responsibility, 30 per cent have an assigned staff member combining multiple tasks, and 8 per cent do not have a separate unit for EU funds. Small municipalities almost never have a staff member responsible specifically for structural funds and in medium-sized municipalities the person responsible usually handles other functions as well. Not having an assigned employee largely cuts down the energy of municipalities to participate and to design projects.

Internet revolution. The municipalities report significant improvements in terms of technical resources and

are nearly catching up with district governments. Back in 2004, access to the Internet was not available to 17 per cent of municipalities and just 10 per cent had an Internet connection from one single workplace. In 2006 only 5 per cent of municipalities were not connected. The least technically equipped municipalities are located in the Northwest and the Northeast planning regions.

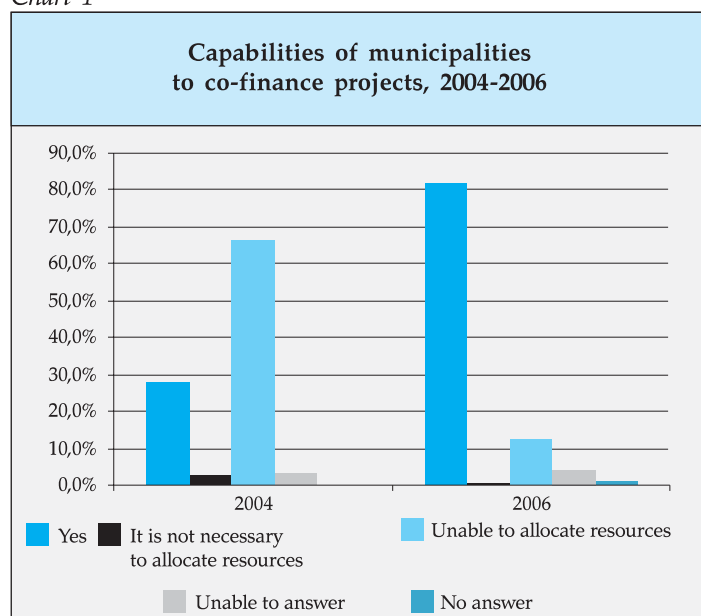
Willing to co-finance, but cash-strapped. The financial leverage of municipalities has not increased substantially over the past two years despite their expanded access to funds from the pre-accession instruments and greater capacity to attract external resources.

At the same time the self-assessment of municipalities about their project co-financing capabilities indicates significant improvements over 2004. **Two years ago less than 30 per cent said they were able to provide match financing, but in 2006 their number has grown to 80 per cent.** The most notable developments concern small municipalities, where the share of those who felt they could allocate co-financing has grown more than tenfold from 6 to 69 per cent (see Chart 4). Some strong disparities between municipalities still persist, but the question is not so much **whether** as **how much** they can provide.

Co-financing capabilities depend not only on objective factors and cash on hand, but also on attitudes and capacity to organise and plan resources. The amounts of funds that could be allocated for project match financing are largely contingent on the overall revenues of municipalities (see Box 10). The effect of limited financial resources available to municipalities should not be underestimated because it is a barrier for co-financing of mid-scale and large-scale projects.

Financial resources are concentrated in a limited number of municipalities in proportion to population numbers – municipalities with more than 20,000 inhabitants (33 per cent) accounted for three quarters of revenue. Municipalities over 50,000 people (12 per cent) made up 56 per cent of revenue and municipalities with more than 100,000 inhabitants (4 per cent) claimed nearly 40 per cent. That affects co-financing capacities (see Chart 4). Municipalities with less than 20,000 people, which are the home of 20 per cent of Bulgaria's population, have difficulties to provide match financing for any types of

Chart 4



projects except micro projects. Half of municipalities up to 50,000 people, which account for another 20 per cent of the population, share similar financial characteristics. Only larger municipalities with more than 50,000 people, which account for 60% of the populations, can now meet the co-financing requirements. The smaller municipalities where the need for EU funds is greater, will have major difficulties to provide match financing.

The proportion of municipalities that claimed they are able to finance project preparation and development has grown from 44 per cent in 2004 to 58 per cent; the numbers of those saying they cannot do it have fallen from 48 to 39 per cent.

Problematically, readiness to co-finance projects outstrips readiness to pay for project development costs (82 against 53 per cent). That paradox is consistently and more or less equally evident across all groups of municipalities and regions. A direct comparison shows that only 20 per cent of those that are unable to co-finance projects can allocate money to pay for project design, but the cost for that is unquestionably smaller.

Paying for project design is not an issue for the municipalities that believe they can put up over BGN 500,000 in co-financing (see Box 11). The challenge is most obvious for municipalities that believe they can provide only small sums for co-financing.

Unwillingness to pay for project development is a sign of profound misunderstanding of the way the EU system of pre-accession and structural funds works. Mayors quite often believe that their ideas should be automatically approved and most suggestions for joint participation and sharing of application costs get turned down, because they are perceived as a pointless waste of money or at least a 'risk' investment. When some project idea fails to get financing because it was not properly prepared, failure is blamed on external factors and there is sometimes even speculation about corruption.

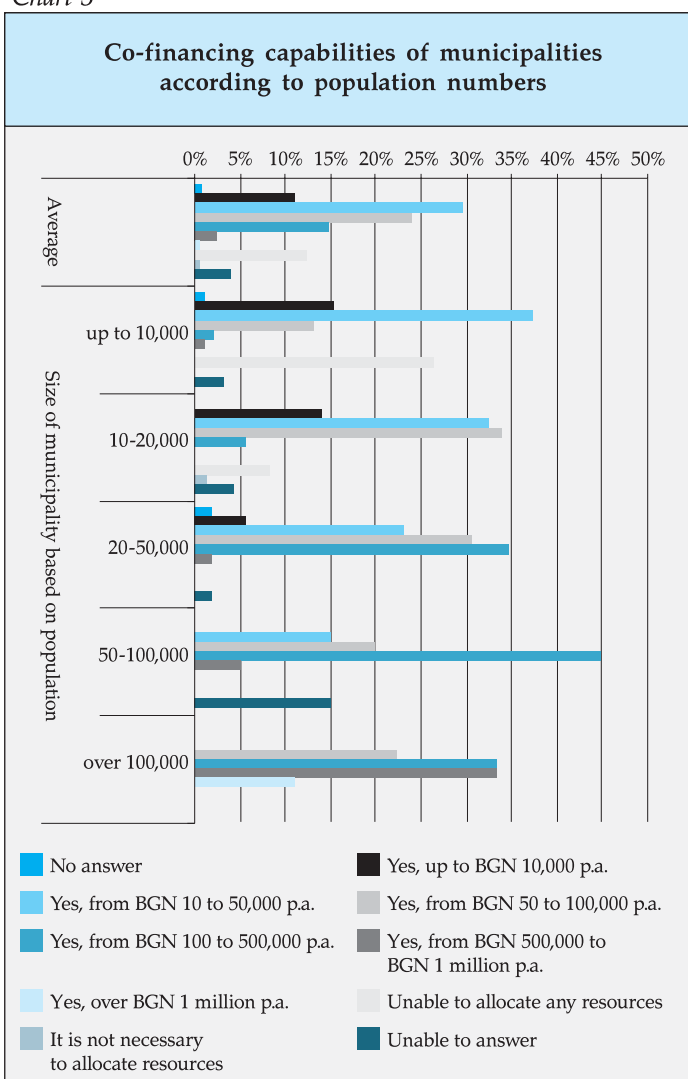
None of the district governments said they were able to allocate money for co-financing or project development under EU funds. This is yet another indication that despite the willingness of their leadership, district governments cannot have a more substantial and a different role (as beneficiaries).

Box 8

MATCHING FINANCE

- Nearly 45 per cent of municipalities whose revenue is up to BGN 2 million are not able to allocate money for co-financing. Within this group of small municipalities, 24 per cent can allocate up to BGN 10,000, and a further 24 per cent can allocated between BGN 10,000 and 50,000 for co-financing.
- 15 per cent of municipalities whose revenue is in the range of BGN 2-5 million (higher than the country average) are not able to set aside money for co-financing. In this group 41 per cent can allocate only between BGN 10,000 and 50,000 and 14 per cent can provide up to BGN 10,000.
- Municipalities with revenue from BGN 5 to 10 million are considering higher levels of co-financing: 37 per cent are willing to allocate BGN 50,000 to 100,000 per year, and 23 per cent are willing to provide from BGN 100,000 to 500,000.
- Half of municipalities with revenue of BGN 10-20 million would allocate from BGN 100,000 to 500,000 a year.

Chart 5

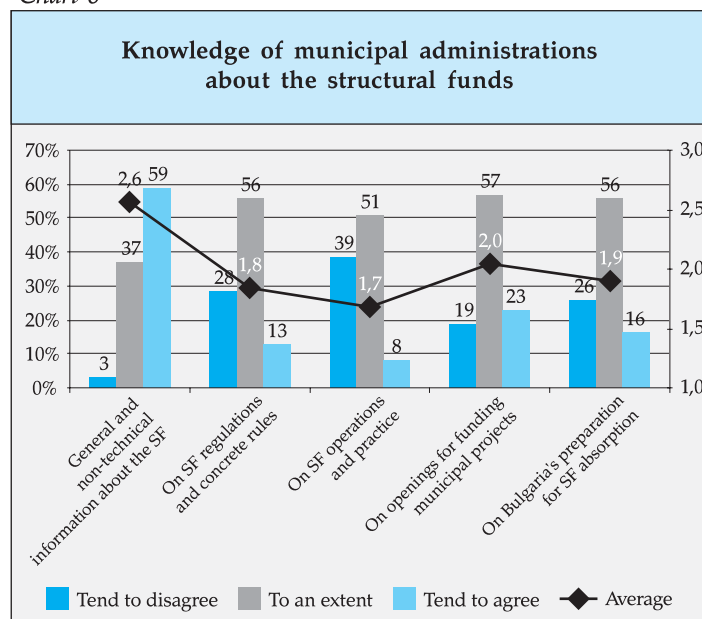


UNABLE TO ASSIGN FUNDS FOR PROJECT DEVELOPMENT ARE:

- 63 per cent of municipalities that are capable to allocate co-financing up to BGN 10,000.
- 44 per cent of municipalities whose co-financing capacity is from BGN 10,000 to 50,000.
- around 20 per cent of municipalities that can provide co-financing in the range of BGN 50,000-100,000 or BGN 100,000-500,000.

A wealth of information, a wealth of false assumptions. The awareness of municipalities (see Chart 6) and district governments about EU funds can be estimated to be satisfactory, at least in terms of the amounts of information available. District governments are slightly better informed than municipalities. Cities over 100,000 people are better informed than small municipalities. General and popular knowledge about the structural funds, however, prevails over information about funding opportunities for municipal projects, regulations and specific rules, and SF ways of operation and practice.

Chart 6



Despite their self-perception of being well informed, municipalities rarely are able to give an adequate response to the question how much money from the structural funds will be going directly to them. Among the interviewed municipal administrations, 38 per cent thought that the municipalities will be the main recipient of structural funds, 23 per cent expected to receive about half the money, and only 21 per cent pointed one-fifth of the overall assistance to be provided to Bul-

garia, which is closest to the real figure. That false assumption of where SF money will be directed in the future may be the result of wishful thinking, but to a greater extent it signals basic misunderstanding of SF structure and operations and inadequate communication from the central government.

In contrast to information about the future operation and use of structural funds, municipalities are quite well aware of current project funding opportunities. Overall, 77 per cent said they were sufficiently familiar with the Phare programme to be able to use it; 66 per cent pointed out SAPARD, 57 per cent indicated national funds and programmes, 33 per cent – ISPA, 28 per cent – other external sources (outside the EU), and 21 per cent identified other EU programmes. District governments reported similar ratings with slightly higher levels of familiarity with ISPA and EU programmes. All that indicates that practical knowledge comes only when programmes have started operation.

Similarly to EU funds, awareness of current sources of financing appears to lead to a concentration of knowledge – the same municipalities are better informed about various aspects of structural funds and are well aware of various available sources of financing. Those that are more familiar with pre-accession instruments and other current sources of financing are also better informed about structural funds.

Local governments rely on the central government.

When they need information, municipalities use most of all central government and ministry websites (87 per cent) along with seminars and other forms of attendance training (86 per cent). Far behind they rank officially circulated materials (54 per cent), websites of EU institutions (51 per cent) and direct contacts and correspondence with NGOs (34 per cent). The media rank at the bottom of the list.

Different approaches to information are determined by the size of municipalities. Those having more than 50,000 inhabitants give top priority to websites of European institutions, seminars and ministry websites. The smallest municipalities count a lot less on first-hand contacts and correspondence with officials from central agencies.

Compared to 2004, use of information from direct contacts and correspondence with central government officials has decreased several-fold. The same is true for regional structures of the central government and district governments. Reliance on officially circulated printed materials has also decreased. The use of electronic and printed media has remained almost unchanged, whereas using the Internet and seminar work has increased.

With some notable differences, district governments largely give the same ranking of information channels about EU funds. They rate seminars first and very frequently make use of websites of EU institutions. That is logical because by being deconcentrated bodies of the central government, they more often use contacts with central agency officials as a source of information.

Information: available, outdated, and incomprehensible. As regards information quality, municipalities give an average rating of 2.8 on a scale of five. Larger and better informed municipalities give higher grades to the available information. The most significant issues concern its being up-to-date, followed by information quantities and its being exhaustive. Accessibility of information proves to be a challenge, with only 13 per cent of those interviewed giving high ranks for that.

District governments are more critical with respect to information quality as well as more polarised: 32 per cent thought information was sufficient, 39 per cent felt it was up to date, and 21.5 per cent said it was easy to understand. That is the most noticeable difference as opposed to municipalities, which generally face greater difficulties with understanding.

Awareness levels about structural funds may turn into a serious risk, unless rapid improvements are made in the right direction with a focus on concrete, operationalised knowledge, which most municipalities feel to be missing, rather than the general information provided so far. The survey results indicate there is a close link between successful project implementation and familiarity with sources of financing. Successful project proposals by municipalities are associated with a good knowledge of the respective source of funding in about 90 per cent of cases for Phare and SAPARD and 75 per

cent for ISPA. The proportion is lower (60-70 per cent) for other EU programmes, other external sources as well as national programmes and funds, where — even though few in number — there have been successful projects based on very limited familiarity with the respective source of financing.

1.3. Experience in project design and implementation

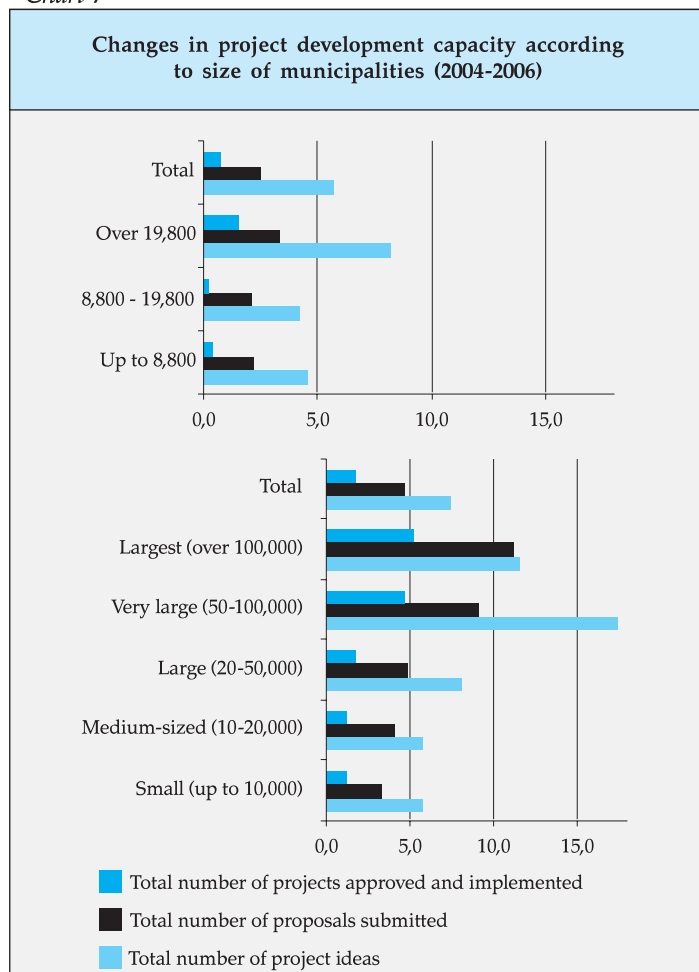
There are substantial improvements in project design and implementation experience, including a reduction of differences between municipalities and districts. Many issues persist, however, relating mostly to financial and technical resources, predominant experience outside the pre-accession instruments, a tendency to find faults in the outside environment, etc.

Significant project experience, but still not where it is most needed. Municipalities generally demonstrate considerable project experience and fast-growing experience with pre-accession instruments. Quality improvements can be seen in the process of project elaboration (more project ideas are developed into full-fledged proposals and more project proposals get approved). Differences between municipalities are slightly decreasing. The average numbers of approved projects under the pre-accession instruments have increased 2.5 times compared to 2004, while the number of municipalities with no pre-accession experience has halved (from 72 to 36 per cent). Rates in the increase of project approvals are higher for medium-sized (fivefold) and small (threefold) municipalities (see Chart 7).

Positive trends can be accounted for by the improving skills and experience of municipal staff, considerably greater 'supply' of projects to municipalities under the pre-accession instruments since 2004, through Phare and SAPARD in particular, and easier access for municipalities to these resources.

Although at first districts appear to have greater experience, the project record of district administrations is mainly outside the pre-accession instruments (94 per cent of their projects were funded from national sources). Their experience with pre-accession instruments is not only smaller compared to municipalities, but it also

Chart 7



stalled after 2004, one of the reasons being the limited project opportunities where districts were eligible applicants or partners.

The experience of municipalities and even to a greater extent districts is dominated by funding sources outside the pre-accession instruments because they are easier to access. The relatively small share of pre-accession projects over the past five years (less than 30 per cent for municipalities and a marginal 2 per cent for districts) implies that the transition from work with national and donor financing to structural funds will be quite difficult. In addition, some of the existing track record of project experience was built on small-scale projects (for instance, the so-called 'demonstration' projects of 2004-2005), whose scope, types of activities, complexity, and design and implementation requirements bear no comparison with projects under pre-accession programmes or the structural funds.

The vicious circle of low capacity. Project capacity continues to be concentrated in a limited group of actors. Three quarters of projects funded under pre-accession instruments were delivered by one-quarter of municipalities, and two-thirds of district governments have no project experience with pre-accession instruments. The most disadvantaged players in the process are small municipalities, of which 13 per cent have no project experience and half have no experience with pre-accession instruments. The experience of small and medium-sized municipalities was largely (around 50 per cent) made up through national sources of financing.

Over the past two years small and medium-sized municipalities have been gaining project experience with pre-accession instruments faster than larger municipalities. One of the reasons was that they were purposefully favoured by some sources of financing (SAPARD, the Social Investment Fund, etc.). Still differences have stayed largely the same, but are slightly modified: medium-sized and large municipalities have moved closer to one another, small and large municipalities are as far apart as they were before, and the gap between medium-sized and small municipalities is growing. Although it is shrinking, the risk of a 'vicious circle of low capacity' may not be considered to be eliminated.

Money, transparency, bureaucracy. The chief difficulties facing municipalities and districts in project design, application and implementation have to do with financial resources and requirements, the 'rules' resulting from the design and operation of funding programmes (complex and bureaucratic requirements and procedures, tight deadlines, paperwork jargon, etc.), and a transparent and fair process of evaluation (see further details in Box 12). These are common problems not only for districts and municipalities, but also for the other development actors (NGOs, the business) and those interviewed regarded them as objective and external factors that do not depend on one's preparation and knowledge.

An important trend is the growing relative weight of 'technical difficulties' in putting together project proposals with respect to the rules and ways of operation of funding programmes. That the evaluation process is not transparent (ranking second in importance) is an additional difficulty for municipalities because they can hardly make out where they were wrong.

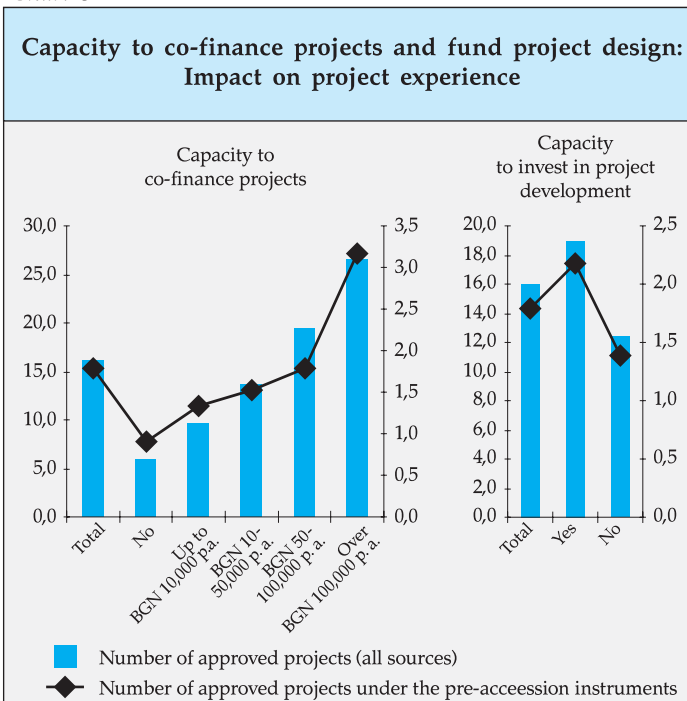
Financial shortfalls (respectively high financial requirements) are particularly troublesome because capabilities to provide co-financing and to invest in project development largely influence the success of projects. Data indicates that the critical line for considerable success is the ability to allocate annually over BGN 100,000 in co-financing, which only 18 per cent of municipalities deemed feasible, while district governments entirely ruled out the possibility to provide match financing (see Chart 8).

District governments point out quite different challenges compared to municipalities. Issues are generally related to their feeling that district administrations are in some degree excluded from participation in structural funds. Beyond that basic problem, the uppermost difficulties concern limited resources for project co-financing (96 per cent), limitations on districts' eligibility for relevant activities (75 per cent), lack of transparency in the evaluation process (50 per cent), lack of feasibility studies (46 per cent), substantial funds required for project development (32 per cent), complicated and bureaucratic requirements and procedures (29 per cent).

Problem areas involve tendencies to overestimate preparedness, to underrate own weaknesses despite limited capacity and experience, and to seek issues and reasons for failure exclusively on the 'outside.' That self-assessment of preparedness to use structural funds fails to connect with actual project design and implementation capacity is a sign that either preparedness is being overestimated, or that its true nature is not being realised. A telling illustration is that 30 per cent of those claiming to be 'fairly prepared' for the structural funds have no experience with projects under the pre-accession instruments and 8 per cent have no project experience whatsoever. At the same time most municipalities and districts do not see limitations of their own capacity as a major difficulty (only 18 per cent of municipalities and districts identified such concerns). Looking for reasons for failure only or exclusively in the outside environment makes it difficult to rationalise and change other causes.

Municipalities no longer want to be lonesome development runners. Virtually there are no municipalities that do not consult their projects with some stakeholder groups, and only 10 per cent of district gov-

Chart 8



ernments did not report such experience. The risk of 'centralising' consultations, which was noted in the survey of 2004, has in effect been suppressed. The pattern of consultations is changing, especially with respect to munic-

Box 10

PROJECT DIFFICULTIES ACCORDING TO SIZE OF MUNICIPALITIES:

- Financial difficulties are the leading preoccupation for small municipalities. Not only more of them point out issues with co-financing, but they also attach far greater weight to funds necessary for project development. At the same time lack of transparency in the evaluation process is far less important for these municipalities;
- Large municipalities (20,000 to 50,000 inhabitants) give less importance to funds required for co-financing and project development, but they assign greater weight than the average to short deadlines for submission of proposals. The most important factor for them is lack of transparency in evaluation.
- Very large municipalities (50,000 to 100,000 people) attach greater significance to lack of ready-to-use feasibility studies (ranking first at 80 per cent) and not objective project evaluation (placed in 4th position at 40 per cent). Less attention goes to project design resources (rated in 14th position at 5 per cent) and the fact that documents are drawn up in English (20 per cent).
- The largest municipalities (over 100,000 inhabitants) give precedence to short deadlines for submission of project proposals (heading the list at 67 per cent), intense competition for limited resources (ranking third at 44 per cent) and their being ineligible for unjustified reasons (5th place at 33 per cent). Match financing (5th place at 33 per cent) and project design costs (12th position at 11 per cent) are less significant.

ipalities – they confer less with central and district governments and involve more actively municipal councilors, non-governmental organisations and businesses.

More and more often interaction goes beyond consultations and expands into partnerships for joint projects, although that has not yet grown into a sustainable practice. While partnerships within municipalities are relatively widespread, partnerships between municipalities still seem to be limited (see Chart 9). Project partnerships continue to be an issue, specifically for small and medium-sized municipalities.

1.4. Experience gained through participation in planning and programming

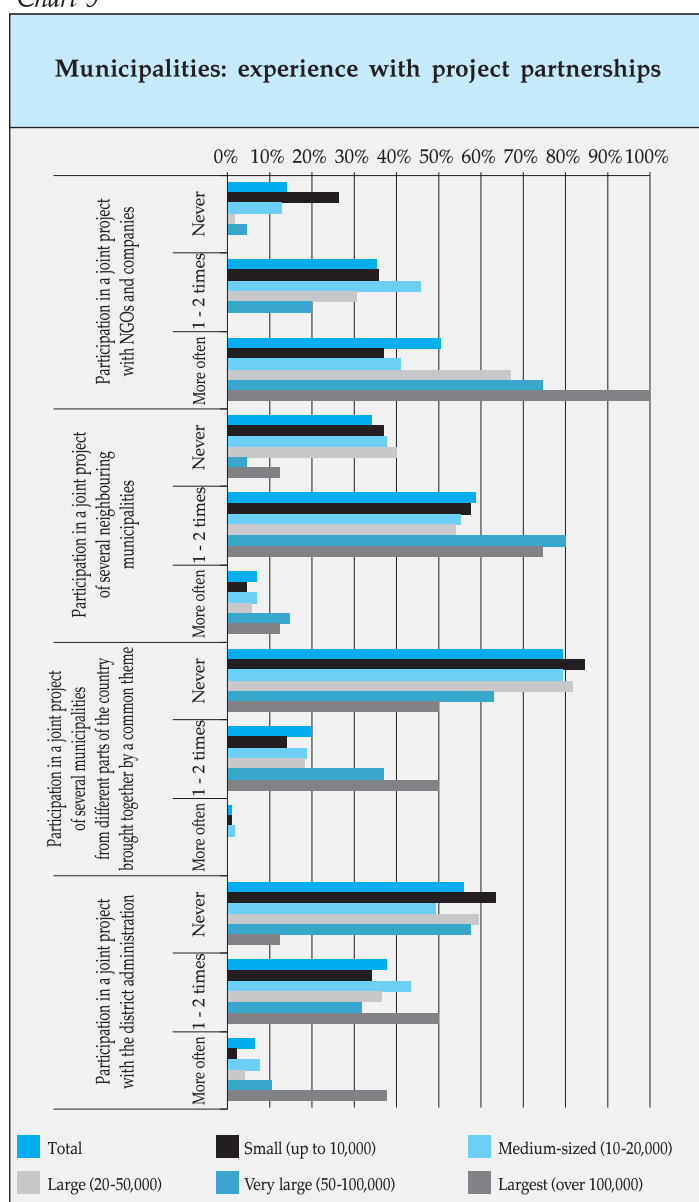
Strategic planning for better development. Both municipalities and districts demonstrate a positive and well grounded attitude with respect to their participation and role in development planning as well as their capacity to make adequate contributions to that process. The issue of the ‘passive attitude of local and regional actors,’ which was noted in previous surveys, seems to be largely overcome.

The better part of municipalities are convinced they have to participate in development planning at a supramunicipal level, because they can best present local needs and interests (94 per cent categorically agreed to that statement) and can contribute to finding the most acceptable solutions (85 per cent fully agreed). The argument that participation will ensure better access to financing ranked third (70 per cent fully agreed).

Most municipalities categorically denied the proposition that they are not sufficiently prepared to venture competent opinions. Some municipalities claimed that participation in planning is pointless because it is a token exercise and the opinion of municipalities does not count (11 per cent), or that planning at a supramunicipal level is entirely an obligation of the bodies of central government (9 per cent). The larger the municipalities are, the less frequent such statements are. Differences are most salient with respect to the token character of participation and disregard for the opinions of municipalities. Small municipalities tend to agree with that twice to three times more often than many of the larger and largest municipalities.

District governments share similar opinions. They believe their participation in planning is important because by doing so, they better express local needs and ensure better coordination between national and local interests as well as the interests of municipalities within the district. Most of them did not agree that supramunicipal planning is entirely a responsibility of the central government, that district administrations are not sufficiently prepared to venture competent opinions and that there is no point in developing district plans (strategies) because they remain on paper. Like municipalities, most

Chart 9



district governments are aware of planning costs.

Broad partnerships for better planning. A significant positive change compared to 2004 is that most districts and municipalities involve stakeholders in participatory planning processes. Participation of local non-governmental organisations and the business has substantially increased (by 21 percentage points in municipal planning and by 31 points in district planning see Chart 10). Participatory planning and stakeholder involvement is becoming the norm and indicates that a 'regional development community' is beginning to emerge in response to one of the deficiencies identified in 2004.

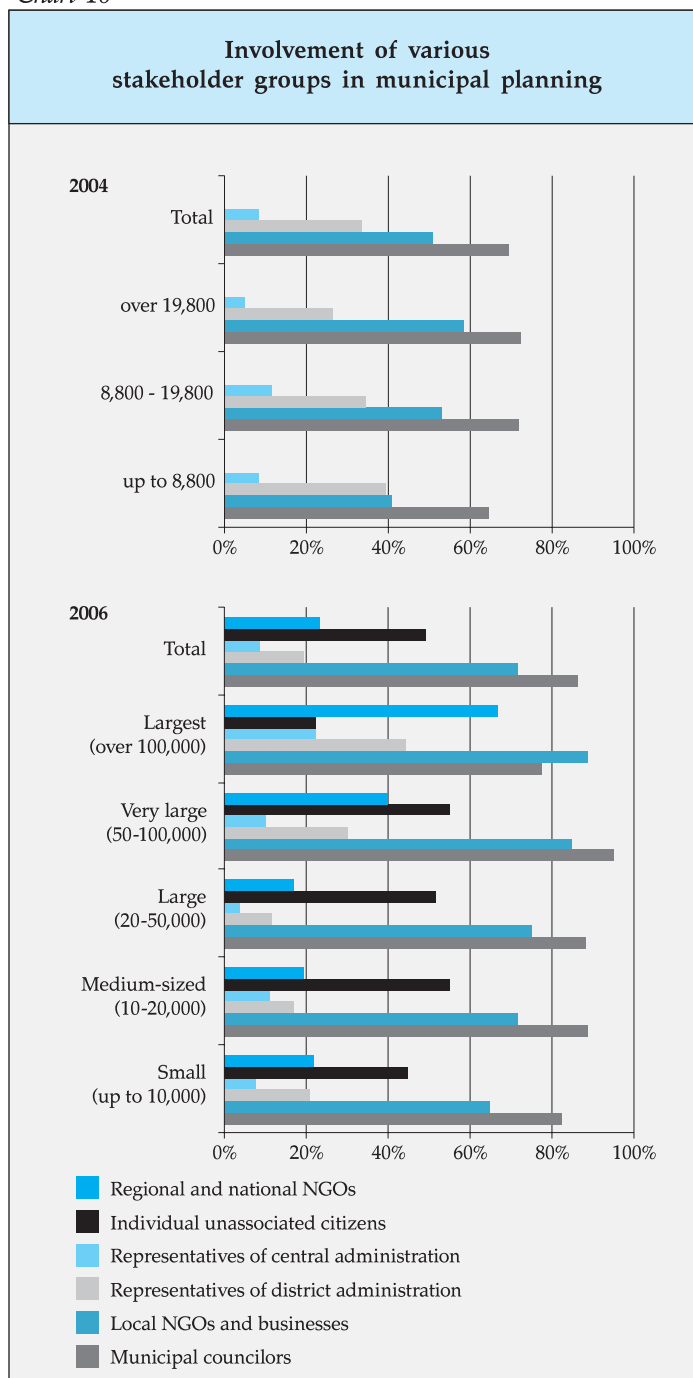
Another notable development is that municipalities (68 per cent in 2005-2006) have started to use more and more advisory assistance from non-governmental organisations and the business. The message is that local governments are beginning to break away from the desire to do everything single-handedly, which may prepare the ground for better collaboration with businesses in the future as a result of gained experience.

From planning to implementation. Feasibility of plans and strategies is a major risk. No significant changes have occurred in municipalities compared to 2004 and the situation in districts is even worse as growing numbers of districts (a tangible increase by 25 per cent) stated that in reality their strategies are not being implemented (see Chart 11).

Only half of municipalities and 36 per cent of districts declared that at least half of what was planned in 2000-2001 has been carried out. That seriously calls in question the feasibility of new planning documents and the risk is higher for small and medium-sized municipalities.

Large municipalities tend to achieve better implementation of what was planned. In addition to their size, capabilities to co-finance projects are quite important. Planned targets were halfway or fully met by 40 per cent of municipalities that are unable to provide co-financing compared to 63 per cent of municipalities that can allocate annually more than BGN 100,000 in match financing. Municipalities that use technical assistance showed better performance by 11 per cent.

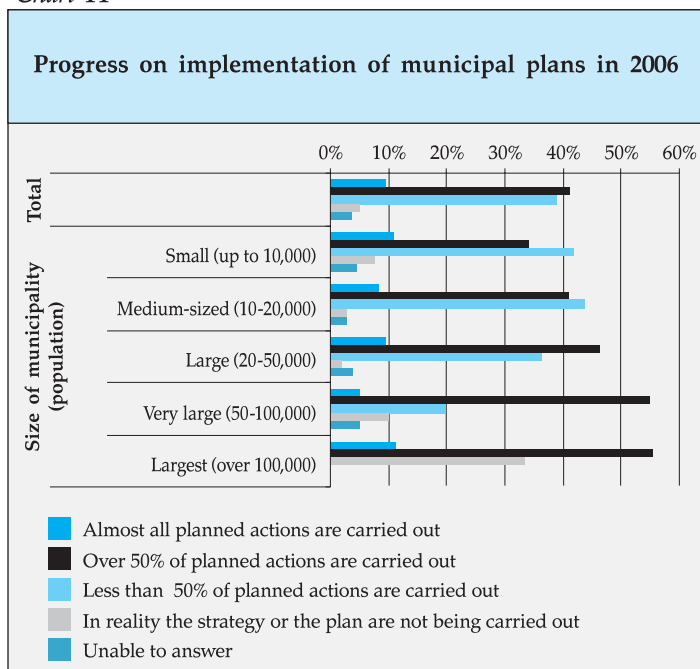
Chart 10



The report of 2004 emphasised a trend to regard plans as token documents rather than a tool which sets in motion public policies at the respective level. That trend should not be underestimated.

Although it is shrinking, the risk of a 'vicious circle' of involving stakeholders only to a limited degree still persists and entails consequences for the quality and implementation of plans as well as for access to resources.

Chart 11



Another possible risk is the emergence of a lasting ‘illusion of participation’ where planning is a token activity and is reduced to notification and approval of decisions already taken without real consultations or joint decision-making.

Planning experience does not reveal significant differences in the self-assessment of municipalities of how prepared they are to participate in structural funds. The

line of strongest difference concerns familiarity with planning and programme documents. **Planning capacity and experience is not seen as a critical factor in the self-assessment of preparedness to participate in structural funds.** Probably quite a few municipalities believe they are prepared and informed because they are familiar with planning and programme documents.

Municipalities and districts: expectations and plans run their separate ways. The assessment municipalities gave to regional development plans and national operational programmes is not high. Merely 20 per cent felt that the regional plans reflect the larger part of their opinions and suggestions. OP Regional Development is the single operational programme to get slightly higher marks than the average at 24 per cent, probably because local governments are more familiar with it (see Table 1). No significant differences emerged depending on the size or financial capacities of municipalities. Regionally based differences appeared, however, as the Northwest region received higher grades than the average (a positive rating of 31 per cent) and the South Central region gained lower marks (a positive rating of 12 per cent).

District governments offered higher ratings of regional development plans compared to municipalities – 61 per cent believed that the regional plans reflect the greater part of their opinions and suggestions and 64 per cent approved of OP Regional Development. Regionally based

Table 1 Familiarity with and assessment of planning and programme documents

	Municipalities			Districts		
	Average rating (1-3)	Positive rating, per cent	Unfamiliar or unable to say, per cent	Average rating (1-3)	Positive rating, per cent	Unfamiliar or unable to say, per cent
Municipal development plans				2.1	18%	4%
Regional development strategies	2.1	23%	9%			
Regional development plans	2.1	20%	11%	2.6	61%	0%
National planning documents (National Regional Development Strategy)				2.0	18%	4%
OP Regional development	2.2	24%	16%	2.6	64%	0%
OP Competitiveness	2.0	9%	37%	2.4	36%	25%
OP Environment	2.1	22%	22%	2.6	50%	21%
OP Transport	2.0	13%	33%	2.5	46%	25%
OP Human resource development	2.1	18%	28%	2.6	54%	14%
OP Administrative capacity	2.2	20%	26%	2.5	50%	7%
National development plan for agriculture and rural regions	2.0	18%	26%	2.6	43%	29%

assessments varied from the views of municipalities. Positions coincided only for the South Central region, which is least appreciated both by districts and municipalities. Only 18 per cent of district governments said that their views have been reflected in national planning documents.

District administrations gave noticeably higher ratings to the operational programmes and the regional plans as opposed to municipal plans and the National Regional Development Strategy. Neither districts nor municipalities revealed a characteristic trait for NGOs and businesses to cut ratings the higher up assessment moves from lower to more elevated levels (particularly at the regional level).

One issue is that for the time being municipalities and district governments are more aware of the plans and strategies stipulated by the Regional Development Act rather than the operational programmes which will be the real 'entry point' to structural funds. Districts have better knowledge of programmes (by 10 to 20 percentage points) compared to municipalities, which will be using SF resources on a much larger scale. Considerably more people are unfamiliar with the programmes in small municipalities.

1.5 Interaction and partnership

Partnerships: mainly between birds of the same feather. By contrast with 2004, the picture of interaction in 2006 is quite optimistic. Municipalities and district governments have come to understand the importance of partnership and very rarely claim that partnership is not necessary for the use of structural funds. Yet the priorities between partners are quite different, just like their assessment of the actual outcomes of interaction.

An intense and participatory process of subnational planning, which took part in 2004-2005, helped create true partnerships and laid the groundwork for an interactive consulting and coordination mechanism for national, regional and local interests and initiatives.

In 2006 municipalities felt that it is most important to cooperate with other municipalities. That view was supported by 53 per cent (see Chart 12), followed very closely by interaction with the central and district governments and with the local business. A little farther back, the municipalities ranked local non-governmental organisations,

deconcentrated structures of central government and regional and national non-governmental organisations. Large municipalities are more inclined to cooperate – cooperation was very important for 65 per cent of them against 19 per cent for small municipalities. Municipalities with greater revenue per capita (over BGN 400) are more sceptical about partnerships.

District administrations set priority on working with municipalities (see Chart 13) within their district and ranked further down relations with local NGOs, local businesses and the central government. They somewhat under-rated interaction with deconcentrated structures of central government, other district governments and regional and national non-governmental organisations.

Chart 12

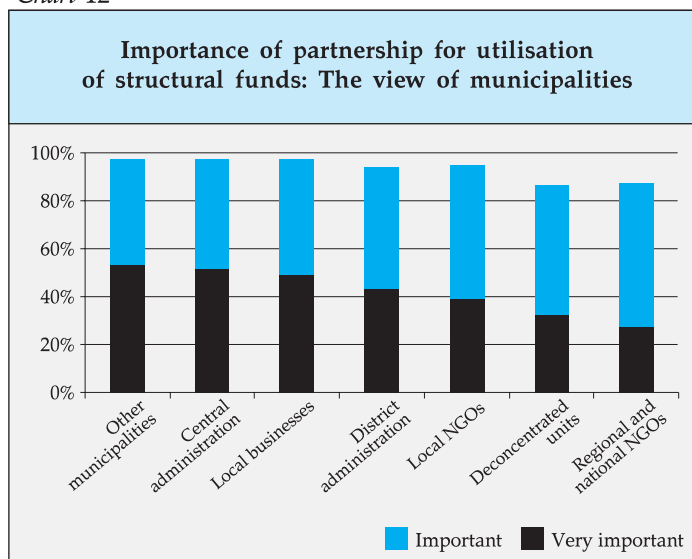
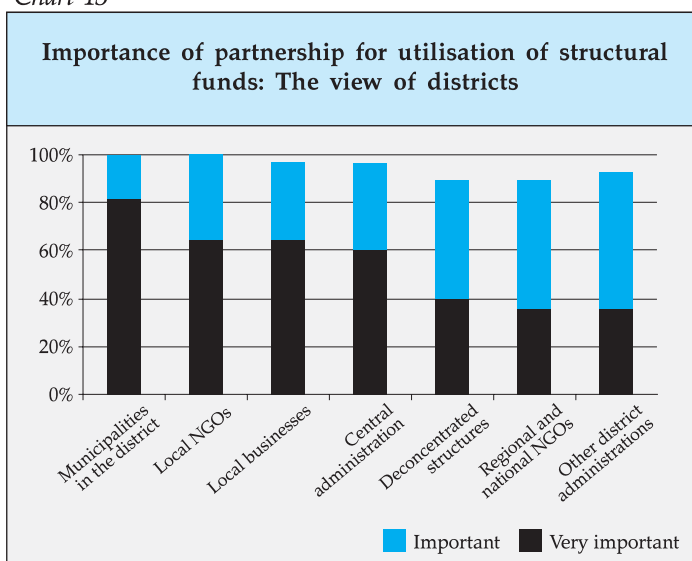


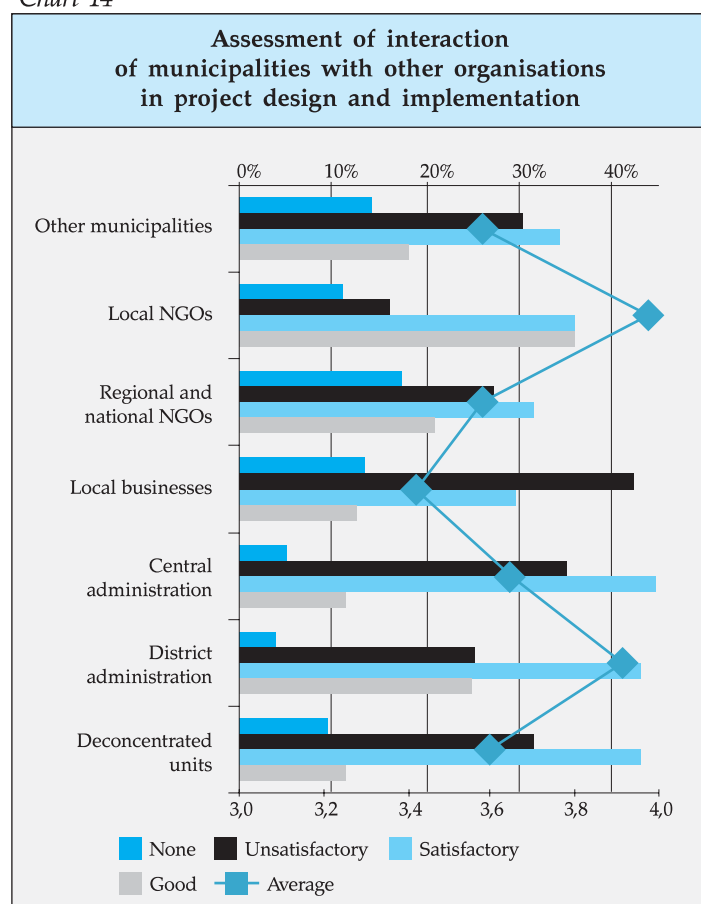
Chart 13



The asymmetry of expectations about cooperation between municipalities and districts may prove to be an issue, especially considering the generally very low marks municipalities give to their collaboration with district governments. A positive development is that although municipalities rate farther back the importance of their relations with district governments, their real interaction in project planning and implementation is appreciated much higher.

Partnership: important, but just making the first steps. A negative factor is that although municipalities attach great importance to partnerships with various organisations, the rating of actual interaction undertaken by the municipality during project design and implementation is considerably lower. Interaction with other municipalities was ranked first in importance (see Chart 14), but municipalities felt it to be either unsatisfactory or just about satisfactory, with only 18 per cent saying it was good. The same goes for interaction with local businesses. Partnership with local NGOs was placed fifth in order of importance, but when it did occur, municipalities gave it predominantly good and satisfactory marks.

Chart 14



Although it did not come first according to average ratings, municipalities interact most actively with central and district governments at 93 and 91 per cent respectively. They interact least actively with regional and national non-governmental organisations and local businesses (80 and 85 per cent).

District governments, which otherwise highly appreciate their cooperation with municipalities, placed ahead NGOs and the business (at 50, 64 and 64 per cent respectively). Interestingly, districts rated cooperation with the central government (of which they are largely a part) lower than cooperation with other local development actors. Districts also have higher expectations whose failure to materialise naturally creates disappointment.

Apart in planning, together in projects. Municipalities rated partnership at the stage of planning lower than partnerships related to projects. The highest proportion of good grades was awarded to cooperation with district governments and there were almost no statements that interaction with districts was missing. Lack of cooperation in planning with local, regional and national non-governmental organisations as well as with businesses, however, is all too common.

There is some divergence between the mutual assessment of municipalities and NGOs. Municipalities rated NGOs at 4 for project partnerships and at 3.6 for partnerships in planning, whereas NGOs rated partnerships with municipalities at 4.1 for both projects and planning. The reason may be a certain asymmetry of benefits. During the pre-accession period municipalities appear to have been of greater use to NGOs than vice versa. That may turn into an issue following accession because municipalities will be far greater beneficiaries of projects than NGOs.

Municipalities and the business are much farther apart. A prevalent sense of mutual dissatisfaction (14 and 28 per cent respectively) is a much sharper issue than asymmetries of expectations between municipalities and NGOs or between NGOs and the business. Since business is the main engine of development, dissatisfaction with partnerships may become a major barrier for use of structural funds.

District governments (see Chart 15) gave considerably higher grades, especially to their cooperation with municipalities. A negative factor is that cooperation between

districts was rated of least significance and gained mostly satisfactory marks only with respect to projects. That may prove an issue for projects of cross-regional scope and significance.

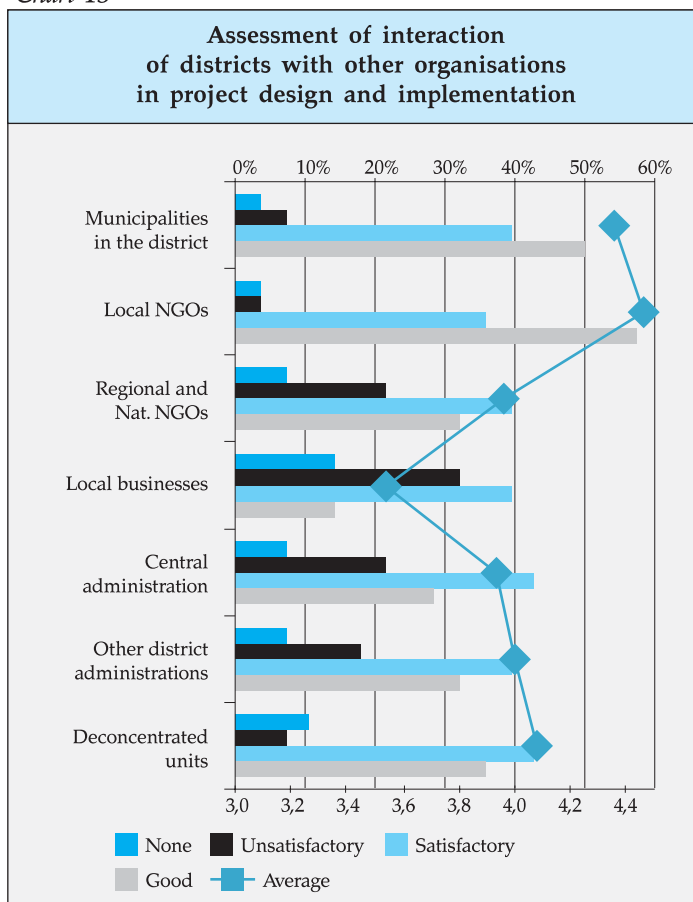
The assessment of cooperation with regional and national NGOs remains persistently and substantially lower. That is a point of concern because they should get far greater reliance in the elaboration of district and regional plans and strategies. In this context they are more important than local NGOs, whose rating is much higher.

District governments ranked their cooperation with the business in projects and planning at the lowest level (25 per cent said it was good) compared to other local actors, which again presents a problem. Even if the role of businesses and district governments becomes clear after the start of operation of structural funds, frictions may be possible as to who should take the lead.

Municipalities between themselves: rivalry instead of cooperation. Cooperation between municipalities is perceived as something important, but despite improvements compared to 2004, its rating varied between satisfactory and unsatisfactory. Municipalities face difficulties mainly because of competition between themselves – that opinion was shared by 42 per cent of municipalities. Other significant issues are lack of direct economic incentives and experience, disrespect for the interests of other municipalities/districts and failure to recognise benefits (that gained as much as 25 per cent). Far less significant constraints to cooperation were identified in previous partnership failures, differences in the political affiliation of mayors or municipal government majorities, perceptions of unfair distribution of benefits, personal conflicts or lack of suitable partners among neighbouring municipalities.

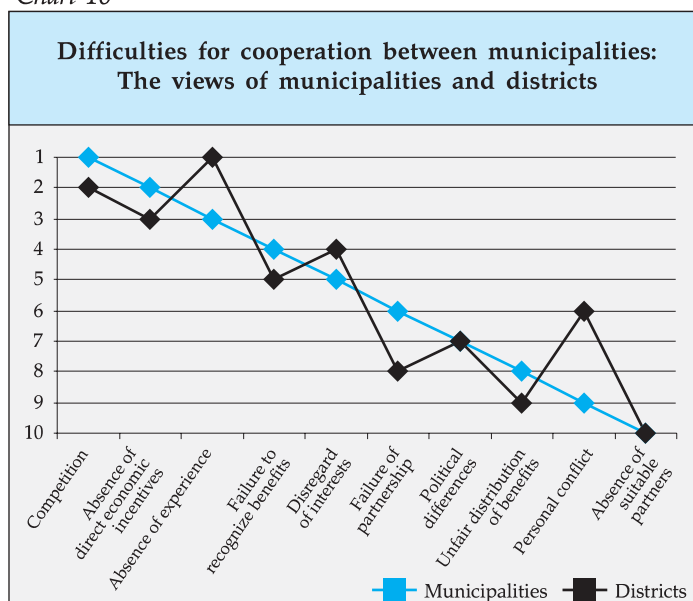
District governments viewed difficulties for cooperation between municipalities from a different perspective (see Chart 16): 43 per cent fully agreed that lack of economic incentives and political differences are the main barrier. Competition ranked second at 39 per cent and 32 per cent singled out lack of experience. Disrespect for the interests of other municipalities and misunderstanding or unfair distribution of benefits were rated next in importance, followed by personal conflicts and lack of suitable partners nearby.

Chart 15



Association facilitates partnership. Regional associations of municipalities are one of the organisational forms to overcome difficulties for cooperation between municipalities and to increase municipal capacities to

Chart 16



make use of structural funds. Of all municipalities, 63 per cent are members of at least one association and 7 per cent maintain more than one membership. The smallest municipalities, which are most in need of associating, may count on it relatively less often (+11 points said they didn't have a regional association).

The most propitious development is in the Southeast region, where almost all municipalities are members of one regional association (95 per cent). The least favourable situation is in the Southwest region, where more than half of municipalities have not joined any associations.

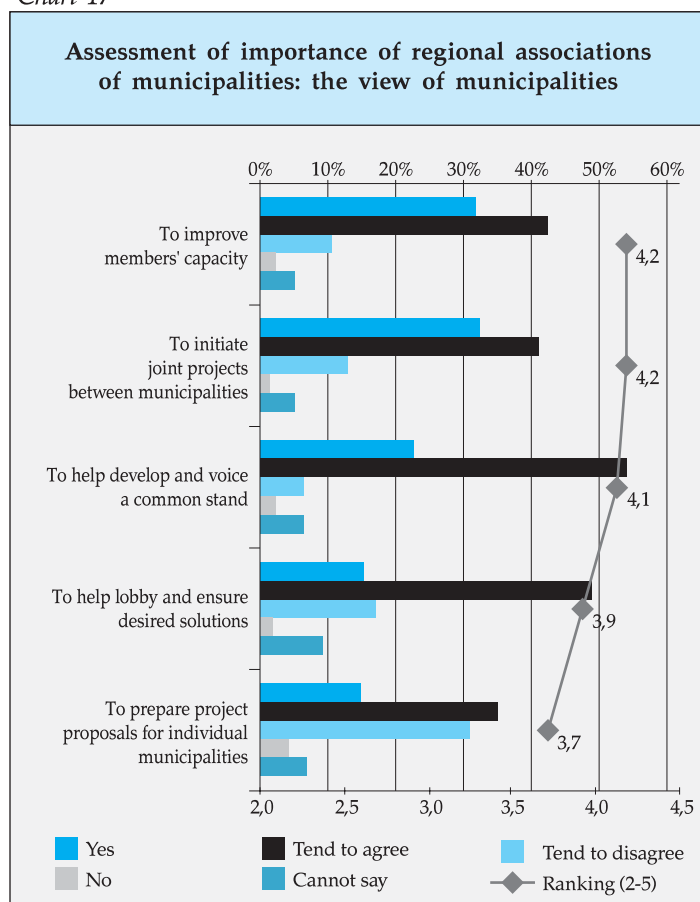
Most municipalities regard their membership in regional associations as a benefit, including with respect to EU funds. They count on associations primarily to enhance capacity, to initiate joint projects, to facilitate common grounds and to lobby for getting desirable solutions. Associations are perceived to be less significant in the preparation of project proposals for individual municipalities, which is one of the greatest deficits, especially for smaller municipalities (see Chart 17).

Regardless of the importance of regional associations, more than 30 per cent of municipalities said their role in project development was rather small.

Districts are categorically more positive about the role of regional associations to increase capacity of members and to initiate joint projects between municipalities. They rated the contribution of regional associations as initiators of intermunicipal projects at 4.5.

The more NGOs, the better. Partnerships between municipalities and non-governmental organisations are one of the possible ways to overcome certain deficiencies concerned with the use of structural funds. The survey revealed there was dependence between the number of NGOs working under European funds in a given municipality and the number of approved municipal projects. Municipalities having more than 20 relevant NGOs have 4 to 7 times more approved projects from all funding sources compared to municipalities without NGOs. The proportion grows to 6-8 times more approved projects from pre-accession instruments.

Chart 17



In this context the density of non-governmental organisations does not appear to be very favourable. In 2006 in two-thirds of all cases there were between 1 and 5 relevant NGOs per municipality. One-fifth of municipalities said there were none. Only a tenth of those interviewed mentioned between 6 and 10 NGOs having relevance to structural funds; 2 per cent pointed out 11 to 20 organisations and 1 per cent said there were between 21 and 50 relevant NGOs. The smallest municipalities face the gravest issues: 30 per cent said they didn't have a single relevant non-governmental organisation operating in their boundaries.

Municipalities reveal strong differences on almost all aspects of partnership. Differences depend both on the size of municipalities and their location within regions. Small municipalities (up to 50,000 people inclusive), which due to their less developed capacity have greater needs, very often experience greater difficulties with partnerships and are more discontent. The municipalities in the Northwest region prove to be more disadvantaged on many indicators relating to partnership as opposed to the municipalities in the Southeast region, which come out in a more positive light.

The local development actors

UNDP has worked for nearly fifteen years to support Bulgarians to improve their lives. More than in most other countries, the focus of UNDP's work has been at the local level. In the last years activities have reached each 'oblast' and more than 170 of Bulgaria's 264 municipalities. The single biggest theme in all the national human development reports has been issues of local development and/or how to include in the benefits of development those who are excluded. In early 2003 we supported the preparation of the Government's Report on the Millennium Development Goals for Bulgaria. The latter set targets in eight areas – ending poverty, education, maternal health, children's health, AIDS and tuberculosis, gender equality, environment and sustainability and international cooperation. It is not the intention of this report to assess the progress Bulgaria has made in meeting its targets – suffice it to say that progress in some areas has been rapid and others are seriously lagging. But it is important that Bulgaria keep these targets close to heart as it sets its priorities for EU funds and in their implementation. If these goals are met, most of the conditions for progress in human development will be met too.

One thing not fully captured by the Millennium Development Goals or within the Human Development Index is inequality. Inequality is important. The key fundamental objective of EU structural funds is to reduce inequality within in EU member states, and among member states. This is because such inequalities, if extreme, limit progress in human development and in reducing poverty. As discussed in both the 2005 UNDP Human Development Report and the 2005 World Development Report of the World Bank, well designed policies to reduce inequality make sense for everyone, and do not limit economic development. This is another reason why it is vital that the capacities are in place for the coming EU funds to be used well and equitably in Bulgaria. For without measures to strengthen the capacity of local government and local partners to use the funds well, the Structural Funds will be both underutilized, and where utilized, will tend to benefit partners who already have the most capacity. As outlined in the report, if active measures are not taken this will result in a vicious circle where the capacity building programmes are used only by places and groups with the most capacity and influence already – leaving the other areas and groups even further behind, and without capacity.

Neil Bulme, UNDP Resident Representative

1.6 Capacity development

Capacity development needs

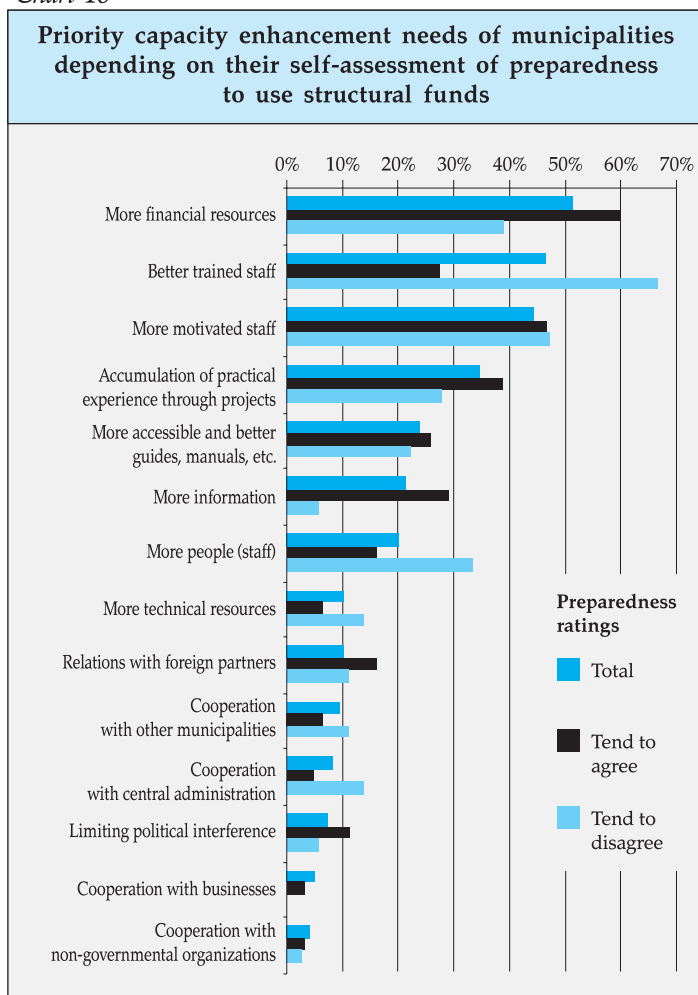
The most important needs for both municipalities and districts (see Chart 18) concern financial resources, staff training and motivation, gaining practical project experience and more information, better aids (guidance, manuals, etc.) and more staff. Although capacity enhancement needs are similar, their quantification and ranking is different. Differences are evident between district governments and municipalities, and there is a relatively clear division between municipalities depending on two criteria – their size and self-assessment of how prepared they are to participate in the use of structural funds. Municipalities that feel they are better prepared place an emphasis on financial resources, practical project experience and being better informed, whereas municipalities that are less prepared focus more on human resources in terms of staff numbers and people trained.

Financial resources are not a priority concern merely for about 2-3 per cent of municipalities which said they could allocate more than BGN 500,000 a year in co-financing. That is a more significant issue for small municipalities (62 per cent) and is shared by 22 per cent of large municipalities (see Box 11). Districts would like to have more financial resources (79 per cent), which may be explained with their desire to participate in projects much more directly. One should bear in mind that just enlargement of financial resources will not resolve the issues of preparedness of municipalities and districts to participate in the use of structural funds.

Training

Assessments of municipal and district staff training are controversial. More staff was trained over the past three years at an increase by nearly 30 per cent for both municipalities and districts.

Chart 18



Although training was much more intense, needs are far greater, the structure of training fails to respond to changing needs as necessary and even though they are diminishing, differences in the availability of staff trained still persist.

There is a drastic gap between supply and demand of training related to structural funds in terms of types of information and development of knowledge and practical skills (see Chart 19). Municipalities and district governments expect training that will build specific knowledge and relevant skill sets, but instead they receive introductory seminars providing general information. Twice as many municipalities and districts are willing to pay at least part of training costs compared to 2004, which indicates they are recognising the need to 'invest' in their own capacity.

The majority of municipalities said they have people trained in project design (92 per cent) and various aspects of pre-accession instruments (88 per cent). A smaller but significant part of municipalities stated they have trained staff on matters dealing with structural funds (73 per cent) and strategic planning (68 per cent). Least of all municipalities have people trained on issues of partnership, citizen participation, etc. (44 per cent). More than half of municipalities have employees who attended short comprehensive training which was not specialised in any specific area.

The severity of training needs does not vary substantially depending on the size of municipalities. All groups of municipalities expressed significant and similar gaps between the numbers of people trained over the past years and their training needs.

District administrations displayed similar but slightly more beneficial characteristics. Virtually all district governments have staff trained in pre-accession instruments (96 per cent), nearly 90 per cent have people trained in project development, strategic planning and structural funds, and two-thirds have personnel trained in partnership-building and citizen participation. Trends are generally similar. The highest increase was in the numbers of people trained in partnership-building and citizen participation (almost twofold from 33 to 64 per cent) and in strategic planning (an increase by 23 points from 63 to 86 per cent). Advancement in respect of structural

Box 11

PRIORITY CAPACITY DEVELOPMENT NEEDS ACCORDING TO SIZE OF MUNICIPALITIES

- Without substantial deviations from the overall ranking, small municipalities attach greater importance to financial resources (+11 points) and information (+4 points). They put less importance on staff motivation (-8 points) and linkages with international partners (-4 points and a ranking in 13th position as opposed to 8th position for all municipalities).
- The largest municipalities (over 100,000 people) place far ahead on the agenda enhancing staff motivation (ranking first, 34 points plus the average), limiting political interference with the work of the administration (3rd place, +26 points), cooperation with other municipalities (5th place, +13 points), cooperation with non-governmental organisations (8th place, +7 points). They assign less significance to financial resources (5th place, -29 points), better and accessible guidance (8th place, -13 points), improvements in information (12th place, -21 points) and technical resources (12th place, -10 points).

funds was relatively small (by 10 points from 79 to 89 per cent).

Consulting assistance needs

Practically all municipalities need consultant assistance for their projects (less than 1 per cent said they did not need such assistance). The most massive need is for specialised research and assessments relating to project development (82 per cent). The second highest-ranking need (68 per cent) is to engage consultants for lobbying and assistance with project approval, which is indicative of attitudes about the factors determining the success of project proposals. Lesser significance is attached to mobilisation of local resources for co-financing (26 per cent), facilitation of project partnerships (14 per cent), development of separate project elements (16 per cent mentioned budgets and 21 per cent – the proposal's layout). Need for assistance with the overall project design, which indicates limited in-house capacity, was pointed out by 16 per cent of municipalities.

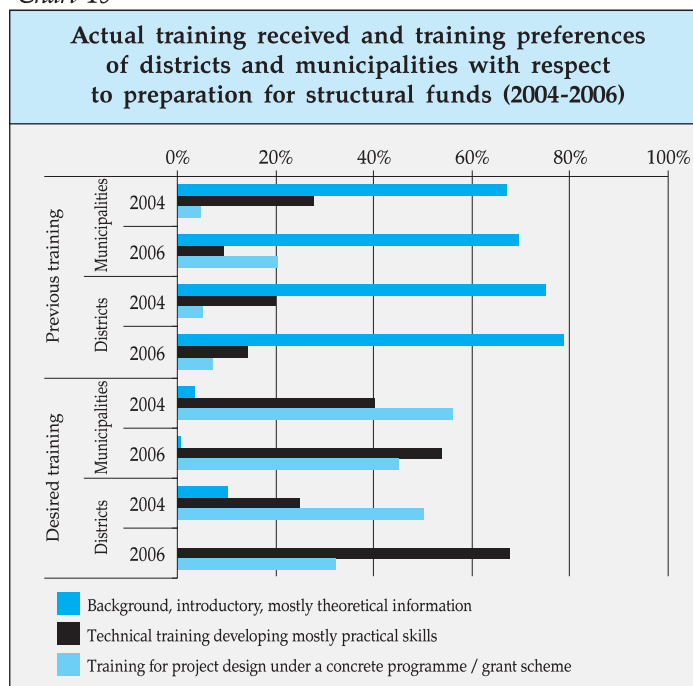
Using consulting services has its risks. According to their self-ratings, 37 per cent of NGOs and 47 per cent of companies providing consulting services are poorly informed about structural funds, and 20 per cent and 40 per cent respectively feel they are not prepared to participate in the funds' utilisation. Furthermore, 33 per cent and 74 per cent are not well informed about currently available sources of financing, while 18 per cent and 80 per cent have no successful projects. Two-thirds of NGOs and companies that often use consulting assistance for projects do not have any approved proposals.

Support organisations

None of municipalities or districts believed that an organisation providing information, training and specific assistance to local actors was unnecessary.

According to municipalities, the most appropriate support organisations for their needs are ministries and agencies (42 per cent). Nationally operating NGOs (16 per cent) and consulting companies (17 per cent) came in second with far lower ratings. Bodies of regional ad-

Chart 19



ministration (district governments and deconcentrated structures of central government), higher educational establishments and regionally or locally based non-governmental organisations were virtually unimportant. It is noteworthy that local governments look up mainly to the central government to act as a support organisation.

1.7. Conclusions

Are municipalities and districts aware of their place in the context of structural funds?

The role of local and district governments should be in principle very clear because it is to a large degree stipulated by normative regulations.

That appears to be the case with municipalities. They are a key participant of the development community and are both beneficiaries and basic planning agents at the local level. Comparison between different development actors – municipalities, district governments, non-governmental organisations and businesses indicates that municipalities, especially the larger ones, possess greatest experience and capacity in project design and implementation. They are still rarely aware, however, that their role as public structures does not necessarily mean they should be doing everything single-handedly or lead

every project. Considering signs of reluctance to cooperate with the business in project design and implementation, it may create difficulties for effective use of structural funds, because 100 per cent public projects are often not best known for their economic viability.

The role of district governments in the use of EU funds remains unclear, which affects their attitudes. Although they are not in a position to fund either actual projects or design costs, they believe it is important for them to participate with their own projects. They are little aware of one of their natural roles, which does not require large-scale competencies or resources. That is the role of 'regional' facilitators aiding other actors from the development community to tap structural funds, especially by identifying supramunicipal interests and by developing meaningful projects that go beyond the municipal level. Their significant capacity in this and other areas appears not to be used to its full extent.

General conclusions

The most significant finding of the survey of municipalities and districts is that substantial progress has been made in the preparation for use of EU funds compared to 2004. Achievements can be credited to the actions of the central government and to municipalities and districts themselves, as well as to support from international donors and influential non-governmental organisations. Regular criticism and recommendations from the European Commission and especially substantial EU pre-accession financial assistance also played an important role.

But parallel to progress achieved, the survey found there are still significant barriers to effective use of EU funds by municipalities and districts. The most essential constraints are associated with the structure and quality of information and training, capabilities to provide co-financing and to pay for project design cost, experience with project development, implementation and partnership-building, and the size and structure of administrations. Barriers are most visible and most difficult to overcome in smaller municipalities. Municipalities with less than 10,000 inhabitants are most disadvantaged and account for 38 per cent of all municipalities. Municipalities with 10,000 to 50,000 people, which make up half of

Bulgarian municipalities, are also lagging behind on a number of criteria. Although smaller municipalities witnessed the greatest improvements over recent years, progress is not sufficient to overcome capacity disparities.

At the same time positive changes are a source of optimism. Stronger self-criticism speaks of greater realism in the assessment of one's capacities. It is evident in demands from municipalities and district governments for more and better quality training, use of technical assistance and increasing willingness to take part in training. A point in support of that is the willingness of municipalities to pay for staff training and their growing attention to regional associations. More and more administrations are beginning to understand that only motivated staff can deliver high performance. Overall, however, the state of human resources shows little improvement and municipalities in particular are starved for highly qualified staff.

An important indicator of progress made by municipalities in their preparation to participate in structural funds is their increasing willingness to co-finance not only project implementation but also proposal development. Project experience has increased not only in quantitative terms, but also in terms of quality improvements to the project design process. More project ideas are developed into full-fledged proposals and more project proposals successfully get approved. Differences between municipalities on that indicator are slightly diminishing.

Considerable improvements were found in experience with project partnerships. There are virtually no municipalities that do not consult their projects with some stakeholder groups, and only 10 per cent of district governments did not report such experience. Nearly 90 per cent of municipalities have project partnership experience within the municipality (NGOs, businesses) and two-thirds have such experience with neighbouring municipalities. The willingness to create more horizontal links may indicate that municipalities are opening up – beyond the narrow methodological instructions from the central government and beyond the illusion that planning may be taken care of only within a confined community.

Municipalities rate partnerships in planning lower compared to project partnerships. The highest proportion of good grades was awarded to cooperation with district governments and almost no-one said that interaction with districts was missing. Lack of cooperation in planning with local, regional and national non-governmental organisations as well as with businesses, however, is all too common.

Growing willingness to engage in partnerships is reflected in an emerging culture of planning. Municipalities and districts demonstrate a positive and well grounded attitude with respect to their participation and role in planning processes. The passive attitude of local and regional actors, which was noted in previous surveys, has been largely overcome. Most districts and municipalities have ensured a participatory planning process where involvement of various stakeholder groups is a significant positive change compared to 2004. The par-

ticipation of local non-governmental organisations and the local business has considerably and noticeably increased.

A basic finding from the survey was that the quality of information is the single most important factor for being prepared to participate in structural funds. Municipal and district preferences to receive support in that area deserve special attention.

Regional associations of municipalities are highly appreciated by two-thirds of municipalities, which stated that if necessary, they could count on some regional intermunicipal association. Most municipalities regard their membership in regional associations as beneficial with respect to structural funds, but the significance of associations in the preparation of project proposals for individual municipalities was perceived to be less important.

Chapter 2.

THE BUSINESS

2.1 Overview

Several months before accession to the European Union Bulgarian Business is generally optimistic about the future. In 2005 only 3 per cent⁷ of companies stated their business was going for the worse, while 72 per cent expected their exports to grow. At the same time entrepreneurs are one of the most sceptical social groups in Bulgaria with respect to the EU: 69 per cent of Bulgarians are 'in favour' of their country's integrating within the EU⁸, but only 31 per cent of business people regard quick accession as very useful.

Considering that the private sector is expected to carry on its shoulders the process of Bulgaria's modernisation, the rift between optimism about the future and EU scepticism at first looks difficult to understand. The European Union provides a lot more chances, like a single common market, uniform rules and a more modern business environment. If compared with the other Eastern European countries, however, Sofia turns out to support the rule rather than be an exception. Notwithstanding a few exclusions like the Czech Republic, virtually across Eastern Europe the business in the new member states which joined the EU in 2004 was a little suspicious about the European Union for a variety of reasons. The EU was perceived most of all like something bringing requirements and standards that will exact compliance, along with competition and uncertainty. It was not seen as a window of opportunities (for instance, exports) because that was more or less taken for granted. Money from pre-accession funds was more like an appetizer accessible to non-governmental organisations and public administration, whereas the real issues like a high social security burden, heavy red tape, unfair competition, and so on, would anyway not be solved by way of EU instruments.

The importance of such scepticism looms larger considering that enterprises in Bulgaria employ 2,740,000 people⁹, which by far outnumbers those employed in the public sector and NGOs, and that they will be most affected by the benefits and challenges associated with Bulgaria's membership in the EU.

That paradox determines the attitude of business towards EU funds. Entrepreneurs look positively to opportunities that the funds could offer, but they are more sceptical than administrations and NGOs – first, because they are not familiar with these instruments and, second, because until now they were viewed only as a privilege of governments and NGOs.

Box 12

IS THE BUSINESS GETTING READY FOR THE EU

Accession to the European Union implies achievement of certain production standards relating to the environment, safe and healthy conditions at work, and sanitary and hygiene conditions. Around one-quarter of those interviewed (27 per cent) said they had no issues in any of these areas; only 6 per cent had already invested in compliance and one-third (between 24 and 34 per cent) said solutions to such challenges were pending. In 2006, 30 per cent of companies intended to invest in environmental concerns, 18 per cent planned investments to meet sanitary and hygiene requirements and 34 per cent aimed to achieve safety and health at work. In terms of actual investments made, only 6 per cent said they had invested sufficiently in environmental issues, 18 per cent had invested in working conditions, and 27 per cent had invested in meeting sanitary and hygiene requirements. In that context businesses are interested in potential investments in their operations if they are to participate in the use of structural funds.¹⁰

2.2 Self-assessment of willingness and preparedness to participate in the absorption of structural funds

Willingness and motivation to participate

The possibility to participate in projects funded by the structural funds is an important element in support of the EU among the business community. All companies that are willing to actively make use of the funds believe that quick accession will be very useful.

Yet the willingness and intentions of the business to take part in the use of EU funds are not so categorical: 37 per cent of interviewed companies thought they should participate very actively and 44 per cent felt they should participate in some degree (see Chart 20). Quite

⁷ The year 2005 through the eyes of business (<http://www.bia-bg.com>).

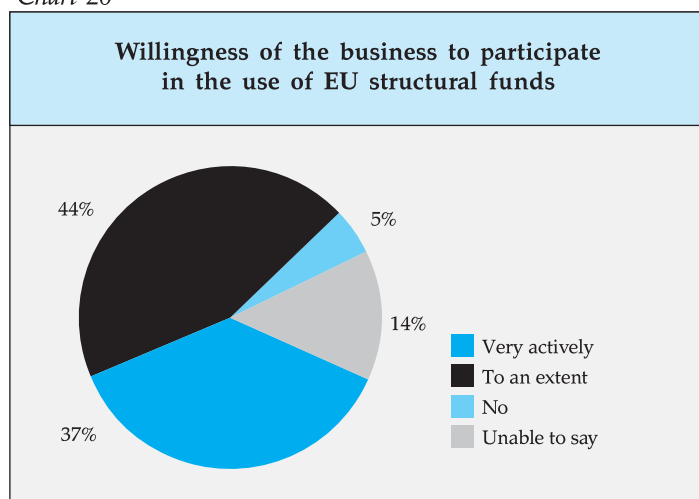
⁸ Alpha Research, 31 May 2006.

⁹ In 2005.

¹⁰ The year 2005 through the eyes of..., 2005. The survey covered 300 company owners and managers and chamber members across all sectors of the economy and types of enterprises – large, medium-sized and small.

a large number of companies said they were 'unable to say,' which is the first indication they were not sufficiently aware of possibilities.

Chart 20



Indications are that most active and willing to participate are large companies (47 per cent) and companies operating at a supranational level (54 per cent). They break down by sector in agriculture (56 per cent), energy, utilities, tourism, consultancy and educational services (42 per cent each).

Willingness to participate actively marked a low among companies based in the big cities except Sofia (27 per cent), local operators (22 per cent), micro enterprises with no hired workers (30 per cent), construction firms (28 per cent) and trade companies. That may be accounted for by a larger proportion of 'unable to say' replies, which for these companies varied from 19 to 29 per cent (or by 5 to 15 percentage points above the average).

Enterprises from those sectors that are potentially eligible beneficiaries are more explicitly willing to participate in the use of structural funds (agriculture, energy, utilities, tourism, consultancy and educational services). Unfavourable exceptions concern the construction industry, which has a direct interest in the execution of projects under structural funds, as well as the smallest and medium-sized companies which are potential applicants for direct assistance.

Along with arguments for improvement of operations, access to resources and creation of public benefits, the motivation to take advantage of EU funds in order to

address the challenges of accession was given very strong weight. That involves increasing competitiveness, achieving compliance with EU requirements and, to a lesser degree, better access to markets. That motivation is stronger for medium-sized and export-oriented enterprises and for the food industry (73 per cent for both sets of reasons), industrial enterprises and tourism companies. It is less appealing to enterprises based in small municipalities, micro firms and companies operating in the energy sector, utilities, construction, transport, consulting and financial services (see Box 13).

Although only 3 per cent of companies (13 per cent in small towns) view structural funds simply as an opportunity to help their business, more than 50 per cent of enterprises regard structural funds mainly as an opportunity to make investments in their business. Sofia-based companies a lot more tend to think that only organisations having good capacity will be able to participate, whereas in small municipalities and among trade companies the structural funds are perceived much more as 'social assistance' for the business. Having capacity to participate in the use of the funds is generally not taken seriously by the business – only 5 per cent see that as an essential factor.

Businesses insist for projects to be implemented mainly by Bulgarian companies, which implies avoiding competition and betrays a desire for protectionism. That once again corroborates doubts that the business continues to be concerned about EU membership, especially with regard to the concrete implications of accession on their business and markets.

Opportunities to gain public benefits in the form of regional or countrywide development and addressing social problems, scarcely motivate the business. Merely 14 per cent of companies recognise structural funds as a 'national development' opportunity that would improve the overall business environment and possibilities, although that is exactly the main purpose of EU funds. Assistance, adequate channelling, better efficiency and transparency in the use of the funds were meaningful motives for only 3 per cent of the interviewed. Higher ratings were given in Sofia (18 per cent), by consulting and educational companies (15 per cent) and financial service providers (10 per cent).

Most business people tend to see EU funds as an opportunity for direct investments in their business, which more often than not is incompatible with the philosophy of structural funds. Soon the lack of awareness about the goals of EU structural instruments is bound to create disappointment and accusations to the government for 'nationalising' the funds. Therefore policies should be put in place in order to involve entrepreneurs and to explain how, by using development resources intended for the entire community, they can increase their competitiveness.

Desirable roles in the use of structural funds

Logically, when EU structural funds are perceived first and foremost as a resource of investment, the most 'massively' wished for way of participation is by implementation of own projects. That is the leading option for almost all types of enterprises (except financial service companies) and is considerably stronger in larger than smaller companies (see Chart 21). It is far less popular among trade companies, food industry enterprises and financial service providers.

Participation in planning at the municipal level (and less so at a regional level), in the selection of projects and by acting as sub-contractors under projects of other organisations is an important, but secondary factor. Business is more oriented than NGOs to be involved in project implementation, in the capacity of sub-contractor, and is less inclined to provide paid technical assistance or voluntary support to other organisations (see Box 14). As many as 43 per cent of enterprises do not see a role for themselves in the use of structural funds.

A matter of serious concern is that the attitude to participate with their own projects is least developed among the majority of classical beneficiaries of structural funds, such as small and medium-sized enterprises, particularly micro enterprises with no hired workers, small companies having 50 to 99 employees, and medium-sized enterprises. That creates a risk for very low absorption levels by the business in the first years following EU membership.

The attitudes of the business for participation in structural funds are quite focused. Entrepreneurs see them-

Box 13

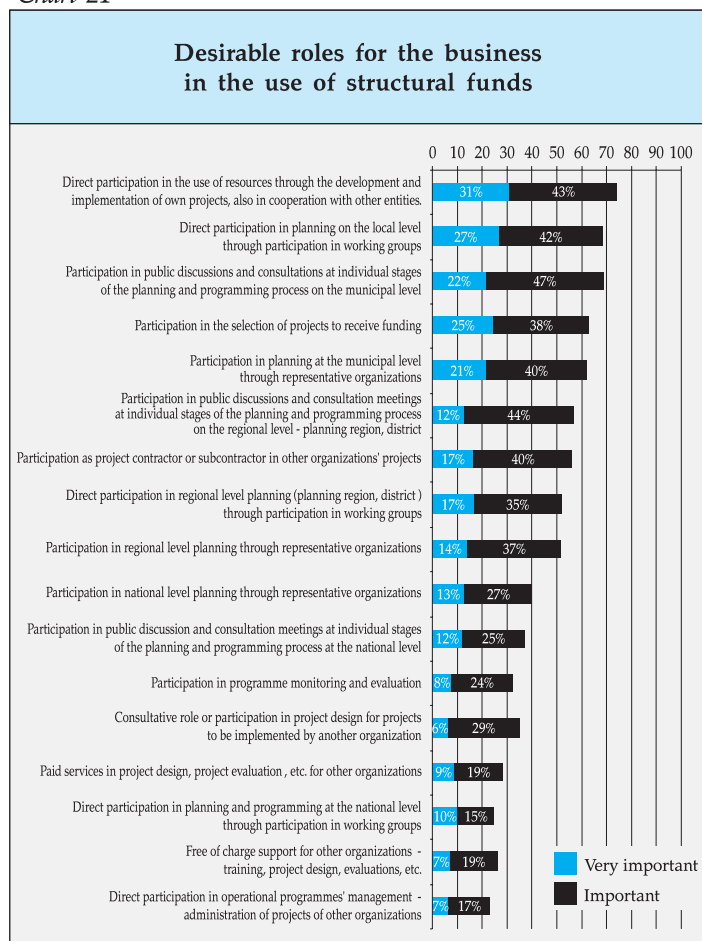
WILLINGNESS AND MOTIVATION TO PARTICIPATE:

- *Improvements in business operations* (37 per cent) defined as 'enlargement and improvement of operations,' more specifically 'modernisation and renewal of equipment and technologies.' These two motives are considerably stronger for local operators, transportation companies and utility enterprises. They are less pronounced in Sofia, in small enterprises having 50 to 99 employees, energy enterprises and consulting firms.
- *Reasons directly associated with accession* (37 per cent). These involve increasing competitiveness, achieving compliance with EU standards and regulations (environmental standards, food safety standards, etc.) and, to a smaller extent, improving access to markets. The first two reasons are more valid for companies based in medium-sized municipalities and small towns, medium-sized and export-oriented companies, industrial enterprises, the food industry and tourism companies. They are less valid for companies in small municipalities and in Sofia, micro firms with no hired workers, energy, utility and transportation companies, and providers of consultancy, educational and financial services. Improved access to markets typically appeals more to companies in small municipalities, small enterprises employing 50 to 99 people and tourism operators.
- *Public benefits* (14 per cent). Benefits include 'development of the country and the region, addressing regional and social problems' and 'creation of additional jobs, improvements in working conditions and staff training.' The first motive is more important for rural enterprises, micro companies and in particular for utility and tourism companies. Additional employment, better working conditions and training are essential for micro enterprises with no hired workers and companies operating at a supranational level as well as for the energy sector, tourism, and providers of consulting and educational services.
- *Access to resources* in order to make substantial investments (10 per cent).

selves playing relatively few roles: nearly half of companies chose between 1 and 3 roles, 31 per cent identified 4 to 6 roles, 13 per cent mentioned 7 to 10 roles, and 8 per cent pointed out more than 10 roles. Those companies that are familiar with the way of operation of structural funds and are willing to participate in their utilisation (a little less than half of companies), have very specific ideas of how they will be involved in the use of funds. The highest number of roles in that process was identified by large companies (3.5 out of 18), companies with supranational operations (3.4) and providers of consulting, accounting and educational services.

At the same time the business wants not only to be informed and consulted with, it also wants to have access to programme resources and to take part in decision-making about how to steer and use resources. That goes

Chart 21



Box 14

HOW BUSINESS SEES ITS PROJECT-BASED PARTICIPATION IN EU FUNDS

The willingness to participate with own projects is:

- **strongest** in companies with supranational operations, large companies, enterprises from the energy sector, tourism, agriculture, consultancy, accounting and educational services, utilities.
- **smallest** in locally operating companies, micro enterprises with no hired workers, small enterprises having 50 to 99 employees, medium-sized firms, trade companies and financial service providers.

The willingness to participate in the capacity of sub-contractors is:

- **strongest** in national and supranational businesses, small enterprises having 10 to 49 employees, construction companies, consulting firms and educational companies.
- **smallest** in local operators, micro enterprises with no hired workers, small enterprises having 50 to 99 employees, food industry enterprises, utility companies, telecommunication companies and financial service providers.

way beyond the normal functioning of structural funds – expectations and attitudes fall wide apart, and may also lead to conflict of interest (see Box 15).

Planning: the closer to the people, the better. The closer a business is to the local level, the more important it is for it to participate in various forms of planning and programming (work groups, participation through representative organisations, public debates). Locally and regionally operating companies and those based in small communities are most actively willing to take part in planning. The higher the planning level moves from a local to national scale, the more interest to participate is weakening. Participation in planning is considered very important by 21-27 per cent of companies at the municipal level, 12-17 per cent at the regional level and only 10-13 per cent at a national level.

Large companies, energy businesses, tourism operators and financial service providers are interested to participate in planning at a national level, while utility companies and service companies in consultancy, accounting and education focus on the regional level. Participation in municipal planning is the dominant interest even for national and supranational companies. Companies in Sofia attach equal importance to participation in national and municipal planning. That is the case across company sizes and industry sectors except consulting and financial services.

Companies prefer to participate directly in local planning and would rather take part in national planning through national representative bodies. Business is less willing to participate in public debates, particularly at the local and regional levels. Preference is given to participation in local and regional level work groups, whereas the preferred way to take part in national planning is through participation in public discussions, consultation meetings and by using representative organisations.

The strong desire of businesses to be involved in the planning process is largely associated with the assumption that it will facilitate their participation with own projects. That is particularly evident with regard to municipal planning. Overall, 40-50 per cent of companies that thought participation in municipal planning was very important, felt it was also very important to participate with their own projects (see Box 16). That connection grows even stronger as planning moves from the local to the national level: 60 per cent of enterprises who considered their participation in national planning was essential thought it was very important for them to take

part in the selection of projects. That willingness may not be regarded as justified and normal and was to some extent encouraged by circulating information about planning over the past 2 years. It may be put down to several possible reasons – not sufficiently clear distinction between selection of projects to be funded (decision-making) and identification of projects, as well as existing issues and lack of trust with respect to project evaluation and selection.

Participation in programme management and selection of projects. The importance of participation in programme management is more limited compared to participation with projects and involvement in planning. It would rate even lower except for willingness to participate in the selection of projects to be funded, which is essential for one quarter of companies. Only 7-8 per cent of companies said their participation in programme management or monitoring and evaluation was very important. The weight of this aspect of participation varied between 20 and 29 per cent for different types of businesses and in most of the cases it was ranked third in importance. It was the leading role for financial service companies, while consultancy firms, forestry companies and micro enterprises having less than 10 employees, thought it was equally or more important, than their willingness to participate in planning.

Support: yes, if it is paid for. Willingness to participate by providing support to other organisations is minimal. The most significant support role is provision of paid technical assistance, which was very important for 9 per cent. Another 6-7 per cent said it was very important to provide voluntary assistance to other organisations or to participate in their project discussions and design. For businesses, the willingness to participate (informally) in project discussions of other organisations is largely tied with potential economic benefits in the future, like participation in the role of sub-contractors or consultants (see Box 17).

By far and large that role was placed at the bottom of the list, but some companies gave it higher rankings (on a par with participation with own projects) – providers of consulting, accounting and educational services, energy enterprises and financial service providers.

People in Sofia are accustomed to managing and

Box 15

CONFLICTING ROLES

- Companies that want to participate in the selection of projects also want to have their own projects (66 per cent) or to participate as sub-contractors (30 per cent) and consultants (24 per cent).
- Companies that want to be directly involved in programme management also want to participate with their own projects (76 per cent) or to be engaged as sub-contractors (52 per cent) and consultants (48 per cent).
- Companies that want to participate in programme monitoring and evaluation also want to have their own projects (82 per cent) or to participate as sub-contractors (56 per cent) and consultants (59 per cent).

Box 16

WILLINGNESS TO PARTICIPATE IN THE SELECTION OF PROJECTS IS:

- *strongest* in supranational businesses, large companies, enterprises based in the capital Sofia, energy businesses, tourism operators, industrial enterprises and consulting companies.
- *smallest* in local operators, micro enterprises with no hired workers, small enterprises having 50 to 99 employees, companies based in small municipalities and big cities, food industry enterprises, construction companies and trade companies.

Willingness to participate directly in programme management is:

- *strongest* in enterprises based in Sofia and companies from the energy sector, telecommunications, consulting, accounting, educational and financial services.

Willingness to participate in programme monitoring and evaluation is:

- *strongest* in supranational businesses, enterprises based in Sofia, micro enterprises employing less than 10 people, consulting and financial firms, and tourism operators.

Box 17

WAYS TO PROVIDE SUPPORT

Willingness to provide consultant assistance is typical for Sofia-based companies, micro enterprises employing less than 10 people, providers of consulting, educational and accounting services and, to a lesser degree, communications and tourism businesses.

Willingness to participate by discussing and assisting the design of projects to be implemented by other organisations was stronger in Sofia-based companies, energy enterprises and providers of consulting, educational and financial services.

Willingness to provide voluntary support with training, project design, etc., was of greater value for tourism businesses and providers of consulting, accounting and educational services.

planning. Business in Sofia stood quite apart in its stronger willingness to be directly involved in national-level planning through work groups, public debates or meetings (about twice the average ratings) and to par-

ticipate in programme monitoring, evaluation (2.5 times higher ratings) and management (1.7 times higher ratings). It was also less willing to take part in regional and municipal planning. Only Sofia-based companies showed greater interest to participate in the selection of projects (1.5 times above the average), to provide paid technical assistance (3 times above the average) and to discuss and assist project development efforts of other organisations (4 times above the average).

The positions of the business in Sofia at first appear to be an issue, but they may and should be used to strengthen representation of interests and to improve programme management and monitoring, including by providing consultant assistance (as long as organisations based in Sofia are 'closer' to the governing bodies). It may also be used to develop the capacity of other organisations based in other parts of the country (including public sector organisations).

Where is the business in the local development community? Most enterprises belong closer to the local development community. That would be completely clear except for their expressed desire to participate in the selection of projects, which is connected more with the programming community.

The most important roles for this large group of actors are participation in municipal planning and participation with own projects. Specific sub-groups are construction companies, which placed great importance on participation as sub-contractors (on a par with own projects), utility companies, which gave very high rat-

ings for the importance of participation in municipal planning, and tourism companies, which identified the largest range of priority roles including activities that are typical for the programme management community.

Two types of companies stood out against that background:

- a) providers of financial services (banks, financial houses, etc.), which belong more to the programming community and are oriented towards programme management and support activities as well as national-level planning, while participation with own projects is not among their priorities, and
- b) providers of consulting, accounting and financial services, for whom provision of (paid) assistance is more prominent (even if not dominant) along with participation in activities related to programme management.

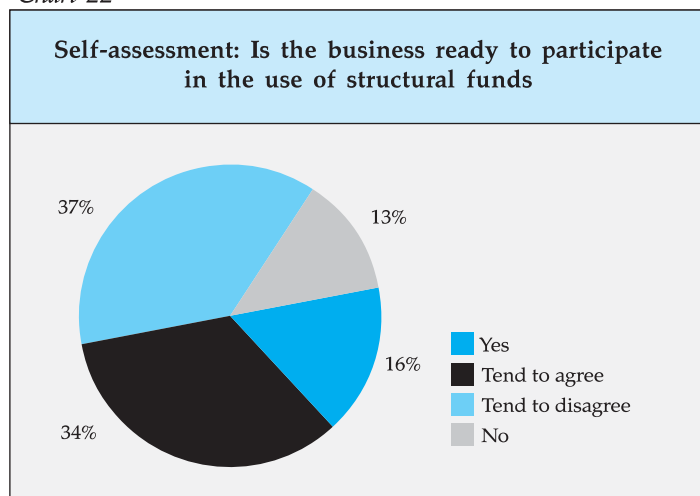
Based on their specific ways of participation, businesses seem 'closer' to the local level and to municipalities compared to non-governmental organisations.

Readiness to participate

According to its own perceptions, the business is considerably less prepared than the other stakeholders who are interested in using structural funds. Around 16 per cent of enterprises stated they were fully prepared (see Chart 22) and 34 per cent said they were partially prepared.

The self-assessment of preparedness depends on several factors. The first thing which has a bearing on preparedness is previous participation in projects. The second factor is the ability to allocate funds to co-finance projects. Geographical location comes third – companies in Sofia feel most prepared, even if not much more so than enterprises in the other parts of the country. Curiously, the business in the Northwest planning region which otherwise falls behind on all indicators, also feels it is better prepared. The fourth factor which affects the self-confidence of companies is their size – enterprises employing less than 10 people said they were least prepared. Finally, the fifth consideration is the respective business sector (see Box 18 and 19).

Chart 22



A more detailed quantitative analysis of various preparedness criteria points out that the business tends to overestimate its readiness. When businesses are put against objective criteria they prove to have insufficient capacity to participate in projects and programmes dealing with structural funds. The self-assessment of companies that are willing to actively participate in the use of structural funds is the best indication of actual levels of preparedness. Among those companies, 34 per cent said they were fully prepared, 30 per cent were unprepared, and 36 per cent were partially prepared. That is extremely disturbing because they are the ones that should be best prepared.

Staff problems plague the business, too. Businesses are generally even more 'disadvantaged' in human resources than NGOs and governments. These two sectors purposefully earmark funds for hiring and training staff that is capable of tackling EU terminology, because their existence in part depends on it – the greatest enlargements in administration over recent years were due precisely to the need for new 'euro' structures. Following the withdrawal of donors, the EU is the greatest substitute NGOs can hope for. Enterprises have no such opportunities and very few of them directly depend on EU structures and programmes in order to make a sufficient effort.

Considerable differences, however, again divide businesses along different lines: small and large, based in the countryside or in Sofia, operating locally or on an international scale.

Two main factors that have to do with human resources determine the level of preparedness to participate in EU funds. The first factor is proficiency in English – although the bulk of information is already available in Bulgarian and applications under structural funds will take place in the national tongue effective 2007, the acquisition of more general competencies and understanding of details will depend on the ability to use extensive information which is available mostly in English. The second factor is training for participation in the EU structural funds, because without it putting together a project proposal can be a very challenging task. Busi-

¹¹ Project development and implementation; strategic development planning; EU structural funds; EU pre-accession instruments; citizen participation, partnership-building, public-private partnerships.

Box 18

HYPOTHETICALLY, THE LEAST PREPARED ENTERPRISE WOULD LOOK LIKE THIS

- based in a rural municipality;
- catering only to the local or municipal marketplace;
- unable to allocate money for match financing;
- employing not more than 10 people;
- operating in utilities, forestry, trade or transport.

Box 19

THE REAL DIMENSIONS OF POOR PREPAREDNESS:

- 86 per cent of businesses have no staff trained about structural funds.
- 73 per cent of businesses have no staff trained in project development and implementation.
- 27 per cent of businesses have no staff or associates speaking English.
- 58 per cent of businesses have no special project design and implementation units.
- 32 per cent of businesses are unable to co-finance projects.
- 27 per cent of businesses are unable to pay for project development.
- 35 per cent of businesses think they are not sufficiently well informed about structural funds, and 15-30 per cent have only limited knowledge of currently available financing opportunities.

nesses are again in a less favourable position because until now money for training went mainly to public institutions and NGOs, and a very small portion reached out to entrepreneurs.

Enterprises have on average 4.8 fluent English speakers, which at first does not seem too bad, even if taking into account differences between micro enterprises and large companies. The bad news for the business is that as many as 37 per cent of companies have no English speakers on the payroll and even 13 per cent of large enterprises employing more than 250 people have none. That is rather disconcerting because it indicates that businesses are quite inward-looking and rapid integration within the EU may indeed become an issue for local companies.

The highest numbers of English speakers can be found in Sofia-based companies and communication firms (including Internet companies).

Nearly three times fewer companies attended training compared to NGOs. Among interviewed enterprises, 77 per cent said they had no staff trained in any of the five areas specified in the questionnaire¹¹, 11 per cent had

staff trained in one single area, and only 8 per cent had people trained in 3 or more areas. Companies that had no trained personnel in any of the five thematic areas varied in the range of 60-90 per cent between different groups and revealed no particularly clear dependencies on location, business sector or company size. Companies operating at a supranational level, large companies, tourism operators and consulting firms showed slightly better indicators, but still low in real terms (between 55-65 per cent had no staff trained and between 16 u 21 per cent had people trained in 3 or more training areas). Logically, consulting companies felt they were best trained (see Box 20 and 21).

An obvious issue is the low level of training in strategic planning – it is not only a threat for growth opportunities long-term, but also a barrier to recognise participation opportunities in structural funds which would improve business competitiveness.

Box 20

TRAINING

The highest numbers of people in 18 per cent of companies were trained in project development. Only 8 to 11 per cent of enterprises have people trained in four other areas of interest (strategic development planning, pre-accession instruments, structural funds and partnerships). The real figures may be lower, however, because in their answers many enterprises confused different kinds of projects, like those under current pre-accession funds and ongoing projects from Bulgaria's central budget – micro loans, small demonstration projects, or calls under open programmes managed locally by the Bulgarian public administration.

Box 21

THE LEAST PREPARED COMPANIES IN TERMS OF TRAINING WOULD LOOK LIKE THIS:

- based in rural regions;
- micro, small and medium-sized enterprises;
- operating locally;
- food industry enterprises, agricultural and forestry enterprises, construction companies, transportation companies, providers of financial services and trade companies.

Responsibility for structural funds: 'everything in due time.' Compared to public administration and NGOs, businesses do not develop special structures to deal with structural funds. Overall, 72 per cent of interviewed companies had no employees responsible for pre-accession instruments and structural funds. In most other cases there was one designated staff member who

also performed other functions (22 per cent). Establishment of special units (3 per cent) or a single responsibility assigned to one staff member (2 per cent) was rare. More developed organisational structures were found most of all in large companies (16 per cent stated they had a dedicated unit and 19 per cent had an assigned employee combining other functions), financial service firms, providers of consulting, accounting and educational services, construction companies, utility firms and energy enterprises. Companies in Sofia and in large or medium-sized cities have more advanced organisational structures dealing with pre-accession instruments, but even there the situation is not too different from the average.

The likeliest reason is that participation in the use of pre-accession instruments and structural funds is not a primary occupation for the business. That is also coupled with assumptions that enterprises cannot set aside resources for activities where return is uncertain and that any staff member who is competent in his or her job would be able to put up a decent project.

Money and advice is now equally welcome. According to the survey, 34 per cent of companies were prepared to pay for project development and only 28 per cent said they were unable to meet project design costs. It is difficult to track that indicator in time because there is no relevant statistical data, but it is very informative about the state of business. Anecdotal data indicates that until a couple of years ago companies used to shun consultant services true to the principle: 'give me money, not advice.' That more and more entrepreneurs are seeking external assistance is an opportunity which should be used to address challenges in the absorption of structural funds.

When the two questions about the financial capacities of the business are combined, the following picture comes out:

- 39 per cent of businesses are able to put aside money for co-financing and project design.
- 7 per cent of businesses are able to pay for project design, but cannot provide match financing.
- 38 per cent of businesses are unable to cover co-financing requirements and project design costs.

Information: yes, provided it is specific. Information is the key factor in being prepared to work with EU funds. It should not only prepare different actors, but should also dispel illusions about European money. Having at hand information that is of good quality and is accessible to all is very important for businesses, because they are seldom included in training which is paid for by public or donor programmes.

Business is poorly informed about EU structural funds – 64 per cent of companies said they were uninformed. General information is most widely spread and 30 per cent of enterprises believed they had knowledge of that. In terms of specific information, however, well informed companies accounted for 8 to 13 per cent, and some 41–54 per cent said they were completely uninformed (see Chart 24).

Comparison with other capacity factors showed that the usual differences between businesses did not pertain with regard to information. Only large companies demonstrated better levels of information along with utility companies and providers of consulting, educational, accounting and financial services. General and popular information again dominates the scene. Least informed are food industry enterprises, forestry companies and locally operating companies – the same businesses that should take the greatest advantage of structural funds.

Information: clear and coming from the media. Entrepreneurs want simple and easily digestible information. For that reason they use television, radio and newspapers a lot more as their sources of information and turn far less to seminars and direct contacts with district governments. Business ranked the following groups of information sources by order of importance:

- most intensively used sources: television (53 per cent) and newspapers (48 per cent);
- relatively intensively used sources: government and ministry websites (38 per cent) and EU websites (22 per cent);
- standard sources: generally accessible printed materials (18 per cent), officially circulated printed or electronic materials (15 per cent), radio (15 per cent), seminars and other forms of training (12 per cent), websites of sector-specific organisations (11 per cent), direct contacts and correspondence with central gov-

Chart 23

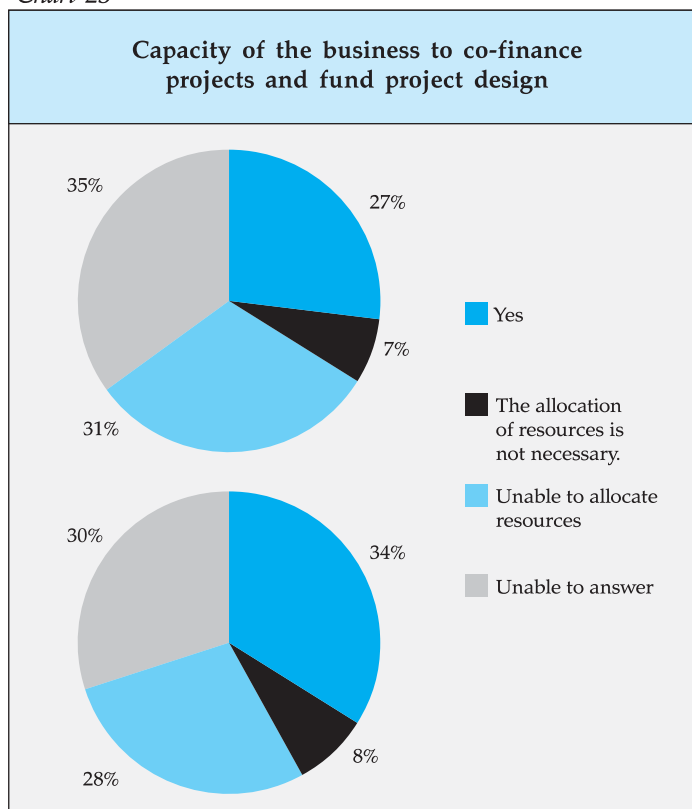
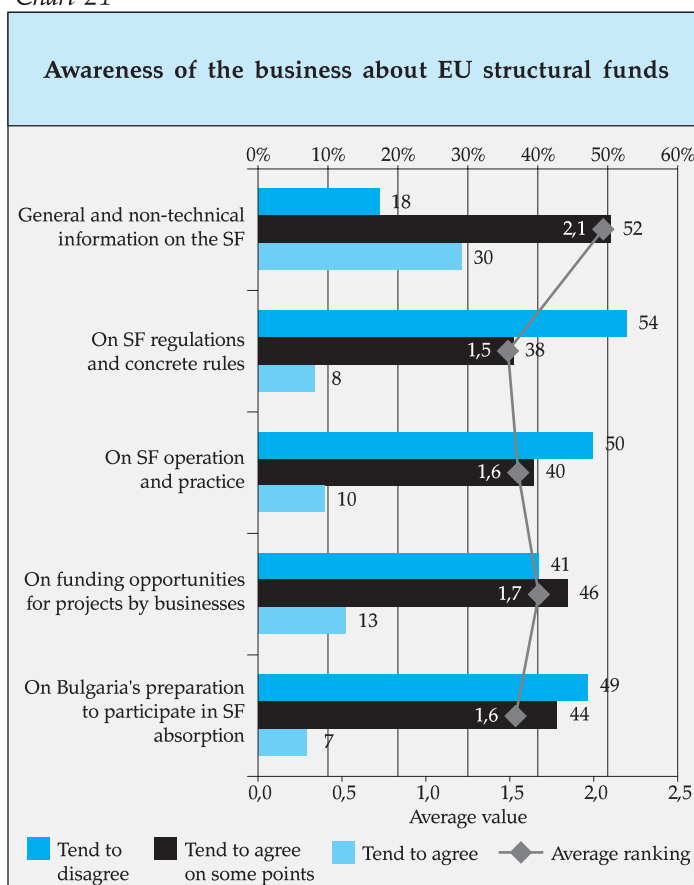


Chart 24



ernment officials (11 per cent), direct contacts and correspondence with municipal officials (10 per cent);

- all other sources (4-10 per cent).

The smaller the municipalities are the more important are personal contacts between entrepreneurs and members of local government along with seminars and officially circulated information which can be delivered electronically or by conventional channels. EU websites are becoming more and more important in larger cities and in Sofia they even overtake television and newspapers. Large companies look for information primarily on government websites and in the newspapers, while EU websites and television were rated third and fourth in importance. For their part locally operating businesses use mainly television followed by newspapers, ministry websites and direct contacts with the local administration.

The conclusion is that the smaller the business is, the more it prefers information to be delivered personally. That may be related to a desire to receive information that can be used directly or to the assumption that information provided in that manner will be exclusive and will give an edge with project application. Another reason could stem from limited skills to find and analyse information, combined with obscure and incomplete presentation of general information which anyway requires additional explanations. Large companies have capacities for more significant data analysis and can afford to 'drink directly from the source' by using EU websites.

Information: timely and understandable. Business is most critical about the amount of information (only 9 per cent of respondents thought information was absolutely sufficient or sufficient). Its being up-to-date gets the best rating, but still it is not too high (24 per cent said information was absolutely current). The accessibility (understandability) of available information also seems to present a problem (only 16 per cent of companies thought information was understandable).

Differences according to locality, company size, business sector and scope of operations are minimal, but rural businesses, the smallest and the largest firms, forestry enterprises, utility companies and providers of consulting, educational and accounting services tend to

give slightly higher marks (both in the general ratings and for most individual aspects of evaluation).

Better informed organisations from both groups, which also believed they were better prepared, rated the quantity and quality of information relating to structural funds by about half a notch higher compared to less informed and less prepared companies. Variance was slightly stronger with respect to the amount and lucidity of information rather than its being up-to-date.

Experience is the best teacher. In contrast to structural funds, business is better informed about currently operating programmes such as the Phare programme, SAPARD and national sources. At the same time it is less familiar with available sources of financing than are municipalities, district governments and NGOs. The explanation is that due to institutional reasons (several assistance projects were unsuccessful) companies could not participate in a sufficiently intense manner in the use of Phare-funded opportunities during the pre-accession period.

Information about various sources of financing is inter-related: those who are familiar with one source are usually aware of most other sources. There are also many groups of companies that are relatively well familiar only with separate funding sources – rural enterprises based in municipal centres and particularly agribusinesses and food industry enterprises are significantly better aware of SAPARD than average companies. Agribusinesses in particular are much better informed about national sources, too, compared to average companies. Utility and energy companies are substantially more familiar with ISPA than the average, while tourism companies are considerably better informed about other external sources of financing than average enterprises.

2.3. Experience in project development and implementation

Project readiness is missing. The project experience of businesses is alarmingly small. Over the past 5 years one company had on average 1 project idea, 0.8 project proposals developed and 0.6 projects approved.

Considerable pools of available experience were gained

outside pre-accession instruments, which are in essence the great challenge (especially Phare and SAPARD) as a learning tool for structural funds. That implication is that in reality business is poorly prepared for structural funds. The prevalent sources of project financing for businesses were national schemes and programmes (48 per cent) and only then pre-accession instruments (40 per cent), chiefly SAPARD and the Phare programme (see Chart 25).

Project experience is uneven – 82 per cent of enterprises have no project experience and 15 per cent have had only 1 or 2 projects. At the same time 4 per cent of companies accounted for nearly two-thirds of projects reported during the survey (see Chart 26 and Box 22). Project experience was a factor of company size, business sector and geographical scope of operations. The smallest enterprises, companies based in small communities, micro enterprises with no hired workers, local operators and providers to local markets, as well as companies operating in utilities, transportation and communications, have most limited experience.

There is a close connection between project experience and the levels of information about funding sources. Companies that are sufficiently well informed about sources of financing have many more successful projects, in particular under pre-accession instruments and other EU programmes. Although less forcefully, the same can be seen with regard to national funding sources. The message is that project success depends on operationalised knowledge (skills), which is a keen issue with view to structural funds. It is not imperative for all applicants to be familiar with the funds' requirements, but requirements should be sufficiently well interpreted for them by those responsible for the management of operational programmes and/or support organisations.

Objectivity, transparency and feedback. Three issues were brought to the foreground with respect to project design, application and implementation: objectivity, transparency and feedback in the selection of projects, deficit of financial resources (or high financial requirements) and application requirements and procedure which were felt to be complicated and bureaucratic. Second in importance were co-financing requirements, respectively lack of match funding, lack of information about funding opportunities, slow payments in the proc-

ess of project implementation, lack of relevant programmes and strong competition to access project financing. Relatively great significance was also attached to lack of feasibility studies, funds necessary to meet project design costs, and short timelines to submit project proposals.

Chart 25

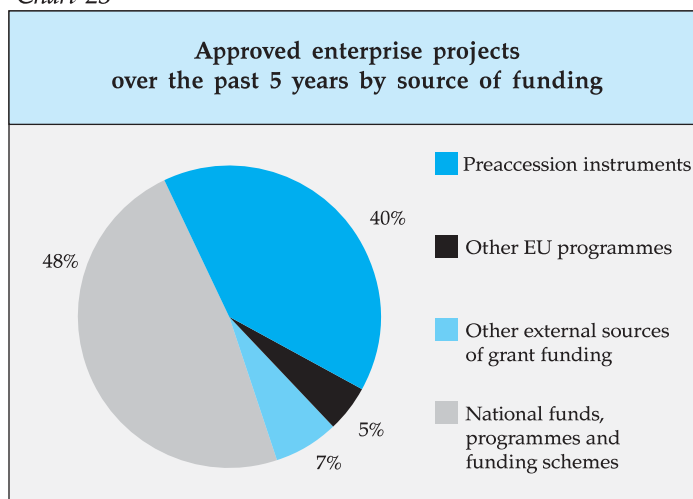
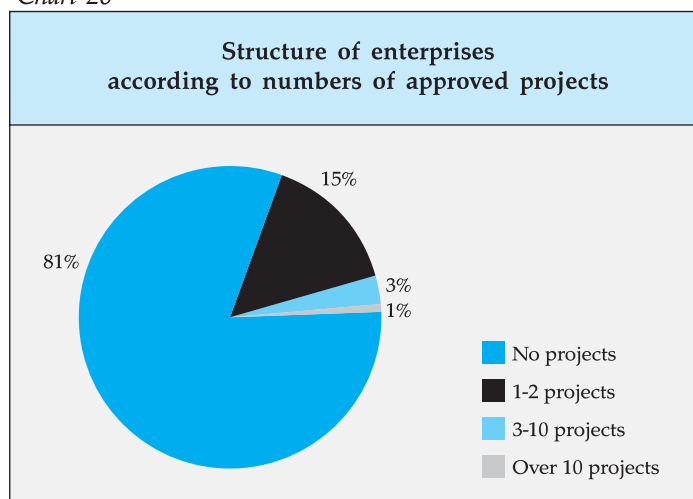


Chart 26



Box 22

COMPANIES WITH NO PROJECT EXPERIENCE ARE:

- 76 per cent of businesses willing to participate with their own projects;
- 81 per cent of businesses willing to participate as sub-contractors;
- 87 per cent of businesses willing to participate as consultants;
- 81 per cent of businesses willing to participate by providing voluntary assistance to other organisations with training, project design, etc;
- 72 per cent of businesses willing to participate in programme management.

Given the low levels of in-house capacity and experience, the tendency to underrate their own weaknesses and to look for reasons for failure only in the outside environment is a cause of concern. Procedures are sometimes indeed needlessly complicated and bureaucracy-ridden, but they seek to ensure that the taxpayers' money will be used properly and more effectively, and applicants should be able to deal with complex procedures. At least in some respects the structural funds will imply a more difficult application and implementation process than pre-accession instruments (see Box 23).

Box 23

DIFFERENCES BETWEEN COMPANIES IN TERMS OF MOST IMPORTANT DIFFICULTIES:

- *Complicated and bureaucratic requirements* were rated significantly higher than the average by companies based in medium-sized municipalities, rural enterprises and agribusinesses. Companies based in small municipalities and in rural municipal centres, large enterprises and energy, utility and tourism companies gave ratings considerably below the average.
- *Lack of transparency* in evaluation and feedback was rated quite above the average by small companies employing not more than 50 people, transportation firms and tourism companies. It received lowest rankings from companies based in small municipalities, big cities and rural municipal centres, as well as energy companies.
- *Unfair project evaluation* was rated considerably higher than the average by Sofia-based companies, small enterprises having 50 to 99 employees, tourism companies and trade companies. Ratings were considerably below the average for companies based in large cities except Sofia and in rural municipal centres, micro enterprises with no hired workers and large companies, utility companies, consulting firms and regionally operating businesses (catering to regional markets).
- *Lack of resources for co-financing, respectively high co-financing requirements* were rated higher by small and rural enterprises, micro enterprises with no hired workers, food industry enterprises, agribusinesses and forestry companies. Medium-sized and large firms, industrial enterprises, communication companies, providers of consulting, educational or financial services and companies operating at a supranational level gave substantially lower ratings.
- *Lack of information about funding opportunities* received highest ratings from companies based in Sofia and in rural municipal centres as well as companies operating in forestry, transportation and trade. It had lowest ratings from companies based in large cities, agribusinesses, utility companies and consultancy firms.

Corruption: the usual suspect. Corruption is often stressed to be an issue, but evidence is anecdotal. Moreover, businesses complain far less than NGOs, either because they do not wish to limit their potential access to funds in the future, or for other reasons. That is why it

is difficult to judge whether corruption really exists or is a matter of subjective perceptions caused by poor transparency and feedback or by the poor preparation of companies that applied with projects. The main arguments are that those who are prepared are not granted projects under pre-accession funds, whereas the projects of ill-prepared applicants get approved. All too often one's own weaknesses and shortcomings get explained away through the corrupt advantages of the competition. The media also report numerous allegations that are rarely supported by proof.

Consulting assistance: controversial, but necessary.

Businesses largely use consultant assistance for project design as indicated by 50 per cent of respondents (see Chart 27). Use of consultant services was not influenced by the company's location but mostly by its size and scope of operations. Only 20 per cent of micro enterprises with no hired employees used consulting assistance (and only at times). Small enterprises employing 50 to 99 people were the most active users of consultant services at 78 per cent, including 28 per cent which often resorted to advisory assistance. The scope of company operations (their market) was another significant factor: 40 per cent of local operators took advantage of consultant assistance and 7 per cent used it often, while the proportions for the other groups of companies were 55-60 per cent and 13-16 per cent respectively. Sectors that more intensively used consultant services include the food industry, the agricultural sector, construction companies, energy and communications. Consulting firms, providers of accounting, educational and financial services and transportation companies least of all engaged consulting services. The efficiency of consultant assistance is controversial: 66 per cent of frequent users and 75 per cent of occasional users did not have any successful projects.

The quality of consultants may be called in question. For instance, 47 per cent of companies providing project development advice admitted they were poorly informed about structural funds; 40 per cent felt they were not prepared for structural funds, 74 per cent were little informed about currently available funding opportunities, and 80 per cent did not have their own projects.

At the same time 20 per cent of interviewed companies provided project development advice and assistance and

4 per cent of them did it often. Those are primarily specialist consulting firms whose main clients include business organisations, to a lesser extent non-governmental organisations and insignificant numbers of municipal and public authorities. Companies based in big cities reported a higher share of services provided to NGOs, while rural businesses, large companies, utility firms and trade companies provided more services to municipal administrations.

2.4 Experience gained through participation in planning and programming

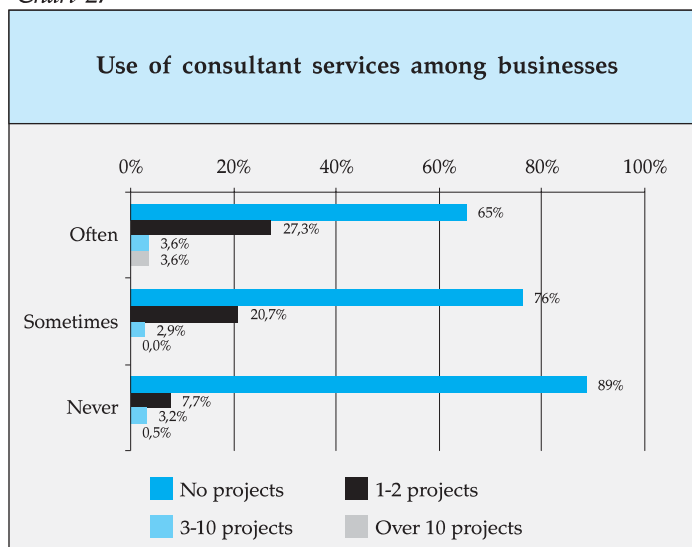
In search of direct benefits from planning. Businesses look positively towards participation in planning processes in keeping with their expressed willingness to participate in the use of structural funds by being involved in planning. Nearly 70 per cent of enterprises were categorical that it was important for businesses to participate in planning in view of their awareness of real business needs and interests, as well as their expertise and ability to contribute to identification of acceptable solutions. Overall, 63 per cent fully agreed that participation in planning may secure better access to financing in the future, which indicates that the planning process is regarded primarily as yet another opportunity to gain a competitive edge for accessing structural funds.

While 53 per cent categorically disagreed that businesses are not sufficiently competent to participate in planning processes, 10 per cent fully agreed to that and 37 per cent agreed in some extent. One-third of companies denied that planning was the sole responsibility of governments and that participation was pointless, because the opinions of the business did not count, but some 20 per cent fully agreed with that statement.

Variation between different types of companies was on the whole minimal, but some characteristic differences may be noted:

- Rural enterprises believed in a larger degree that planning was the task of the central government and municipalities. They also felt more strongly that companies should participate in planning because they

Chart 27



better represent real issues and needs and because that will be a way for them to ensure better access to financing in the future.

- Large companies and financial service providers least agreed to negative statements about their participation in planning, in particular that planning is exclusively a responsibility of government authorities.
- Tourism companies and forestry companies were more sceptical about the need for and benefits of participation in planning processes. While forestry companies made it evident by higher levels of agreement with negative propositions, in addition to that tourism companies showed less agreement with positive statements about participation.

Business is still far away from planning. Business is considerably less involved in development planning processes and declarations of participation diminished on the way from the municipal (11 per cent) to the national level (4 per cent). Considering that businesses vastly outnumber other development actors, lower levels of participation are in some extent easy to explain. In addition, participation in planning and programming is one of the inherent functions of governments and NGOs, while for businesses it is only a secondary interest.

As a rule, companies that are engaged in planning and programming participate in several ways. The most called-for way is participation in public debates followed by involvement in work groups and contribution of written opinions and suggestions. A large part of com-

panies supported planning processes with technical and human resources, which substantially varied between different planning levels. Technical resources were provided by 28 per cent of companies involved in planning at the municipal level and by 20 per cent of companies at the national level. Assistance in human resources was provided by 24 per cent of enterprises at the municipal level and by 13 per cent of companies involved at the national level. Both indicators gained lower values at district and regional levels. An extensive share of enterprise participation in planning involved provision of paid expert assistance (varying from 17 per cent of participant companies at the municipal level to 27 per cent at the national level).

The actual participation of business in planning processes is at odds with declarations of positive attitudes. In reality, it is 2 to 3 times lower. The likely reasons have to do with opinions that:

- participation is pointless because it is a token exercise and opinions do not count;
 - participation is pointless because companies are not sufficiently competent;
- as well as with:
- insufficiently participatory planning processes, where the public administration responsible for different planning levels fails to sufficiently involve

NGOs and the business regardless of their willingness to participate;

- shunning responsibility, where participation in planning is believed to be necessary, important and useful, but it is 'better for others to participate.'

A curious detail is that business prefers to participate through public discussions, which are otherwise heavily criticised for often turning into talking shops. Perhaps that inclination is due to the more liberal nature of discussions, which rarely require investment of special efforts and resources. The cost of participation in planning may be reduced, especially above the municipal level, mainly through representative organisations. The issue is that businesses generally distrust such organisations.

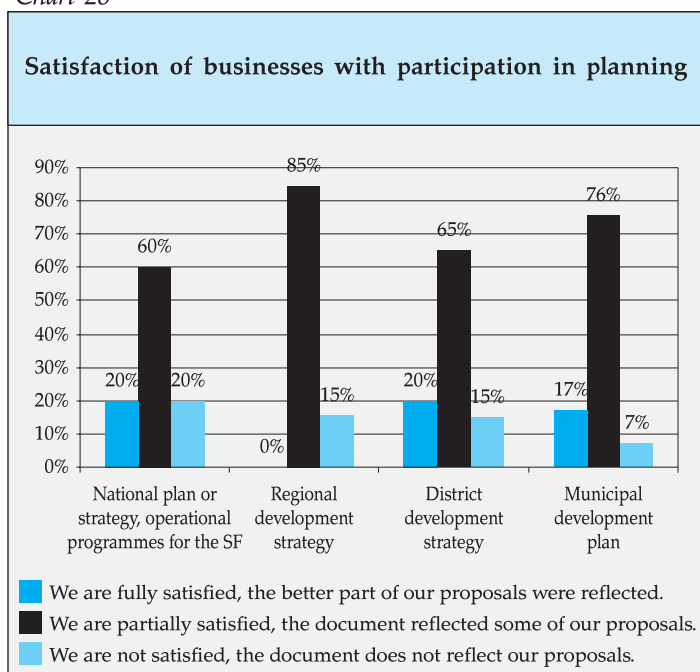
Business is quite satisfied with its participation in planning processes. Although differences are insignificant, higher ratings were given to the outcome of planning participation at the lower levels in municipalities and districts. Participation in planning at the national level also rated relatively high, but slightly more companies were dissatisfied at that level. The outcome of participation in regional planning was the least appreciated. At all levels the predominant groups of companies were satisfied only in some degree (60-85 per cent, see Chart 28).

2.5 Interaction and partnership

Cooperation and interaction with public authorities

Willingness to cooperate grows in proportion to information. The willingness of businesses to cooperate with the public sector in project planning and design largely depends on levels of information, preparedness and actual experience because better knowledge inspires partnership. Business gives relatively high assessment to the importance of cooperation with public administration for the use of structural funds, but it is more restrained compared to NGOs – 54 per cent of companies felt cooperation was very important and 37 per cent said it was important. That linkage was more essential for Sofia-based companies, large enterprises, construction companies and providers of consulting and educational services. Companies that are willing to participate actively in the use of structural funds and be-

Chart 28



lieve they are better informed and better prepared to participate, attached greater importance to cooperation.

The actual interaction between businesses and public administration tends to decrease as it moves from the local to the national level: 70 per cent of companies interacted with municipal administrations, around 55 per cent had relations with district governments and regional services of central institutions, and 48 per cent kept engaged with ministries and agencies.

Public administration is more attentive to large companies. Larger companies (large and medium-sized firms) provided higher ratings to their interaction with the administration at all levels. A possible reason is that larger-scale organisations have stronger interests as well as more resources to cooperate with the public sector. More informed and better prepared groups of organisations are more critical of their current interaction with the administration. One explanation is that public administration prefers to pay attention to larger companies, which are better organised and are more capable of making their claims heard because of their greater leverage. Companies that have more extensive project experience attached greater importance to their interaction with authorities and ranked it higher at all levels.

The higher a given institution stands in the ladder of public governance, the less it interacts with the private sector and the more negative assessment is drawn from the business (see Box 24). Interaction and cooperation with municipal governments received the best ratings, while businesses spoke in the strongest negative terms about the central government. The relatively restrained assessment businesses give to the importance of their interaction with the administration cushions the clash of expectations against reality, but there were some indications of disappointment (see Chart 29).

Characteristically, there are unrealistically high expectations from cooperation. One illustration of outsized expectations was that only 10 per cent of companies were able to identify the real role of municipalities as recipients of money from the structural funds. The proportion of 'don't know' answers was very high (43 per cent). The structure of replies provided by informed companies was not significantly different from that given by ill-informed companies, which raises doubts and concerns

about the self-assessment of awareness (it appears to be overestimated), and the realism of organisations, or the quality of information and training. The innate scepticism of business regarding public administration provides some shelter against greater disillusion, but sparks are building up and may yet become a far broader issue, even one of political consequence.

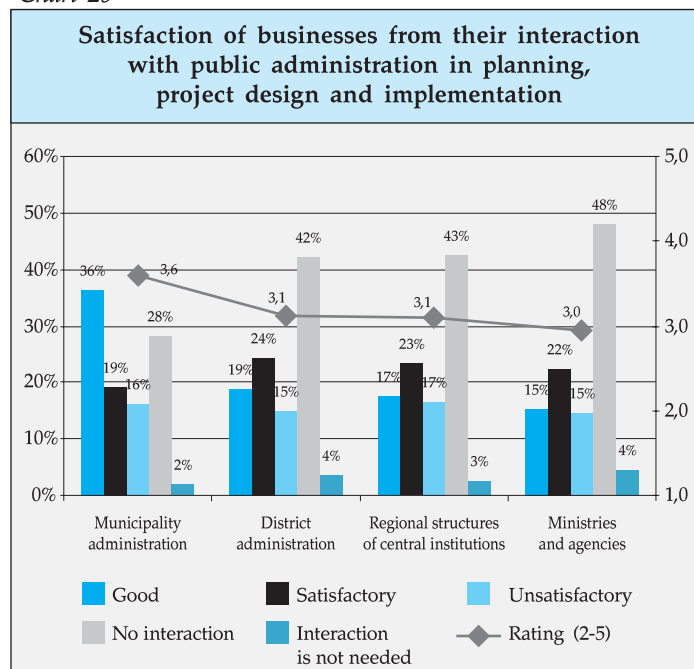
According to most companies, the main challenges and barriers for cooperation with public administration include lack of clear regulations about forms and proce-

Box 24

AMONG COMPANIES THAT ATTACH GREAT IMPORTANCE TO THEIR INTERACTION WITH PUBLIC ADMINISTRATION FOR PLANNING AND PROJECT DESIGN:

- Only 36 per cent rated their interaction with municipal administrations as good; 46 per cent of companies did not interact with municipal governments or said their interaction was not satisfactory.
- Only 19 per cent of companies rated their interaction with district administrations as good; 54 per cent of companies did not interact with district governments or said their interaction was not satisfactory.
- Only 17 per cent of companies rated their interaction with deconcentrated authorities as good; 55 per cent of companies did not interact with these structures or said their interaction was not satisfactory.
- Only 13 per cent of companies rated their interaction with ministries and agencies as good; 58 per cent did not interact with ministries and agencies or said their interaction was not satisfactory.

Chart 29



dures for interaction and consultations, looking down on business as if it were an inferior partner, centralised decision-making (opposed to more efficient interaction at the lower levels), and the reflex of administration to notify the business after the fact (informing businesses about decisions already made). Other essential difficulties are the diverging expectations of Business and the public sector, ineffective forms and procedures for interaction, lack of experience among businesses and public administration, the administration's fear of criticism for its decisions, and avoidance of transparency in order to pass unpopular or corrupt decisions.

The analysis of challenges shows that practical issues take precedence over points of principle. As long as there is dialogue, such differences can be smoothed. Another positive aspect is that business recognises its own limited experience as a cause for weak or dissatisfactory interaction with the administration.

The assessment of difficulties did not vary depending on self-assessment of information and readiness to participate in the use of structural funds. The implication is that the bulk of difficulties stems from basic misunderstanding of the principles of interaction between the sectors. The reason may be lack of relevant training or lack of communication and discussions with the administration on how to address shortcomings, challenges and approaches.

Although it did not bear significant weight in the mean values, the cost of cooperation with the administration (participation in meetings, sessions, etc.) is more significant for companies based in small municipalities and villages, micro enterprises and construction companies.

The unseen benefits of public-private partnerships. Inclusion of the private sector in the implementation of public sector projects – the so-called public-private partnership (PPP), is an important tool to mitigate public investment deficits and to improve efficiency and effectiveness by employing the skills of the private sector. Bulgaria is experiencing a severe need of investment, particularly for infrastructure development, which is a particularly fitting area for application of public-private partnerships.

In that light the results of the survey are not encouraging. They indicate it would not be possible to rely on

rapid, broad and large-scale development of public-private partnerships, including for projects to be co-financed by EU funds.

Bulgarian businesses generally give credit to the benefits of public-private partnerships, but not too unequivocally. Direct benefits for the business are poorly recognised. For instance, more companies fully agreed with the statement that 'PPPs enable more resources (financial resources and expertise) to be mobilised in order to address important local and national issues' (42 per cent) than with the statement that 'PPPs contribute to maximising business profit' (25 per cent). Awareness of PPP benefits was particularly low in small municipalities and villages as well as in some business sectors like the building industry, among others. A positive development is that the benefits and specific forms of PPP are better recognised among large companies and in such sectors as utilities, energy and financial services, which are potentially important for the practical application of public-private partnerships. Companies that are better informed and better prepared to take part in the utilisation of structural funds are also better aware of PPP benefits and are considerably more familiar with specific forms of public-private partnership.

Two-thirds of companies have had experience of working together with the public sector, but mostly in more 'elementary' forms like service contracts, delivery agreements, lease agreements and, to a smaller extent, building contracts. Experience in more complex joint activities that also require sharing management responsibilities and risks (concession, agreements for joint operations, joint ventures), is far more limited. Familiarity with specific forms of PPP is critically low, for instance specific cases like 'design and build agreements,' 'build-operate-transfer,' etc. (well informed companies gained 1 to 7 per cent for specific PPP options, while some 80 per cent said they knew nothing about such forms of partnership).

Setting up and implementing PPPs is a difficult task. It requires not only positive attitudes from the central and local governments, but also proper laws; it is associated with complicated procedures and presents high capacity requirements to the participants, so it is considered to be appropriate and effective primarily for big projects that are 'worth the effort.' The funds' regulations and requirements (under the Cohesion Fund in particular) very often do not encourage public-private partnerships.

It is believed in principle that the financing of public-private partnerships is easier with national public money than with allocations from the structural funds and the Cohesion Fund. Last but not least, in many cases PPPs have an adverse public image – the existing public-private partnerships are associated with corruption scandals (be they legitimate or not) as well as doubts about the economic rationale and the benefits of the partnership for the public sector and the society at large.

Therefore realistic expectations should be formed about the potential of PPPs, mostly by increasing the awareness of businesses about opportunities offered by public-private partnerships for utilisation of structural funds.

Partnership between business and research: important, yet neglected. At first the state of partnership between businesses and research appears to be better. More than half of companies considered cooperation with research organisations or individual researchers to be important, and 13 per cent said it was very important. Bulgarian businesses, however, are not used to collaboration with research organisations: only one-third of enterprises had relevant cooperation experience. For one in four companies who thought collaboration with research organisations or researchers was very important, and for half of those who said it was important, positive attitudes did not materialise in actual cooperation. A source of special concern is that cooperation is more often than not informal (in 60 per cent of all cases companies worked with individual researchers instead of research organisations). That mode of cooperation does not create good grounds for larger-scale projects, including projects to be co-financed by the structural funds.

Here again the good news is that enterprises who are better informed and better prepared for the structural funds place greater importance on cooperation with research organisations and have greater experience in working with them. If targeted actions are taken, the situation may change for the better.

Cooperation and interaction with other businesses

Businesses are convinced they need to partner with each other in the process of participation in structural funds. Only 2 per cent thought that was irrelevant.

That need was most strongly recognised by service and brokerage companies – providers of financial services, consulting, accounting and educational companies, tourism operators and energy companies. Ratings were more favourable among companies based in Sofia (59 per cent claimed it was very important) or in villages that are not municipal centres (54 per cent), enterprises employing more than 250 people (50 per cent), nationally operating businesses (51 per cent) and companies that are very strongly willing to participate in the use of structural funds (56 per cent). Levels of information and preparedness only marginally affected companies' opinions on this issue.

Knowing each other is a primary factor for joint action – usually one company would be willing to cooperate with another, if both are based in the same municipality.

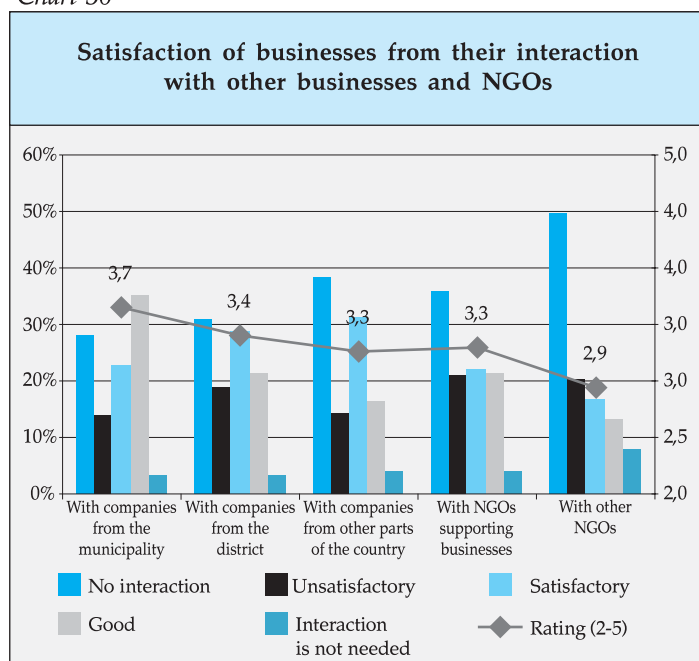
Competitors rather than partners. Businesses seldom identify partnership with similar organisations as an issue for project application. The real cooperation between companies and its rating are substantially lower than declarations of the importance of cooperation may suggest. For instance, among companies that thought cooperation between businesses was important for the use of structural funds, one in four did not specify cooperation with companies from the same municipality and only one-third rated such cooperation as good. Nearly one-third of companies did not specify cooperation with businesses based in other parts of the country and less than one in five companies estimated existing cooperation as good.

The most significant obstacle for cooperation between businesses is competition followed by disregard for the interests of others, which goes back to competition, failures while working together (again often as a result of competition and rivalry) or lack of experience with cooperation. Technical barriers that make partnerships work or not (how to perform effectively in a partnership) seem to be underestimated.

Company size did not affect the assessment of interaction within the sector. The most significant differences in the ratings depended on business specifics (the business sector). Providers of financial services (29 per cent of these companies) largely refused to cooperate in project design and implementation. At the same time

their assessment of real interaction with other companies in the past was a lot higher than the average ratings. Forestry companies gave significantly lower marks

Chart 30

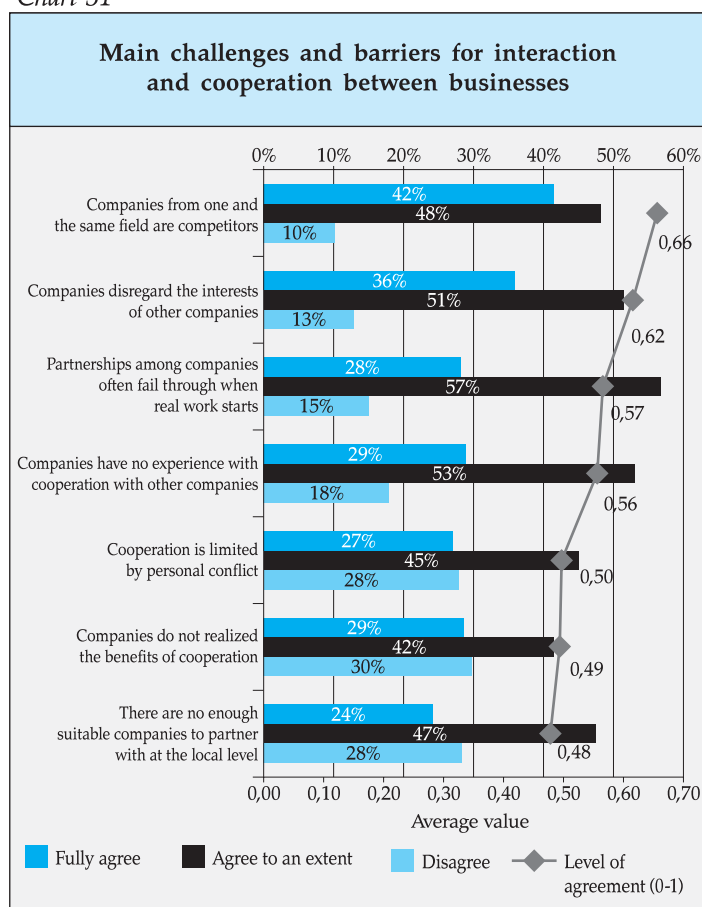


to cooperation with other companies across the country and with business support NGOs. The same was the case with utility companies when they rated their interaction with other businesses from the region, from all over the country and business support NGOs, as well as NGOs in general (see Chart 30).

Assessment of interaction did not vary significantly depending on scope of operations. Companies reliant on local markets gave slightly lower ratings, while regional and international operators gave ratings close to the country average. Companies operating at the national level were a little more favourable in their rating of interaction within the sector.

Poorly informed and less prepared businesses were slightly less satisfied with cooperation. As a rule, their rating for every type of interaction was by 0.1 to 0.3 percentage points lower. Willingness to participate and previous experience with programmes and projects that are relevant to structural funds did not affect the outlook on cooperation, neither the assessment of previous interaction in preparation of plans and projects. The single exception with respect to that indicator was cooperation with companies based in the same municipality: companies with larger project experience more often rated such instances of cooperation as good.

Chart 31



Financially weaker firms could be assumed to aspire more forcefully for more active and better cooperation, but minor differences notwithstanding, the results actually pointed out in the opposite direction. Companies with co-financing capabilities interacted a little better with business oriented NGOs and business counterparts from their districts and municipalities (see Chart 31).

Cooperation and interaction between businesses and NGOs. Business support organisations

Willingness to cooperate with NGOs, but lack of experience. Almost all interviewed businesses stated they should interact with the non-governmental sector. More than half of companies, however, said they had not engaged in any relations with non-governmental organisations of more general purpose; more than one-third of enterprises did not have relations with business sector NGOs or non-governmental organisations which

were specifically created to support business and development goals. Such cooperation seemed unnecessary for 8 per cent of surveyed enterprises and companies generally felt cooperation was weak (at an average rating of 2.9). Large companies (having more than 250 employees) were an exception: 14 per cent of interviewed 'large' companies said cooperation with business oriented NGOs was not necessary and 23 per cent claimed the same for all other NGOs (at ratings five and respectively ten times higher than the country average).

From the perspective of business the relations between businesses and NGOs are more asymmetrical than vice versa – for non-governmental organisations, businesses are possibly the most distanced partner.

No trust in business organisations. One reason for little willingness to participate in structural funds is associated with the small resources of individual companies. Regardless of these limitations, most companies are not members of municipal, regional or national associations that could perform certain functions related to preparation for structural funds (see Box 25). Some aspects of EU agricultural policies in fact provide for associations as a precondition for disbursement of financing.

A point of concern is that companies did not speak very favourably about business oriented or business support NGOs (22 per cent gave good ratings and 38 per cent said interaction was missing). Paradoxically, the business organisations presented a much more optimistic picture of their cooperation with member companies.

Business organisations, in particular those operating at the national level, generally carry little trust, which will make it more difficult for the private sector to participate in the management of structural funds and to get prepared for project implementation.

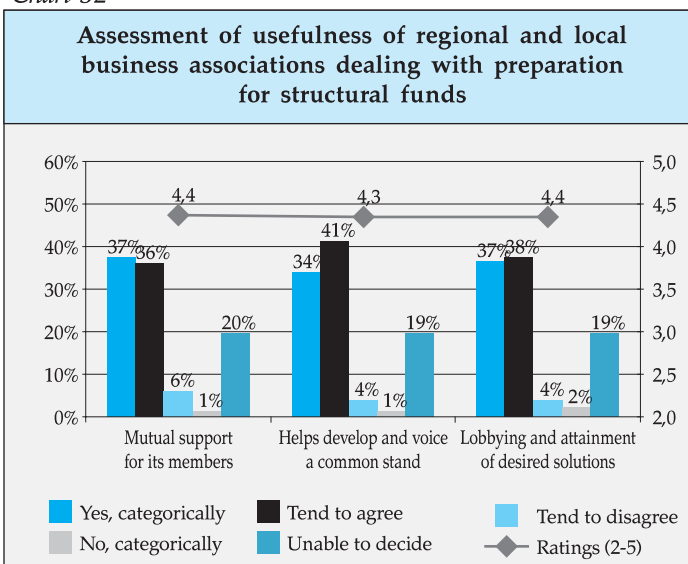
Real interaction is most satisfactory at the local and the municipal levels. The closer it goes to the national level, the more discontent over cooperation is increasing. Like municipalities and NGOs, business is more inclined to bypass the municipal, district and regional levels and to seek solutions to its problems directly at the centre, where interaction, however, is more difficult and is often disappointing (see Chart 32).

Box 25

BUSINESS SUPPORT ORGANISATIONS PROVIDING ASSISTANCE FOR STRUCTURAL FUNDS

- 24 per cent of surveyed companies said there was an organisation that could assist them on issues relating to structural funds.
- 13 per cent claimed there was no such organisation.
- 64 per cent did not know whether or not there was such an organisation.

Chart 32



Box 26

THE BENEFITS OF COOPERATION

- Mutual support was particularly appreciated by rural companies, utility firms, tourism operators and agribusinesses. It was least appreciated by companies based in rural municipal centres, forestry companies and providers of consulting, educational and accounting services.
- Achieving and voicing a common stand was rated particularly high by companies based in large cities, utility companies and tourism operators. It received lowest ratings from enterprises based in rural municipal centres and forestry companies.
- Lobbying was most appreciated by rural companies, agribusinesses, transportation firms and tourism companies. It was least appreciated by companies based in Sofia and in rural municipal centres, forestry companies and communication companies.

Like with other elements of capacity, interest for cooperation is determined by levels of information and intentions to participate in structural funds. Apparently companies are on the whole reluctant to cooperate, which can be put down to historical reasons but also to lack of sufficient incentives and examples. That is a substantial barrier to development, because it prevents collection and exchange of various experiences within the

business community. Clearly, business associations still owe their members.

2.6. Capacity development

Capacity development needs

The most important capacity development needs identified by the business community involved improvements in the provision of information (noted by 73 per cent of companies) and, with substantially smaller weight, improvements with respect to financial resources (46 per cent). Farther back (at 20-30 per cent) are trained staff, linkages with international partners, gaining practical project experience and availability of better and more accessible guidance, manuals, etc. Better interaction with public authorities, NGOs and other businesses was not rated as a priority need (see Chart 33).

Despite all weaknesses in the preparation of businesses to participate in structural funds, a positive trend is that companies attach far greater significance to improvements in information rather than financial resources. That may imply either that companies do not have any information, or that they have grown out of the typecast 'give me money, no advice.' Rural enterprises were a striking exception in that for them information was not so important. They felt it was more important to improve

cooperation with NGOs rather than with other companies and to advance their technical resources. A hopeful factor is that both the non-governmental sector and the private sector have become sensitised about the asymmetry of their interaction and see it as a deficiency, even if it is not of paramount importance.

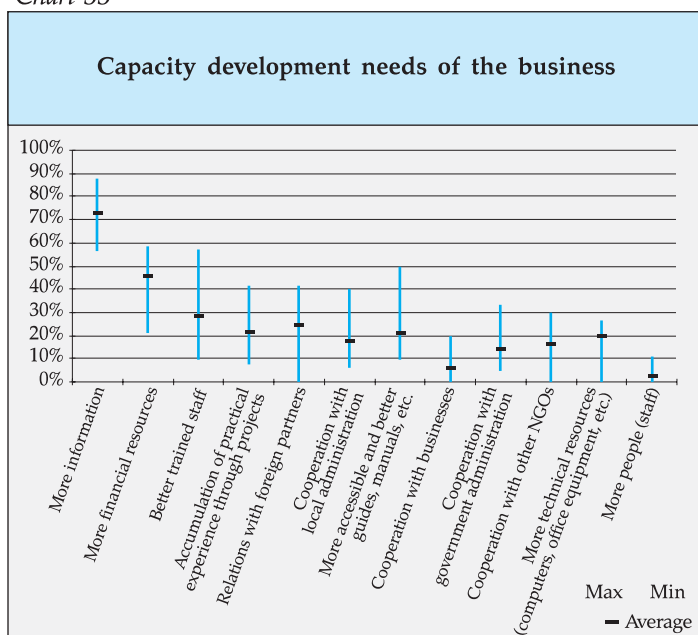
Different companies typically have vastly different needs, which make it difficult to team them in large groups sharing similar needs. Differences are more pronounced by business sector and scope of operations rather than by geographical location. Territorial differences are all the same substantial, with the strongest division line separating small municipalities and villages, on the one hand, and large municipalities, Sofia in particular, on the other. Differences apart, all groups ranked as a priority to improve their information levels and, secondly, to increase their financial capacities. A diversity of needs means that capacity development programmes should be differentiated and must be preceded by a more thorough analysis of the needs of specific target groups.

Training

According to company estimates, training needs surpass fivefold the number of people already trained. The issue is more acute in villages (about 1.6 times higher needs), but the key differences are determined by enterprise size and scope of operations. They affect micro enterprises with no hired workers (2.5 times higher than the average), small enterprises employing 50 to 99 people (2 times higher), medium-sized enterprises (nearly 4 times higher) and especially locally operating companies (6 times higher). Training needs by sector are most severe (more than twice the average) in the food industry, forestry, construction and financial services.

Businesses are looking for more pragmatic information as opposed to the currently available general educational material (see Chart 34). The accessible types of training fail to provide operational information and cram general knowledge, the result being that some of the future project managers have the most general idea about EU goals and what the funds are all about, but have no clue how to formulate and fit in the interests of their enterprise. Most businesses would prefer project design training tied with a specific programme or grant scheme: that

Chart 33



is the case for 78 per cent of large firms, 68 per cent of medium-sized enterprises, 70 per cent of companies operating at a supranational level, 83 per cent of energy enterprises, 86 per cent of communication companies and 70 per cent of food companies.

Training often provides irrelevant information. Seminars on pre-accession instruments, which are about to wind down, continue to be organised instead of training focusing on structural funds where there is a tremendous shortage of knowledge.

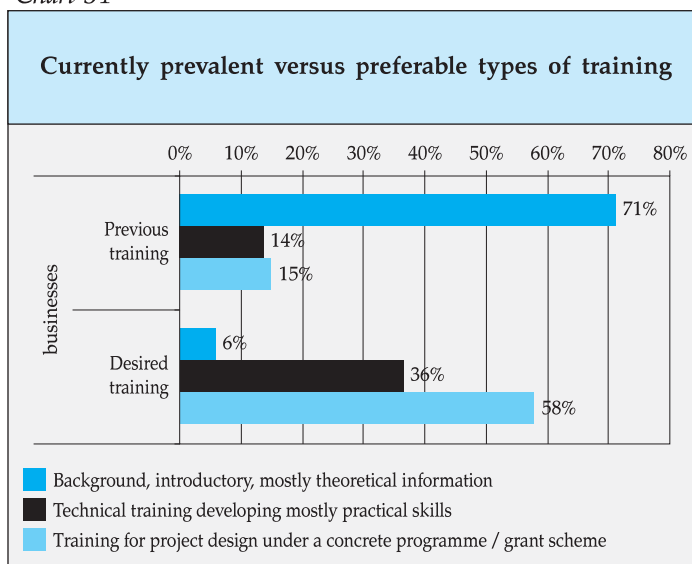
A second reason for relatively low levels of preparedness is the lack of structures and well equipped staff dealing with structural funds. Even large enterprises in Bulgaria (employing 250 people) would count as medium-sized companies on a European scale and, while starvation for funds is pervasive, few companies could afford the luxury of a stand-alone 'EU unit' after the fashion of the administration or even NGOs.

Businesses are willing to pay for training and say they are open to use consultant assistance. Only around 30 per cent of companies said they were not up to pay for training relating to structural funds. Noticeable deviations from the general picture were sector-based, with the highest numbers of utility companies (53 per cent) and industrial enterprises (38 per cent) claiming they should not be funding their own training. Only 8 per cent of energy companies, 12 per cent of tourism operators and 18 per cent of forestry companies shared that view.

The likeliest amount of money businesses could spend on training varied between 25 per cent to half of overall training costs. As many as 62 per cent of respondents were prepared to pay that much. It is almost impossible to expect that companies would cover a greater portion or the full cost of training expenses – only 2 per cent said they were prepared to cover 75 per cent of the cost and 6 per cent were willing to pay in full.

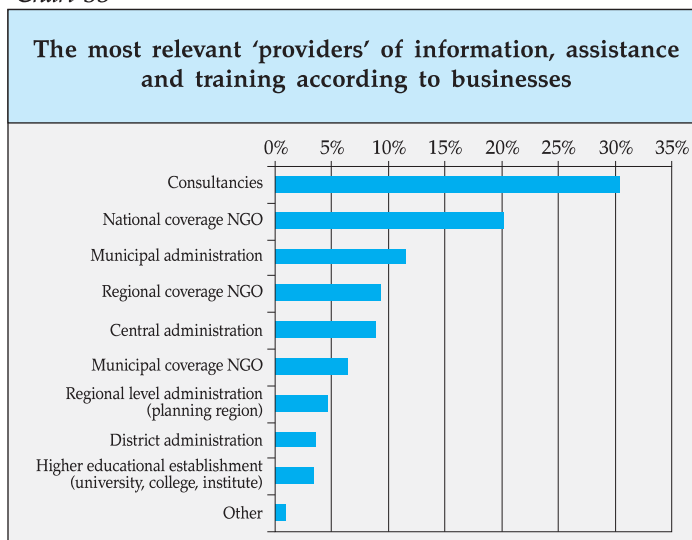
Business is aware that its preparation is lagging far behind and it calls for focused efforts to be made in order to close the distance. Merely 1 per cent of enterprises did not agree that an organisation was necessary to supply information, training and other assistance for the use of structural funds. Consulting firms were regarded as the chief providers of such information (see Chart 35).

Chart 34



A point to note is the low confidence of businesses towards higher educational establishments as their potential partners in the capacity building process. Although various universities and colleges recently started multiple programmes to enhance skills and award educational degrees, only 3 per cent of companies thought universities were their most appropriate aids to increase knowledge and levels of information.

Chart 35



Financial resources

Although business has apparently moved beyond the notion of structural funds as easy money and is aware it should co-finance projects, enterprises are scarcely prepared for that. Companies are unable to fund their share

of matched financing, design of potential projects and, worst of all, development of their own capacity. A problem area for smaller firms is to muster funds to start project implementation as well as the lengthy and often variously protracting periods between the time expenses were incurred and reimbursement. That is bound to become even more of an issue because payments from the structural funds will only be made after project implementation is completed.

The role of business in local development

The role of businesses in development is too often underestimated. At the one extreme the assumption in Bulgaria is that the government makes plans and the citizens execute them. The other extreme is that planning is unnecessary altogether because the invisible hand of the market will take care of that. The result is that companies end up being simply informed instead of being invited to provide real help. Logic suggests, however, that entrepreneurs who stay in touch with real issues often may come up with better solutions. Then instead of going through politically-guided projects, it

would be easier to get economically effective and efficient action.

For that linkage to happen, businesses should also be pro-active. Clearly, business still fails to understand its role as a local development player, especially if contribution goes beyond the material profit for individual companies. Willingness to participate in structural funds primarily with their own projects betrays a degree of self-centred interest and neglect for public benefit. Intentions for participation in the planning or management of structural funds are mostly led by the belief that involvement will ease the access to resources from the structural funds. That creates an obvious conflict of interest and business is not unaware of that. Attention should be more often called to the experience of the tourism industry, where neglect for the logic of sustainable development and the chase for quick return are already confronting the sector with lasting challenges.

Public administration must also play an active part and must 'invisibly' prepare the beneficiaries of structural funds for the important role they may play in the process of the funds' planning and management.

Special contribution

Human development and the capability approach

The standard of living lies in the living and not in the possession of commodities (Sen, 1987). This is the basic intuition of the human development paradigm embedded in this National Human Development Report. Building on decades of work in growth with equity, basic needs and welfare economics, human development emerged in the 1990s and established an alternative space to income and consumption for the evaluation of wellbeing. The writings of the economist and Nobel Prize winner Amartya Sen have been especially pioneering in developing new criteria for assessing human wellbeing. The essence of his 'capability approach' to wellbeing is amazingly simple: human wellbeing is a matter of what people are or do like being healthy, reading or writing, taking part in the life of the community. Sen calls these functionings. But functionings are incomplete, because they exclude freedom. Sen considers freedom to be one of the most basic aspects of human life. So the human development paradigm assesses wellbeing not in terms of functionings – what people are or do

but in terms of what people are *able* to be or do. Sen calls these capabilities. Examples are being *able* to be healthy, being able to read and write, and being able to participate in the life of the community. A capability is a person's ability to do valuable acts or reach valuable states of being (Sen, 1993). While functionings reflect people's achievements, capabilities reflect the real opportunities people have to lead or achieve a certain type of life. The hunger striker who protests against the EU treatment of immigrants may exhibit the same levels of nutritional deficiency as an illegal immigrant who has just entered the EU after a trip in inhuman conditions, but the hunger striker has the capability to be adequately nourished. She has the freedom to choose between eating and not eating, while the immigrant does not have such freedom. Forcing the hunger strikes to eat to achieve some nutritional standards would be a violation of human freedom. Human development thus aims to expand people's opportunities to be or do what they value.

Although income is often useful or essential to give people opportunities to be or do what they value, the human development paradigm points out that increasing people's incomes is not *sufficient*. Sen identifies five reasons for this (1999): personal heterogeneities (a pregnant woman will have different requirements to be well nourished than an elderly woman), environmental diversities (pensioners in Scotland will need a different income to keep warm in winter than pensioners in Sicilia), variations in social climate (parents in a country with a free public education system of good quality will require a different income to educate their children than parents in a country with no free public education system or with a low quality public education), differences in relational perspectives (differences in customs and habits make the income requirements different to appear in public without shame when having guests) and distribution within the family (the family income might not be used to feed the children adequately but to buy the parents' drinks). In order to assess capabilities, then, we also need information on other aspects of

people's lives – their health, education, nutritional status, dignity, autonomy, and so on.

From the above examples, it is quite clear that the human development approach is not only relevant in the context of developing countries but also the European Union. The success of economic progress is ultimately to be assessed in terms of whether people's opportunities to be or do what they value have increased. If a country has experienced a 5% in economic growth, but if its inhabitants mainly are employed in flexible jobs without security or sick leave, if the levels of industrial emissions have increased such that asthma and allergies increase, if elderly people fall sick because they cannot afford heating bills, such economic progress is illusory. The human development paradigm peers beyond economic growth, and investigates people's lives.

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members of the Human Development and Capability Association*

2.7. Conclusions

EU funds are critically important for the business not so much because of investment opportunities (commercial lending may often turn out to be the more accessible option) but because they lend a chance for making overall improvements in the business environment and the social environment in Bulgaria. For that to happen, however, business must be prepared not only to write projects but also to embrace the entire philosophy of EU funds with its focus on sustainable development, support to deprived groups, reskilling opportunities, etc. The goal is not simply economic growth but creation of opportunities for participatory development for all. That will be critical for the smaller enterprises because for them the funds may unlock access to markets and, most importantly, modern business practices.

The most important and upsetting conclusion about the readiness of the business is that the most eligible enterprises are less prepared than others which, according to regulations, will be resigned to a more limited role for direct use of the structural funds. The paradox stems from the characteristics of the enterprises that should otherwise be among the main recipients of financing from the structural funds. They are mostly micro, small and medium-sized enterprises and are often based in small-

er communities that have the weakest development opportunities. They operate in sectors that are typically found in the less developed regions of Bulgaria, for instance the food industry and forestry. These businesses face the strongest shortage of resources and information on structural funds.

The level of preparedness of businesses is determined by four factors: their size, scope of operations, geographical location and project participation experience. Interestingly, differences between companies are not substantial. No sector stand out for being significantly better prepared in all aspects except providers of consulting, educational and accounting services. Organisations and companies in large municipalities appear to be best prepared, especially in Sofia and other big cities. Companies based in medium-sized towns follow up closely, meaning that higher capacity is becoming virtually concentrated in the district cities of Bulgaria. Large companies as well as national and supranational businesses are again better prepared than small businesses.

Business entertains great expectations not only for large-scale participation with their own projects, but also for involvement in the process of project selection and partly project management. That is a patent conflict of interest, but companies seem to prefer to leave it unnoticed. Too

high expectations for participation at all levels and in all ways possible will be a serious issue in the future.

Those companies that are better prepared are not particularly keen on cooperation. That may cut their access to resources from the structural funds and will substantially reduce chances for delivery of quality projects, because their experience and expertise will be lost for

other participants. Business has few intentions to participate in the process of structural fund management. That will apparently also raise issues because it entails a low interest to seek information and a reluctance to engage in cooperation for planning and programming, which in turn will create difficulties for the effective management of structural funds.

Chapter 3.

NON-GOVERNMENTAL ORGANISATIONS

3.1 Overview

Twenty-two thousand three hundred and sixty-six: this is the number of registered non-governmental organisations in Bulgaria as of end November 2005. Too many or too few? Probably too many: as of 2002, registered NGOs in Belgium were 134, in Denmark 150, in Germany 1,100, and France and Italy had 1,000 each.¹² Yet, probably too few. Bulgaria for sure does not have enough NGOs of the type that would shape the understanding that civil society is not a set of organisations but a condition of the social fabric which finds its expression in an active stand and pressure put on decision-makers.

Today Bulgaria's third sector has quite a different look from the one it had at the start of the transition. The strong external support, which marked its early years of formation, is being scaled down more and more. Originally dominated by its emphasis on human rights, minorities and nature protection, the NGO sector succeeded in developing its full gamut, with two main trends emerging in it — advocacy and service delivery (those are also characteristic of the NGO sector in EU member states).

Bulgaria's third sector has its strengths and its weaknesses. Its strong points are professional expertise, considerable experience in logistics and project implementation, a fully developed system of values, good relations with the media and improving relations with the government. A strength in its own right is also NGOs extraordinary variety. Among weaknesses are the insufficient representation and participation of citizens and communities, external donor dependency, small revenue, concentration in Sofia and large cities, poor communication between local and regional NGOs. Furthermore,

the sector reveals poor internal solidarity, feeble interaction and partnerships as well as human resources that are still tender (for the better part of NGOs, their teams are up to 5 persons).

Owing to citizens' negligible participation in the work of the third sector, the latter meets with low levels of public support and impact in society. At the same time, in terms of its values, the sector takes a high and prominent position. Its values, however, remain external to the public. Citizens do not feel represented by non-governmental organisations, and this feeling is so strong that in street language NGO is next to a swear word. In public perception, the third sector exists not in order to express the concerns of the public and defend its interests, but to 'absorb money'. Recently, there have also been feelings that numerous NGOs are being set up solely to use money from the EU structural funds. We have no means to make us be sure that such feelings come from any real processes. Yet, whatever the case, this feeling cannot be disregarded — it is one more indicator about the trust deficit between citizens and NGOs.

One of the major challenges non-governmental organisations are facing is winning public trust. To be able to do this, the first thing they need to do is to change their project design and instead of having it driven by the available money make it driven by the existing needs (*demand-driven instead of supply-driven*). Through their work NGOs should address real community problems and help resolve them, and not engage in activity only to appear active from the outside. Pressure exercised publicly is one of the few mechanisms there are for the public to influence authorities. The other such mechanism are elections. A third mechanism is nonexistent.

3.2 Self-assessment of willingness and preparedness to participate in work under the structural funds

Willingness and motivation for participation

Unlike more skeptical businesses, the better part of NGOs maintain a positive attitude to Bulgaria's prompt EU accession. Among them 52 per cent see it as very useful, and 46 per cent hold that it will be useful for themselves personally and for their organisation.

¹² De NGO-gemeenschap in de Europese landen: een beweging in expansie; 2002, Hoger instituut voor de arbeid.

THE TYPOLOGY OF NGOS

Non-governmental organisations are widely varied. Roughly, they could be categorised in several dominant types¹³: advocacy NGOs; NGOs delivering services; training and research NGOs; gender equality NGOs; students and youth NGOs; children and youth issues NGOs; disadvantaged groups NGOs; professional NGOs; community NGOs; ethnic NGOs; sports and tourism NGOs; charity NGOs; economic interest NGOs; environmental NGOs; NGOs concerned with art, culture and heritage; networks, federations and coalitions; social movements; applied research, innovation and information NGOs. Bulgaria's third sector is difficult to put in box-like categories as it is young, broad, diffuse and dynamic. NGOs differ not only in terms of their area of work, but also in size, location, territorial scope of their work, 'age' and experience. In addition to this is the differentiation the survey revealed in terms of NGOs' willingness to participate in the uptake of the structural funds, preparedness for such participation and, last but not least, capacity development needs. This report could only present one small portion of the most important differences between NGOs; they, however, are a fact which should always be considered.

It is as early as here that the clear line of distinction between big and small NGOs begins. To a certain extent this distinction will dominate the entire chapter: firmly positive opinions on fast accession have a weaker presence in small municipalities, small towns and villages, as well as among local impact NGOs. The strongest positive attitudes are found among municipal associations, trade unions and employers organisations.

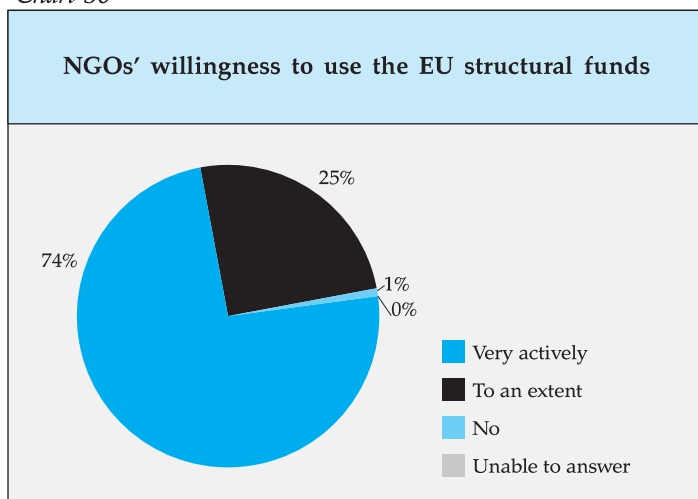
One part of NGOs' motivation to long for Bulgaria's fast EU accession comes from the opportunities in the use of the structural funds.

In fact, all NGOs want to participate in the use of structural funds – three-fourths want to be very active in this, and the remaining one-fourth want to be fairly active. In contrast with this are the fairly limited opportunities for NGO participation, as confirmed also by the experience of the EU member states. At the same time, the share of those looking forward to very active participation is a bare 37 per cent among businesses. The paradox is that it is businesses that would receive the main portion of development resources – as beneficiaries, contractors and suppliers. This paradox, which in one way or another will crop up in a few more places in the report, is an indication primarily to the fact that neither businesses, nor NGOs are aware of the underlying principles of the structural funds and their manner of operation.

The difference between the big and the small is to be seen once again here: the share of those desiring strongly to participate in the structural funds is considerably lower than the average in small municipalities, villages and local-scope NGOs.

Major differences are also to be seen among the different types of NGOs. NGOs who up to now have been among the most active ones and have received support do want to participate in funds' use (municipal associations, industrial associations, chambers of industry and commerce, farmers' associations, minorities-support NGOs, etc.). Sports' and women's NGOs are those types of organisations where the lowest levels of willingness to participate have been registered.

Chart 36



¹³ Mihaylov, Andreeva et al., 2005, p. 25.

Motive underpinning NGOs willingness to participate in the uptake of structural funds resources are pragmatic, rather than idealistic. They range from the desire to resolve a specific problem, boost the NGO's capacity and experience, fulfill its mission as it corresponds to the goals and objectives of the structural funds, represent the members' interest or support the members, expand and improve the NGO's work to pure access to resources, inclusive also of the type of access to resources which unavailability of other sources conditions. NGOs from small municipalities stand out with the considerably increased weight they give to the 'access to resources' motive. Sofia and the large cities reveal greatly increased significance of the existing capacity. Motivation varies also with the type of the NGO.

Through their responses NGOs say 'We want to resolve problems and we can do it.' Insistence on the point that NGOs do have capacity seems to be the result of persistent criticism from the EU on central government administration's poor capacity for structural funds' use. In the past several years NGOs in Bulgaria have been presenting themselves as an alternative to central government for this capacity.

Study of motives for participation in the structural funds suggests a limited presence for the NGOs' advocacy function. Motives such as interests representation and familiarity with the needs of target groups or a particular region, which should take the very top positions, are mentioned only rarely, receiving thus 9 per cent and 6 per cent of NGO responses, respectively. In other words, making a contribution to regional and local development or community development accounts for one very small portion of NGOs' motivation. Besides being identifiable as a paradox, this can also be identified as a considerable problem and also seen as a sign that even at present one large portion of NGOs have abdicated responsibility for some of their main functions.

Desired roles in the use of the structural funds

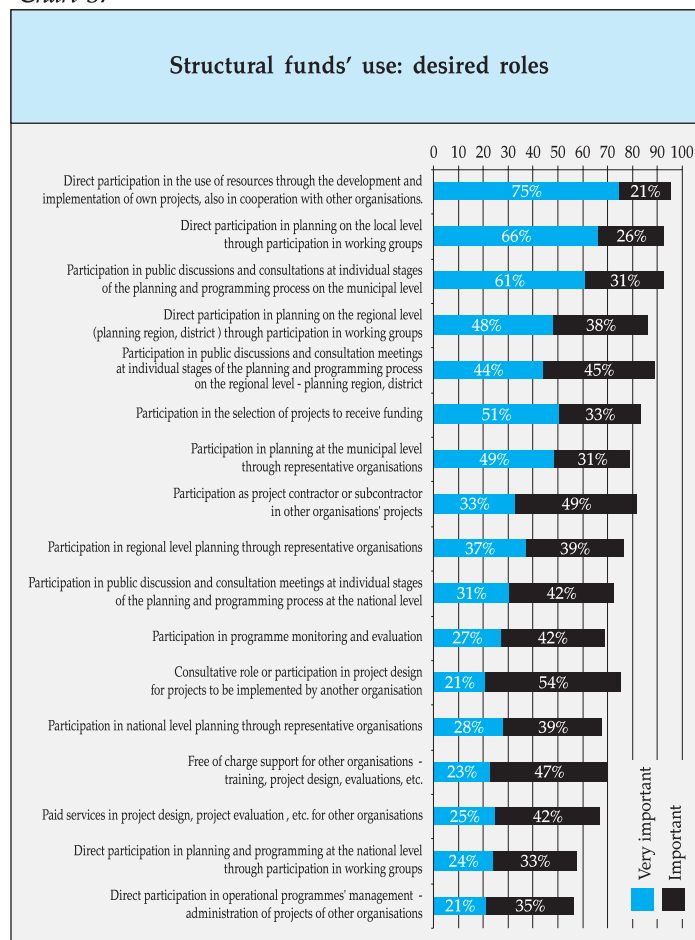
The typical roles NGOs desire to take are participation through projects of their own, participation in planning on the municipal (and in a smaller measure on the regional) level, participation in the selection of eligible projects, participation as a contractor under other NGOs' projects.

At the same time, however, non-governmental organisations seem to desire to participate in everything pertaining to the use of EU structural funds. When given a questionnaire listing 18 different participation modalities (inclusive of the option 'Other not stated above'), NGOs on average identify as very important and important 13 of the given modalities (see Chart 37). One half of NGOs is satisfied with a participation that gives them up to 6 roles, one-third would like to participate with 7 to 10 roles, and one-sixth would like to have more than ten roles. These responses are evidence that the NGOs' role in the context of the structural funds is not

defined clearly enough, and this once again suggests lack of quality and well targeted information on structural funds issues.

This is an identical paradox: the third sector expects strong participation while openings for it (especially in terms of access to resources / projects) would be rather limited; businesses entertain modest expectations although probably they will have far bigger opportunities (again in terms of access to resources). This paradoxical situation has its risks — low expectations on the part of the major beneficiary, i. e. businesses, may grow into a threat to the uptake of resources. At the same time great expectations among NGOs may lead to a great disappointment soon after the structural funds become operational here. This already happened in some of the newest EU member states. Stakeholders in Estonia, for instance, realised that the structural funds are big and complex and require considerable human resources, and besides it is important not to take up too many things¹⁴.

Chart 37



¹⁴ Harvey Brian, The Illusion of Inclusion, 2003.

CORRELATIONS

The number of roles NGOs have identified for themselves in EU structural funds absorption is intimately linked to the willingness to participate in general in structural funds uptake. Among those who voiced willingness for active participation, the roles identified are on average 7.3, compared to 4.5 for the group that declared limited willingness to participate. The number of participation modalities identified was highest among the industrial associations and the chambers of commerce and industry, minorities support organisations, regional development agencies and other development associations, trade unions and municipal associations (all of them indicating over 7 desired roles).

NGO profiles that emerge based on the concrete manner of NGO participation show that the line between the development community and the programme management community has become blurred.

Standing out the most as typical NGOs, members of the development community, are the environmental organisations – they want to be very active in planning (consultations), they would like to have projects of their own (but not too many), and they make no big claims on programme monitoring and management. Coming close to those characteristics are also local NGOs.

Coming closest to the roles of the programme management community are policy-formulation NGOs, industrial associations and chambers of commerce and industry, trade unions, regional development agencies, business centres and other development NGOs and municipal associations. They display keener interest in programme management and monitoring, yet at the same time they all share a dominant desire to participate through projects of their own.

One group of NGOs that stand out are NGOs from Sofia who often are also national in their coverage. This group reveals:

- considerably greater significance attached to willingness to participate in planning on the national level, particularly through working groups or public hearings and consultations, as well as in programme monitoring and evaluation and in programme management
- considerably less significance attached to willingness to participate in planning on the municipal level, and on the regional level through representative organisations and through public hearings and consultations, less interest also in participation as a contractor engaged under other organisations' projects.

Running with the hare and hunting with the hounds. Bulgarian NGOs voice a desire to be part of both the development community and the programme management community. Belonging to both, however, involves potentially conflicting ways of participation — participation with one's own projects, as a contractor or a consultant on the one hand and participation in the selection of projects under the structural funds, and structural funds programmes' management, monitoring and evaluation on the other. This high degree of overlap

between activities (which is characteristic of both communities) gives ground to presume that the better part of aspiring entities will not be able to play both roles at once. That is, there is a significant mismatch between expectations and aspirations for participation through NGOs typical roles in the use of the structural funds. To reiterate — NGOs (like businesses) are first and foremost part of the development community. The third sector's role is primarily to provide guidance, monitor and use structural funds resources, and not to manage them. In keeping with the partnership principle, NGOs sometimes stand also among the programming community (for instance as members of working groups doing programming, or of monitoring or steering committees). Nevertheless, it is very rarely that they participate directly in structural funds' management and, respectively, in the making of concrete decisions on use of resources. This situation, which is particularly painful and hard for NGOs to accept, does find its logical explanation. When it comes to the spending of public resources (be it national or EU resources) the responsibility for decisions rests with public authorities.

"We want projects!" Participation through project implementation is NGOs' preferred type of involvement. A total of 75 per cent of NGOs perceive participation through projects of their own as very important. Considerably less NGOs see their role as that of contractors under other organisations' projects.

The desire to participate through your own projects is most strongly felt with Sofia organisations; civic participation and civic rights organisations, policy development, lobbying and NGO support organisations, industrial associations and chambers of commerce and industry. This orientation is least strong with organisations coming from small municipalities; sports organisations, farmers' associations, trade unions and industry-specific organisations.

Willingness to participate as a contractor under somebody else's projects is strongest with NGOs from large cities; regional development agencies, business centers and development associations, minorities support NGOs and NGOs in support of disadvantaged groups. This willingness is least strong among national-coverage NGOs, NGOs from Sofia and villages; farmers' associations, environmental, women's, sports and youth NGOs.

Participation in planning: primarily at the municipal level. Participation in planning and programming ranks second in terms of the importance NGOs attach to it. With respect to the issue of planning, two trends emerge. Firstly, the higher the planning level, the lower the desire to participate: participation on the municipal level is seen as very important by over half the NGOs, while planning on the national level attracts only some 30 per cent. Secondly, direct participation modalities – through public discussions and hearings or participation in working groups are preferred to participation through representative organisations.

Orientation towards planning is stronger among trade unions, farmers' associations and environmental NGOs and weaker among women's organisations and NGOs developing policies and supporting other NGOs. Local organisations, as well as organisations from villages and small towns are most focused on local-level planning. Regional organisations, as well as organisations from medium-size and large cities focus in almost equal measures on planning on the local and on the regional level. At the same time they start to show greater level of interest in participation on the national level. Quite naturally, national and Sofia NGOs display strongest preferences towards planning on the national level.

NGOs' desire to participate in planning is closely linked to their desire to participate in the selection of projects, which is much stronger than that displayed by businesses. Close to 90 per cent of the NGOs who deem their participation in municipal level planning as very important, also attach great importance to their participation through projects of their own. A possible explanation of this correlation is linked to the understanding that participation in planning can ensure better access to resources (projects) in the future if those projects or their rationale go down into the respective planning and programming documents.

The desire to participate in programme management is fairly prominent despite the third place it is relegated to. This desire is primarily related to participation in the selection of projects to receive funding (something very important for 51 per cent of the NGOs). Nonetheless, one relatively big portion of organisations hold it is very important also to have a direct participation in programmes' monitoring and evaluations (27 per cent) and

Box 29

CONFLICTING ROLES

- Among those NGOs who want to participate in the selection of projects, 88 per cent would like to have projects of their own, 45 per cent would like to take part as contractors and 32 per cent would like to be involved as consultants.
- Among those NGOs who would like to participate directly in programmes management, 90 per cent would like to participate through their own projects, 55 per cent as contractors and 57 per cent as consultants.
- Among those NGOs who would like to participate in programmes' monitoring and evaluation, 88 per cent would like to have projects of their own, 52 per cent to participate as contractors and 44 per cent as consultants.

in the day-to-day management (administration) of programme components (21 per cent).

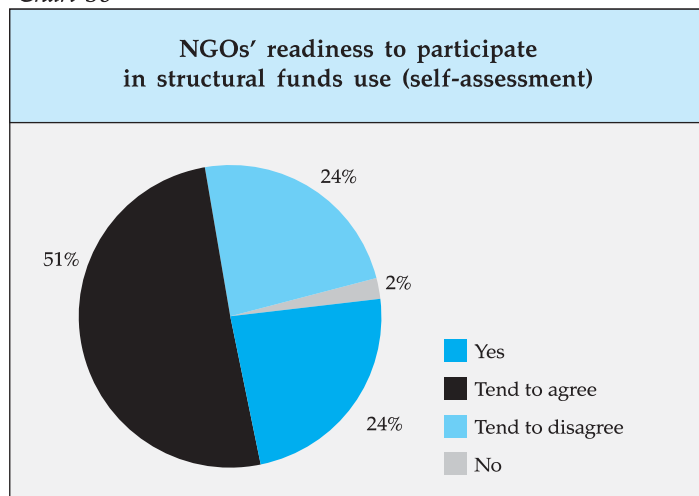
Support to other NGOs is not among the priority areas of participation in structural funds' use. The weight given to the three distinct ways identifiable in the provision of support seems to be practically the same: paid consultations, unpaid support for participation in structural funds' use (training, project design, analysis and evaluations, etc.) and 'informal' participation in the discussion and consultation of projects of other organisations. This role is most characteristic of those NGOs who develop policies, lobby and support other NGOs, as well as of the regional development agencies, municipal associations and NGOs similar in goal and purpose to industrial associations and chambers of commerce and industry.

Readiness for participation

The better part of Bulgarian NGOs feel ready to become involved in the use of structural funds (see Chart 38).

The line separating the small and faltering NGOs from their large and confident peers logically appears here, too. Structures of the Industrial Association and the Chamber of Commerce and Industry, together with regional development agencies, business centers and development associations see themselves as best prepared. Bigger NGOs (in terms of human resources) see themselves as better prepared: over 86 per cent of the NGOs of over 20 full-time and part-time staff see themselves as prepared, compared to 51 per cent among NGOs with-

Chart 38



out paid staff. Self-confidence among NGOs with broader territorial coverage in their work, too, is considerably higher: 89 per cent of national-coverage NGOs say their preparation is sufficient (compared to 62 per cent among local area NGOs).

Only 29 per cent of NGOs willing to participate actively in the use of structural funds believe they are fully prepared; one considerable portion of the NGOs in the same group (20 per cent) feel they are unprepared. This suggests that often willingness to participate is not based on confidence in one's own experience but is a rather a knee-jerk reaction — "If the money is there, we should be there, too." This situation could receive, on the one hand, a positive evaluation — strong desire for participation, if seen through the lens of tougher competition, could mean more diligence and, hence, better quality of NGO work in the context of the structural funds. On the other hand, there is a substantial risk that insufficient preparedness among the majority of NGOs will prove a high barrier to the use of structural funds. To minimize this risk, work should start urgently to raise NGOs' capacity.

Box 30

CAPACITY PROBLEMS

Capacity problems are gravest in small places, small and medium municipalities and rural municipalities. Conversely, in a comprehensive review of all dimensions of capacity, the major potential actors appear to be NGOs with regional and national coverage and, more specifically, policy development, lobbying and NGO-support organisations, municipal associations, regional development agencies and businesses centers, industrial associations and chambers of commerce and industry.

The NGO that sees itself as the least prepared one would have the following profile:

- A civic participation, civil rights and advocacy NGO; a tourism society or another sector-specific NGO; a sports organisation;
- Has no approved projects under the preaccession programmes;
- Based in a rural community;
- Local scope and local focus in its work;
- Up to 5 staff and volunteers;
- Unable to set aside resources to use in co-financing.

Are, however, those who assess positively their preparedness ready indeed? In the better part of cases, high self-esteem and flattering self-assessments are unjustified. In general terms, when objective criteria are applied, NGOs appear to possess insufficient capacity to participate in structural funds projects and programmes (See Box 30). NGOs believe they are prepared because they see themselves as informed. Yet, even when there is evidence that information is enough they have no money to contribute in co-financing, they are mostly small entities and suffer considerable deficits in terms of training on issues directly relevant to the structural funds.

Among those organisations who believe they are prepared:

- 58 per cent have no staff trained on the SF;
- 28 per cent have no staff trained in project development and implementation;
- 23 per cent have no staff or volunteers who speak English;
- 39 per cent have not set specific responsibilities for project development and implementation;
- 51 per cent are unable to co-finance projects;
- 31 per cent are unable to finance project design;
- 41 per cent feel they are insufficiently informed about the SF, while 15 to 20 per cent have only limited knowledge of even the current funding opportunities.

Staff problems plague NGOs, too. The majority of NGOs could be classified as small. One-fourth of NGOs have 1 to 5 staff and volunteers. 19 per cent of NGOs have over 20 staff and volunteers, while 12 per cent have

neither staff, nor volunteers. National-scope NGOs are considerably larger than local and regional ones. Particularly strong in terms of human resources are NGOs from Sofia and the largest cities, the structures of the industrial association and the chamber of commerce and industry, municipal associations, regional development agencies, business centers and development associations.

About 20 per cent of NGO staff and volunteers are fluent in English. At the same time 30 per cent of NGOs have neither staff, nor volunteers who speaks English. The average number of English-speaking persons in an NGO is about 3, but it varies within a rather broad range – from 0.5 in villages to 8.7 for Sofia organisations. Formally, foreign languages cannot be a barrier to the use of the SFs as the essential information about projects, tenders, etc. is in the language of the respective country. Yet, the absence of foreign languages limits access to other relevant information.

Over half of NGOs possess some trained staff and volunteers in at least three out of the five core areas of training (see Box 31). Yet, one-fourth of NGOs was not involved in any training in any of these fields. This latter group is more prominent in small municipalities – 56 per cent, villages – 47 to 50 per cent and among local-scope organisations – 36 per cent.

One-staff show. Almost half the NGOs (46 per cent) have not identified expressly which of their staff are responsible for preaccession instruments. Where responsibility has been assigned to individual staff it is, predominantly, an additional responsibility of staff or volunteers responsible also for other activities (40 per cent). However, 13 per cent of NGOs have a separate unit dealing with project implementation and design, while in 2 per cent of NGOs this is the core activity for an individual staff.

Absent division of responsibilities is most apparent with NGOs from small and medium municipalities, small towns and villages, local-scope and local focus NGOs; farmers' associations, tourist associations, other industry-specific organisations and sports organisations. This correlates very closely with the problem of staff and volunteers' numbers – it is not easy to assign a person solely to preaccession funds when there are two persons in all employed by the organisation. Institutionally

Box 31

TRAINING

Most numerous are those trained in project design and implementation – on average 3.3 persons per organisation, followed by those trained in civic participation, partnership and similar issues (an average of 2.1 persons). Outreach has been considerably more limited with trainings in strategic planning (1.1), EU preaccession instruments (1.3) and especially EU structural funds (0.9).

The share of NGOs whose staff have been trained on structural funds issues is particularly low in small municipalities (11 per cent) and villages, as well as among smaller NGOs with up to 5 staff and volunteers (18 per cent). This share is higher for Sofia (49 per cent), among national and regional NGOs (46-47 per cent) and especially among municipal associations, industrial associations and chambers of commerce and industry, policy development, lobbying and NGO-support organisations, regional development agencies.

very strong are NGOs developing policies, lobbying and supporting other NGOs, industrial associations and chambers of commerce and industry, municipal associations, regional development agencies and business centers, minorities support NGOs.

Technical resources: a problem for NGOs in small municipalities. Technical resources do not seem to be a serious barrier to participation in the structural funds. 83 per cent of NGOs have separate and permanent office space, 84 per cent have in it some computer equipment, 74 per cent can also connect to the Internet in the office. Internet connection is unavailable for 4 per cent of NGOs.

Once again NGOs from small municipalities and villages form a disadvantaged group: the Internet is unavailable for 13 per cent and 23 per cent among them, respectively.

Financial resources: a problem for the better part of NGOs. Financial resources can be estimated by NGOs' capacity to allocate resource to co-finance projects and to design projects, two things that are among the main parameters of absorptive capacity.

The 'insufficient financial resources' barrier to participation in activities co-financed by the EU funds is a problem which affects severely at least half of the NGOs surveyed. Only one negligible portion of NGOs believe it is not necessary to allocate resources in co-financing. It is quite worrying, however, that only 29 per cent are able to allocate such funding, while 57 per cent believe

they cannot do it. Co-financing capacity is particularly limited in village NGOs (80 per cent have no such capacity), local-scope organisations; tourism societies, farmers' associations and other industry-specific organisations, disadvantaged groups support organisations, youth organisations and trade unions.

Large financial capacity characterizes municipality associations, industrial associations and chambers of commerce and industry, regional development agencies and NGOs developing policies, lobbying and supporting other NGOs, as well as national and regional organisations in general.

Data on NGO capacity to finance project design is slightly more favourable – 42 per cent of NGOs believe they can allocate such funding.

One notices that NGOs who believe they have the capacity to co-finance projects or allocate money for project design also see themselves as better prepared for structural funds participation.

When combined, NGO responses to the two questions make the following picture:

- 28 per cent of NGOs are able to allocate resources for both project co-financing and project design;
- 15 per cent are able to allocated resources for project design but not for project co-financing;
- 44 per cent of NGOs are unable to allocate resources neither for project design, nor for project co-financing.

Information: from the general to the particular. Non-governmental organisations are generally informed about the structural funds but this is broad, overview information. 53 per cent of NGOs feel they are informed sufficiently well (an average rating of 2.4 on a 1 to 3 scale). Familiarity with concrete issues, however, is much less (see Chart 40), the only concrete issue rated more favourably being funding openings for NGO projects. About one-third of NGOs feel they are uninformed about the funds regulations and rules, manner and style of operation and Bulgarian preparedness to use the structural funds.

Even when NGOs are informed and / or trained, the predominant type of knowledge is background and not 'operational' knowledge: NGOs know what the struc-

tural funds are about but have only a vague idea how they actually operate.

A higher share of NGOs who say they are poorly informed is characteristic for small municipalities, villages which are municipal centers and the remaining villages; local-scope and local-focus organisations; tourism associations, farmers' associations, other industry-specific organisations, women's, youth and sports organisations and civic participation, civil rights and advocacy organisations.

Highest levels of familiarity are reported by NGOs developing policies, lobbying and supporting other NGOs, municipal associations, regional development agencies, industrial associations and chambers of commerce and industry and trade unions. By all means, however, their responses are affected by the high share of those who report high familiarity with the general theme of the structural funds.

Surfing is replacing direct contact. NGOs use various information sources. Most important and most used are the government's website, websites of the individual ministries and the EU website, as well as seminars. NGOs also say that for them websites of other Bulgarian NGOs, contact with peers and papers officially distributed to them are, too, important information sources. Less significance is attached to the generally accessible printed material, television, direct contact with authorities, newspapers.

NGOs from small municipalities and villages considerably more frequently make use of television and newspapers, more rarely – EU sites, and in the case of villages also government websites. NGOs from Sofia rely more often on EU websites and direct contact with other NGOs and more seldom on seminars and training.

Data: insufficient, outdated, incomprehensible. In fact, information on the structural funds, we could claim, has been assessed as satisfactory – NGOs give an average grade of 2.7 on a scale from 1 to 5. NGOs who are better informed and who consider themselves better prepared give for quality and quantity of information on the structural funds a grade that is about 0.5 higher than the one given by poorly informed and poorly prepared NGOs.

The lowest grades are those assigned to quantity of information – as little as 13 per cent of NGOs say information on the structural funds is absolutely sufficient or sufficient. At the same time only 30 per cent of NGOs feel this information is up to date or fully up to date and only 21 per cent describe it as comprehensible or fully comprehensible.

The degree to which NGOs are familiar with current funding opportunities is satisfactory: the average grade for all information sources is 2.1 on a 1 to 3 scale. NGOs know best the Phare opportunities (share of those who report good familiarity – 51 per cent). Opportunities under national funds and programmes, EU programmes outside of the preaccession instruments and other external sources are less well known.

The problem, however, is that knowledge and awareness seem to be more strongly concentrated in the NGO community (one and the same NGOs are well informed about all or the better part of resources). For instance, among those NGOs who are familiar with Phare, 90 per cent are also familiar with SAPARD, 90 per cent know well ISPA and some 80 per cent are aware of the details of other EU programmes, other external sources and national sources. Overall familiarity is highest in large municipalities, and especially Sofia and large cities, among national and regional-scope NGOs, municipal associations, regional development agencies, industrial associations and chambers of commerce and industry, NGOs developing policies, lobbying and supporting other NGOs and environmental NGOs. Farmers' associations show low overall familiarity but a big portion of them are familiar in details with SAPARD.

3.3 Experience in project design and implementation

The immense variety of project experience. NGOs show fairly strong proactiveness in project development and implementation¹⁵. Since 2000 they developed on average 5 successful projects (approved as eligible and / or completed) and 9 project proposals, and meanwhile

¹⁵ Taking into consideration participation in projects under the preaccession funds, as well as other EU programmes (such as Interreg, Leonardo, Socrates, framework programmes, etc.), other external sources of grant funding (bilateral donors), and national sources.

Chart 39

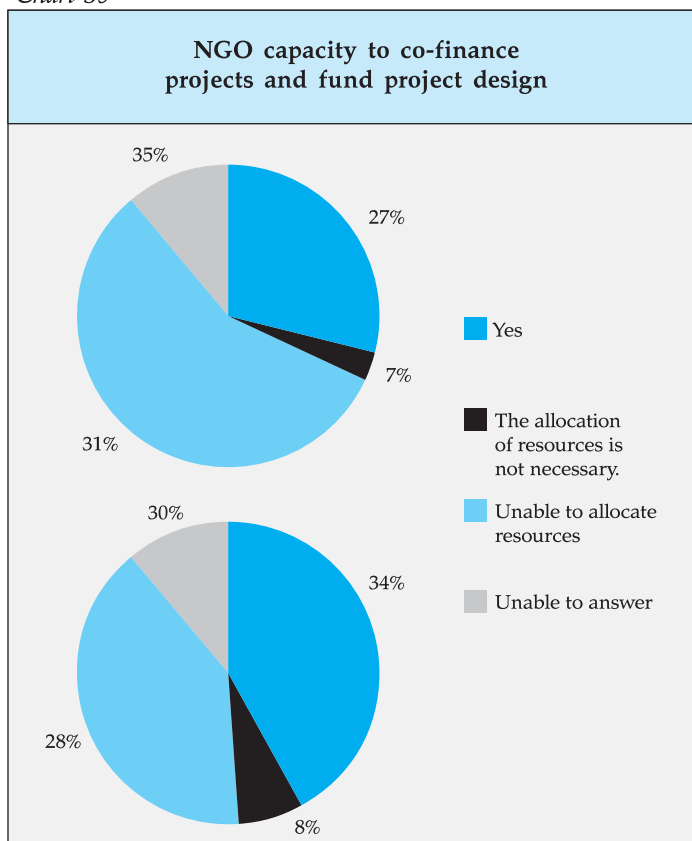
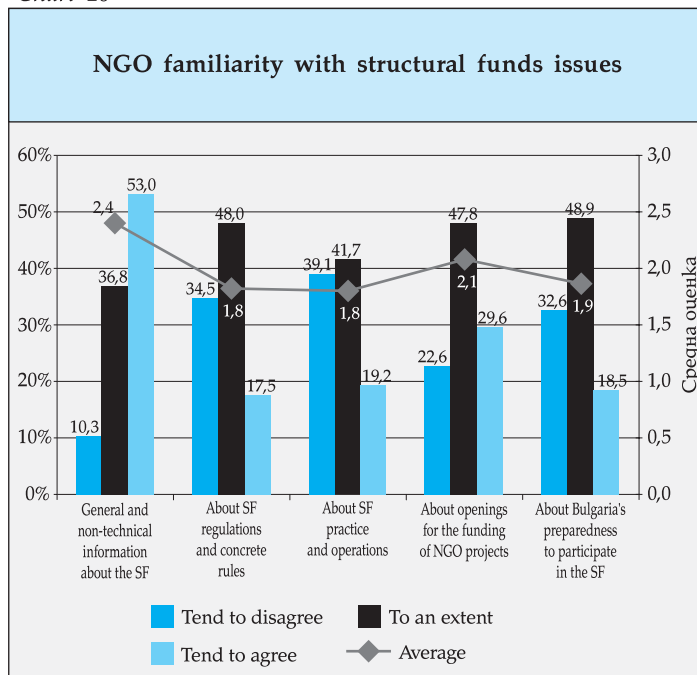


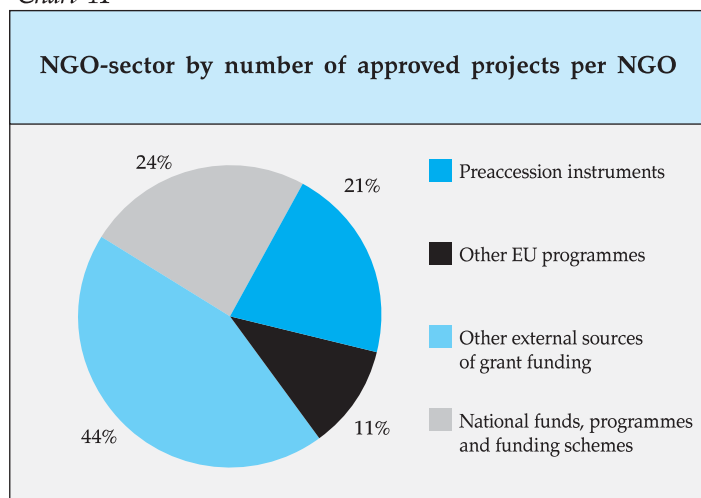
Chart 40



produced 12 project concepts. 'Exam performance' among NGO project concepts and proposals is fairly high – three-fourths of all ideas grow into project concepts and 55 per cent of proposals are successful (mature in approved projects).

This rather favourable picture, however, fails to account for NGOs' strong differentiation (see Chart 41): 30 per cent of NGOs have no successful projects (approved and / or completed), another 23 per cent can report only 1 to 2 projects for a 5-year period. At the same time there emerge 'active' organisations (3 to 10 projects) and 'superactive' ones (over 10 projects). The group of 'active' NGOs on average reports 5.5 successful projects and accounts for 35 per cent of all successful projects, while the 'superactive' group has, respectively, 20 projects on average and 58 per cent of all projects. These data show that more than half of NGOs have either no experience with projects, or very limited experience, while over 90 per cent of successful projects are concentrated in 46 per cent of NGOs.

Chart 41



Another problem is related to the fact that a sizeable portion of NGOs' experience is within the framework of projects outside the preaccession instruments (see

Chart 42

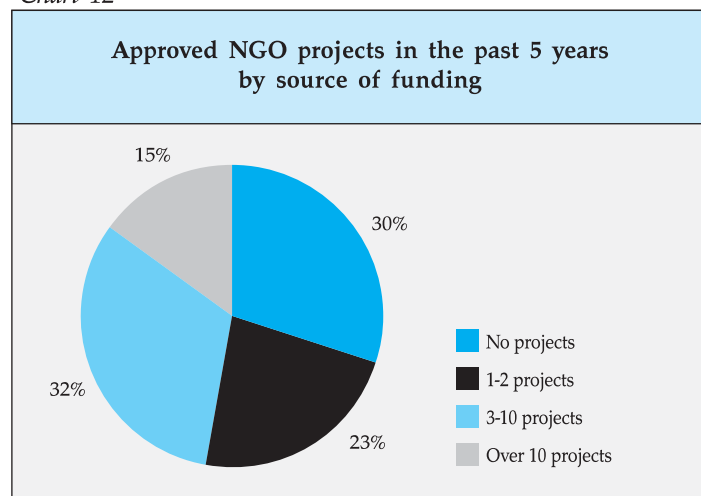


Chart 42). Furthermore, the share of successful project proposals is highest with national sources and other external sources and lowest with the preaccession instruments. The fact that use of the preaccession instruments (especially Phare) proves to be for NGOs most difficult suggests that their actual preparedness for the structural funds is considerably smaller.

Extensive project experience is a characteristic of NGOs from large municipalities, especially from Sofia and the largest cities, national organisations, policy development, lobbying and NGO support organisations, municipal associations, industrial associations and chambers of commerce and industry, regional development agencies.

At the same time the NGO least experienced in projects would reveal the following characteristics:

- comes from a small municipality and most likely from a village;
- maintains local scope of its work;
- is a farmers' association, a tourism society or another industry-specific association;
- is poorly informed about the structural funds and in its self-assessment indicated it was unprepared for the structural funds.

One particularly important factor for project success is familiarity with the respective funding sources. The number of successful projects is 22 times higher under Phare and 4 to 5 times higher under the other EU programmes, other external sources and national sources among NGOs who are familiar in sufficient detail with those financial instruments compared to those who do not know them.

Project experience gained in the preaccession period exerts a strong impact on willingness to participate in structural funds' absorption. Experienced NGOs (3-10 projects) and especially very experienced NGOs (over 10 projects) show higher than average willingness to participate. At the same time project experience is non-existent among:

- 30 per cent of NGOs willing to participate through projects of their own;
- 30 per cent of NGOs willing to participate as con-

tractors;

- 23 per cent of NGOs willing to participate as consultants;
- 30 per cent of NGOs willing to participate through unpaid support to other NGOs through training, project design, etc;
- 31 per cent of NGOs willing to participate in programmes' management.

This is one more illustration of the trend to overestimate capacity and readiness of participation in the structural funds. It seems that too many NGOs do not recognize their weaknesses and problems and thus stand little chance to address those. The outcome of this would be a mini-army of unprepared or poorly prepared NGOs attacking the structural funds. This generates risks in structural funds use as well as the threat of poor quality aid or interference in project management.

Two of the major difficulties NGOs come across when designing, proposing or implementing projects are precisely the opaque evaluation process, absent feedback on project weaknesses and biased evaluation of projects.

The other difficulties NGOs identify as major ones are co-financing, bureaucratic requirements and procedures, stiff competition for access to projects. Slow disbursements in the course of implementation, unavailability of suitable funding programmes, tight deadlines for the submission of project proposals and the considerable financial resources needed for project preparation are relegated to the background.

No matter that one considerable portion of NGOs have limited project experience, this is not seen as one of the major difficulties in project development and implementation. Inadequate experience ranks 16th in the responses as given by the totality of NGOs (furthermore, there is no NGO type that ranks it higher the 12th place in the table). Given the low values of personal capacity and experience, underestimation of one's own weaknesses and an inclination to look only for external reasons for failure emerges as a big problem. This raises once again the question how could one strengthen their capacity if they are overestimating it, and to what extent and how well could one play the part of a development actor if their capacity remains weak.

Box 32

SMELL CORRUPTION?

Concentration of experience in a limited number of NGOs may be due to several factors. Firstly, some NGOs are more "specialized", larger and /or serve the interests of other NGOs, businesses or municipalities. It is normal for them to have more projects and hence more experience.

Secondly, new projects are assigned to experienced NGOs. Phare grant schemes feature an express requirement related to the time the NGO has existed (lately, a minimum of 2 years are needed), and the experience it has gained. Lack of experience leads to failure and hence to absence of opportunities to gain experience. Here, too, the vicious circle of limited capacity as described in the capacity assessment of municipal and district administrations is apparent.

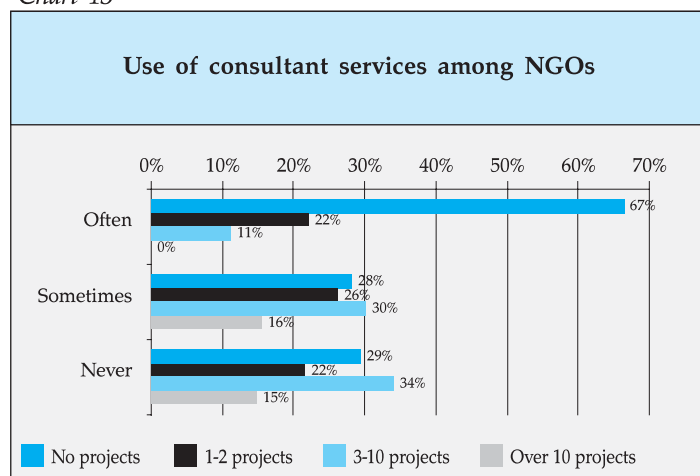
Thirdly, there are 'pet' NGOs who win projects. Corruption in the system was identified by the NGOs as one of the most significant difficulties when project applications are lodged, specifically through the responses "No transparency in the evaluation process" and "Biased evaluation, protectionism, advance selection of winning NGOs". This is confirmed, at least indirectly, by some objective indicators. The two groups of NGOs (those whose experience is limited and those whose experience is large) do not show consistent variation between the share of successful projects and the share of project ideas fleshed out into project proposals. This is an indirect indicator that the different groups of NGOs probably do not play by the same rules. In other words, for some NGOs it is easier to have their proposals approved even when they possess no experience.

We could not rule categorically whether corruption is that wide spread or this is a subjective perception arising, at least to an extent, from poor transparency and feedback. Many NGOs, however, point to corruption as the main threat to all aspects and stages of structural funds utilization. One example is the claim that soundly prepared NGOs do not have their projects approved under the preaccession programmes, while unprepared NGOs' projects gain approval. Another example is the claim that for 'black sheep' NGOs it is easier to have their projects approved 'outside' than in Bulgaria.

'Clockwork consultants'. A little over one-fourth of NGOs resort to paid consultations to develop projects, with only 2 per cent among them doing it often (see Chart 43). Use of consultant assistance seems to depend less on needs and more on other factors, among them the NGO's financial capacity. From here it is only a short step to the conclusion that financial support is needed to ensure the use of consultant services. At the same time, efficiency of consultant support is debatable and depends on the quality of the consultant, something that can be argued about, too. 67 per cent of NGOs who often

use consultant services and 29 per cent of those who sometimes resort to it do not have successful projects.

Chart 43



Besides using consultant support, NGOs also deliver consultations – 5 per cent do it often and 25 per cent do it sometimes. NGOs providing consultant support are over proportionally present in large cities and among regional organisations. In terms of NGO types, consultant support is particularly characteristic of municipal associations, regional development agencies and business centers, industrial associations and chambers of commerce and industry, policy development, lobbying and NGO support organisations.

NGOs most often consult businesses (55 per cent) and other non-governmental organisations (29 per cent). Consultations are less common with respect to municipal or central government administrations (12 per cent). It should be noted that regional organisations declare greater proactiveness, probably due to demand or, respectively, their greater proximity to potential clients.

Consultations part of the NGOs provide may involve some risks. NGOs involved in the delivery of such services are, indeed, better informed, more experienced in projects and see their preparation for the structural funds as higher than the average. Still, some of them suffer capacity deficits: 37 per cent are poorly informed about the structural funds, 20 per cent – poorly prepared for the structural funds, 33 per cent – poorly informed of current funding sources, 18 per cent have no successful projects of their own, and 20 per cent have 1 to 2 projects.

3.4 Experience gained through participation in planning and programming

‘What you want to do and what you can do is two different things’. Attitudes NGOs maintain regarding participation in planning and programming are positive and match their declared willingness to participate in structural funds’ use through involvement in such processes. Over 80 per cent of NGOs are categorical that NGO participation in planning is important in view of good knowledge of communities’ real needs and interests, 74 per cent – because of provision of mutually acceptable decisions and 66 per cent – because of opportunities to ensure better access to funding in the future (a ‘selfish motivation’ of a sort).

76 per cent of NGOs reject emphatically the claim that non-governmental organisations are not adequately prepared and competent enough to participate in planning, while 62 per cent disagree with the statement that planning is exclusively a responsibility of public authorities on the respective level. Less categorical (47 per cent) is rejection of the claim that NGO participation in planning is pointless as it is token and their proposals are not reflected in planning documents.

At the same time NGOs realize that their participation in planning process entails considerable costs in both time and money and awareness of this may be a barrier to their participation.

There appear the following variations:

- NGOs from medium-sized municipalities, and especially from villages, express to a lesser measure agreement with the possibility for the NGO sector to contribute expertise in planning.
- Regional development agencies, industrial associations and chambers of commerce and industry as well as policy development, lobbying and advocacy organisations, as well as environmental organisations tend to agree to a lesser extent with the statement that planning is entirely a responsibility of the authorities and it is pointless for NGOs to participate as their opinion will not be taken into consideration.
- Farmers’ associations, other industry-specific organisations, women’s and sports organisations express far higher than average agreement with the nega-

tive statements which deny the need for NGOs to participate in planning.

‘What you can do and what you do is two different things’.

NGO responses present a participation in planning processes that is of fairly high intensity, especially at the local level (46 per cent of NGOs took part in drafting a municipal development plan). As we go up the levels, this participation decreases considerably (district development strategies – 31 per cent, regional development plans – 24 per cent, national development plan, national strategies or structural funds operational programmes – 14 per cent). Participation at the municipal level is 2 times larger than participation at the regional level and 3 times larger compared to participation at the national level.

NGOs engaged in planning processes would participate through several typical mechanisms. The main modalities are working groups, public hearings and presentation of written opinions and proposals. These modalities keep similar ratios at all levels with the exception of the national level where written opinions and proposals register slightly higher values than direct participation.

The overall picture seems positive and participation appears to be fairly intensive. Nevertheless there are some negative aspects:

- over one half of NGOs do not participate in municipal level planning
- about three-fourths do not participate in planning on the district and regional level;
- 86 per cent do not participate in national level planning
- involved in district and regional level planning are only 50 and 70 per cent, respectively, of municipal associations, 38 per cent and 56 per cent of regional development agencies and business centers, etc.

There is no direct relationship between the positive attitude to participation in planning processes NGOs declare and their actual participation. In other words, positive attitudes are not transformed in actual behaviour and there may be different explanations:

- rules, values and standards have been accepted only superficially and have not been internalized in behaviours; public administrations responsible for planning on the different levels do not involve NGOs

sufficiently despite their willingness;

- *NGOs are fleeing responsibility and commitments: participation in planning is important and useful but still it is better if somebody else does it.*

There is certain logical ‘division of labour’ between NGOs with different territorial scope and focus in their work: local organisations participate more intensively at the local level, regional ones – at the regional level, national NGOs – at the national level. Organisations from Sofia participate much more often in national level planning. At the same time all NGOs participate on more than one level, the preferred combinations being local and regional level (for regional organisations) and regional and national level (for regional and national organisations). Particularly active in planning processes on the majority of levels are municipal associations, industrial associations, chambers of commerce and industry, regional development agencies, tourism associations, policy development, lobbying and NGO support organisations, and trade unions.

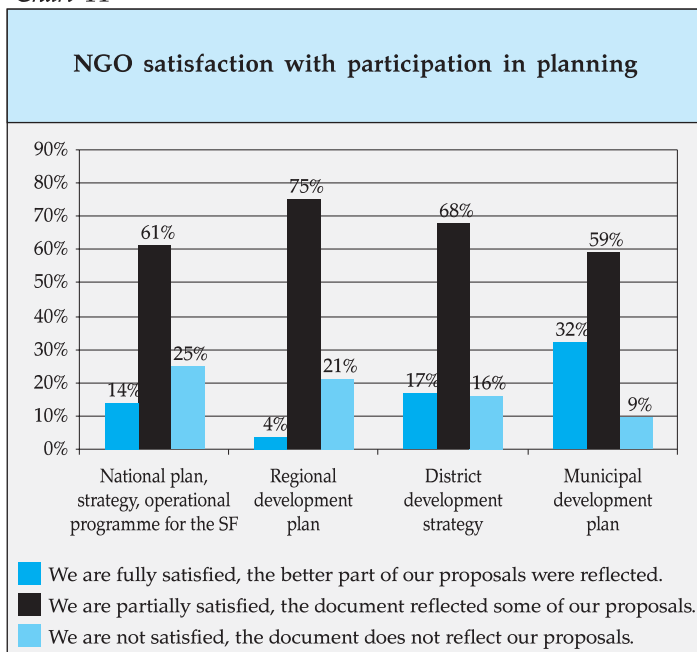
Besides participating in them, NGOs also contribute resources to planning processes, especially at the local level – one-third of NGOs supported drafting of municipal plans with technical resources and another one-third with human resources. One fairly big portion of NGOs also offered paid expert support (in the region of 10-15 per cent).

‘What you do and how satisfied you feel about it is two different things’.

NGOs who participated in planning processes find their outcome satisfactory (see Chart 44). Realistically, the outcome of the planning exercise should be given a better mark as it is unrealistic to expect planning documents to reflect all proposals of all participants.

The best marks are for participation in drafting municipal development plans (only 9 per cent of dissatisfied participants against 32 per cent of completely satisfied ones). The remaining levels reveal lower satisfaction with participation. At the district level the share of those completely satisfied is 17 per cent, compared to 4 per cent at the regional level and 14 per cent at the national. For all levels, however, the predominant group is the group of NGOs only partially satisfied, as only some of their proposals were reflected in planning and programming documents – 59 to 75 per cent.

Chart 44



Generally higher degrees of satisfaction on lower levels can be accounted for in the following way — planning on lower levels (especially the municipal level) gives NGOs a better chance to participate efficiently and to see one considerable portion of their proposals reflected in the planning documents.

In this respect differentiation between the separate groups of NGOs is not big. Among the more significant differences are:

- compared to other NGOs, NGOs from villages are considerably more dissatisfied with their participation in municipal planning;
- Local-scope NGOs are considerably more dissatisfied with their participation in national-level planning;
- Municipal associations and farmers' associations are relatively more satisfied with their participation in municipal planning, while trade unions are relatively

more dissatisfied;

- Industry-specific associations and NGOs in support of disadvantaged groups are considerably more dissatisfied with their participation in district strategies;
- Environmental organisations are significantly more satisfied with their participation in planning on the national and regional level.

'Illusion of inclusion'. Participation problems NGOs encountered in the planning process are more related to quality of participation and outcomes it produced than to participation attitudes and participation intensity. That is, the fundamental questions to be answered are how participation should be organized to be more efficient and how it could become more effective, and thus take more into account NGO opinions and proposals.

The major difficulty seems to be the way the system and the planning processes have been designed. Those display a range of deficits: a complicated system of planning documents whose purpose and scope is not clear enough, poor linkage between planning and resources and implementation, tight deadlines which limit opportunities for efficient participation and often turn planning into a crisis and organisational chaos, absent feedback on the opinions and proposals accepted and rejected, etc.

One problem the existence of which this survey is unable neither directly to confirm, nor to reject is NGOs' expertise to participate in planning processes. Their expert capacity in their specific area of work is beyond any doubt and so is their knowledge of the needs of various communities and groups. Still, this report's previous sections give enough grounds to doubt their expertise regarding structural funds' issues. In this respect, too, there is certainly some overestimation of capacity and unduly high self-esteem among NGOs, something which may be seen as a substantial threat to programming.

Special contribution

On the authentic representation of civil society

While preparing to make use of EU structural funds – when they are finalising the National Strategic Reference Framework and the operational programmes, and when they are whipping up awareness campaigns – the people in the government must earnestly take into account one significant regional policy issue which is valid both at the EU level and on

a national scale. Human resources that are capable of working with EU structural funds are most limited in the economically weakest regions which are also experiencing the most severe development needs and are potentially most eligible for structural fund interventions.

That is further projected on one specific issue for Bulgaria – the correlation between human development indicators and the concentration of minorities in regions with ethnically diverse populations. Numerous observations and surveys (including UNDP Human Development Reports, among others) indicate that the higher the number of minority residents in a given municipality, the higher probability for low human development levels there. Minorities in Bulgaria account for about 20 per cent of the population and the government must take exigent policy and governance measures to ensure that all upcoming policies, programmes and projects aimed at development and social inclusion will adequately integrate minority issues and measures to address them.

EU structural funds are not simply a bag of money that is rightfully ours and that we can muster for unclear causes. They should be perceived and enforced as an effective instrument to instigate processes in critical spheres where Bulgaria apparently isn't making much progress.

It is true that NGOs have wide-ranging expectations about participation in the use of structural funds. It is also true that often such expectations are not bolstered by sufficient knowledge, habits and skills. At the same time relevant knowledge is short even among government members who have the greatest access to information, and habits and skills are too early to claim. We should not underestimate the enormous investment of efforts and funding that went over the past 17 years to motivate citizens and to build their capacity to participate in local and national decision-making processes. It will be unwise to disparage and squander that resource.

Assessment of local resources should ask which local organisations have proved their potential to effectively work in the communities, to be effective intermediaries between the communities and the institutions, to advocate successfully and to push through the established democratic values and international public policy standards – and to what extent they contributed to better intracommunity communication and social harmony in the respective localities. These qualities and accumulated experience along with the authority and the good name of the organisations should be recognised and the organisations should be encouraged to participate in projects financed by the structural funds. This value-based approach would bar an already emerging practice locally where quite a few administrations are setting up their 'own' civil structures with the clear goal to steer EU funds towards 'trustworthy users'.

To lay one of the building blocks of good governance and to strengthen partnership in the utilisation of EU structural funds, the administration should engage in a dialogue with civil society to formulate ways and procedures for interaction and consultations with NGOs and the target groups at the local and the national level. Even more pressing is to shape administrative culture and attitudes for cooperation.

The authentic representation of citizens in decision-making processes, including in the formulation, implementation and management of projects under the operational programmes is of paramount significance and the respective actors should be called to account according to their mandate, as well as to who and how assigned that mandate. The non-governmental sector needs to monitor continuously work under operational programmes and the use of EU structural funds – and if civil structures aptly coordinate their actions, they can do it.

Partnership between institutions and civil organisations has to be regulated in such a way as to rest on clear and transparent commitments. In the context of partnership civil organisations should not dilute their identity and specific role.

Zero tolerance policies should be enforced and put in practice to prevent conflict of interest from the participation of individuals, organisations and companies in the different stages of design, implementation and evaluation of development programmes and projects. The role of citizens (including minority members) in the planning of central and municipal budgets should increase and consultations should increasingly involve relevant civil organisations, not only trade unions.

Decision-making about funding of development and social inclusion programmes and projects needs to be decentralised and their implementation should mobilise as many local contractors as possible. Funding institutions must provide for microfinance schemes for the most marginalised communities because this is a field-tested and especially effective way to step out of poverty.

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Interethnic Human Rights Initiative Foundation
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3.5 Interaction and partnership

Bulgaria does not have a well established tradition of partnership in planning and civic participation in policy-making. Administrations from all levels often accept partnership as the necessary evil. The result of this is bad partnership — partnership structures are often poorly informed and their input is inadequate, NGOs receive marginal roles and it is the administration that makes all important decisions.

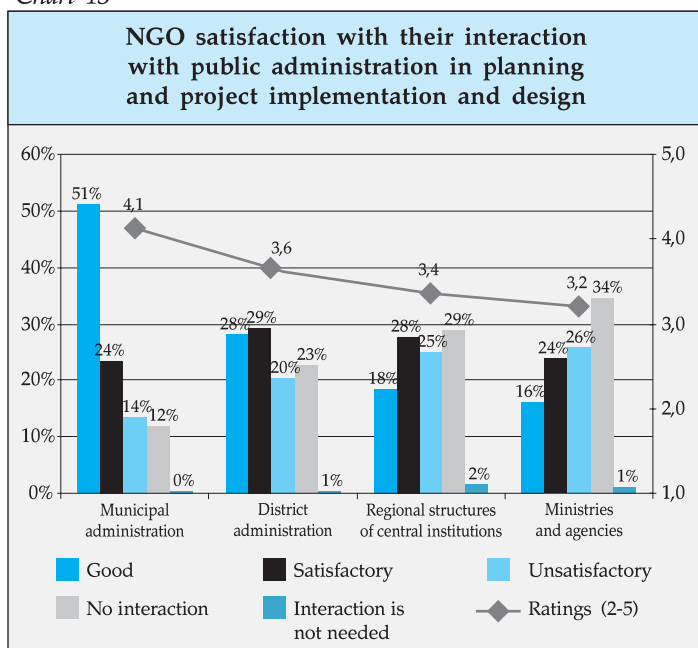
Cooperation and interaction with public authorities

NGOs attach great importance to good interaction and cooperation with public administration for the use of the structural funds. 73 per cent of NGOs describe this interaction as very important, and 25 per cent as important.

Not for a single NGO type is the share of those who see cooperation with administration as important under 50 per cent. Still, this attitude is less pronounced among NGOs from small municipalities and places. The following variations emerge:

- Assessments on the importance of cooperation with administration tend to improve and become more

Chart 45



positive with the size of the municipality and the settlement — the share of the response 'very important' went up from 64-65 per cent for villages and small towns to 84 per cent in large cities. For Sofia, however, it remained at 67 per cent. The reason that makes the Sofia third sector less categorical might also stem from the fact that the capital concentrates one big part of non-governmental organisations with national scope for whom 'outside' relations are often more important than relations with the national administration.

- Responses diverge more in terms of type of organisation. Greatest importance to interaction with public administration attach representatives of municipal associations, regional structures of employers' organisations, minorities support NGOs, regional development agencies and organisations. Women's organisations, environmental NGOs and sports organisations support this view fairly more moderately.

The evaluation NGOs give to interaction with public administration is satisfactory, rather than unsatisfactory. It is, however, lower than the evaluation given to the importance of this interaction.

The higher an institution is up the government hierarchy, the less interaction it has with the non-governmental sector and the more negatively this interaction is assessed (see Chart 45). Close to 90 per cent of NGOs report the existence of interaction with municipal authorities, 70-75 per cent — with district administrations and regional ministerial structures and 64 per cent — with ministries and agencies. All NGOs, irrespective of their location or sector, assess most positively cooperation with municipal administrations and least positively cooperation with central government administration.

Variation in assessments is conditioned by two important factors — location and territorial scope of work. NGOs from district centers and NGOs with a regional scope for their work assess more positively interaction with district administrations and the deconcentrated structures of the central ministries, while Sofia NGOs and national-coverage NGOs are more flattering of ministries and agencies.

Those NGOs which are more informed, better prepared for structural funds' participation and communicate more intensely with administration have a more posi-

tive evaluation of their interaction with it. Furthermore, the more extensive real project experience is, the greater significance is attached to cooperation with administration and the higher its evaluation is.

NGOs attaching great importance to interaction are also more often disappointed with it. Among those who perceive interaction with public administration with reference to planning and project development as something very important:

- as little as 20 per cent say interaction with municipal administration was good; 60 per cent either do not interact or say this interaction was unsatisfactory;
- 0 per cent say interaction with district administration was good; 60 per cent either do not interact or say this interaction was unsatisfactory ;
- 0 per cent say interaction with deconcentrated units of the central administration was good; 100 per cent either do not interact with those units or say this interaction was unsatisfactory;
- 0 per cent say interaction with ministries and agencies was good; 80 per cent of NGOs either do not interact or say this interaction was unsatisfactory.

In other words, the mismatch between expectations and reality is considerable. To draw a comparison with businesses, this mismatch is more marked among NGOs than among economy agents. Businesses are more skeptical about administration and slower to engage in interaction, but at the same time they feel disappointment less often. At the same time NGOs understand that the structural funds are an area where they need to partner with public administration. The problem is that NGOs are now more than sensitive about this issue. They have entertained unrealistic expectations that are very likely to stir a wave of disappointment during the first years of EU membership. A similar mismatch exists also among businesses but on a much smaller scale. It is also something municipalities entertain in terms of their relation with central authorities. Unless addressed, this disappointment could grow from a structural funds' management problem into a more general political problem. It could lead to a total trust crisis among non-governmental organisations and administration that may

block democratic dialogue and send communication between them back to the field of useless confrontation where it was at the start of the transition.

To let you know, rather than to seek your partnership. Public administration and NGO interaction takes on when it comes to project design suggest the existence of two main problems: firstly, dominance of information to consultation and joint decisions and secondly, relatively smaller use of more intensive, in-depth formats that require certain professional skills. According to NGOs, public administration uses most often dissemination of information about projects, discussions and meetings with stakeholder representatives and civic councils and more rarely – civic forums and stakeholder needs' analysis. There exists a series of indicators that public administration emphasizes more on outer appearance and mass involvement of its interaction with the NGO (and the private) sector and oftentimes this interaction is only token.

Efficient partnership needs knowledgeable partners. A 'critical mass' of people who thoroughly understand development processes is needed. One problem is that many of the Bulgarian partners know what the structural funds are but do not know how exactly they will come to this country. This is also the case of NGOs. Results indicate that the better part of non-governmental organisations do not know well enough the role and the capacity of the various public administration actors in the use of the structural funds.

In order to assess the extent to which NGOs are aware of the role of the municipality in structural funds absorption, the survey included a concrete question on municipalities' likely relative weight as beneficiary of structural funds' resources (this question was asked because of informally widely spread speculation that they will be the main beneficiaries). One-third of NGOs admit that they cannot answer the question; approximately half of them believe that municipalities will benefit directly from 50 per cent of resources and more; 10 per cent believe that municipalities will not absorb money from the EU structural funds at all; and as little as 10 per cent came up with the most accurate answer of 15 to 20%¹⁶.

Survey results outline two main problems – ignorance and over high expectations about municipalities' real weight as beneficiaries. Both excessive expectations and

¹⁶ The correct answer was arrived at based on the experience of other member states and the share municipalities have had in public investment in the past several years.

“DK” answers are worrying when it comes to actors who are supposed to be considerably better informed on the matter – expectations about municipal weight for instance are very high among municipal associations and industry-specific NGOs, while “DK” answers are most numerous among NGOs from large cities, policy-development, lobbying and NGO support organisations and national-scope organisations.

The fact that public administration resists criticism was identified as one of the major difficulties in NGO cooperation with it, albeit not the major one. Among the others are: there being no regulatory provision for mechanisms and procedures to interact and consult; centralized decision-making; public administration officials inclined to look down on NGOs as partners; administration’s habit to present partners to a fait accompli; low efficiency of the existing mechanisms and procedures. In this group there is also public administration’s fear that its decisions will be criticized; inexperience with partnership, administration officials inclination to pass on their tasks to their partners, the motivation to adopt unpopular and corruption instigated solutions which leads to opaqueness and refusal on the part of administration to understand the needs and benefits of cooperation. Grouped among the less important barriers are legislative restrictions and costs associated with the NGO’s participation in the consultation process. This

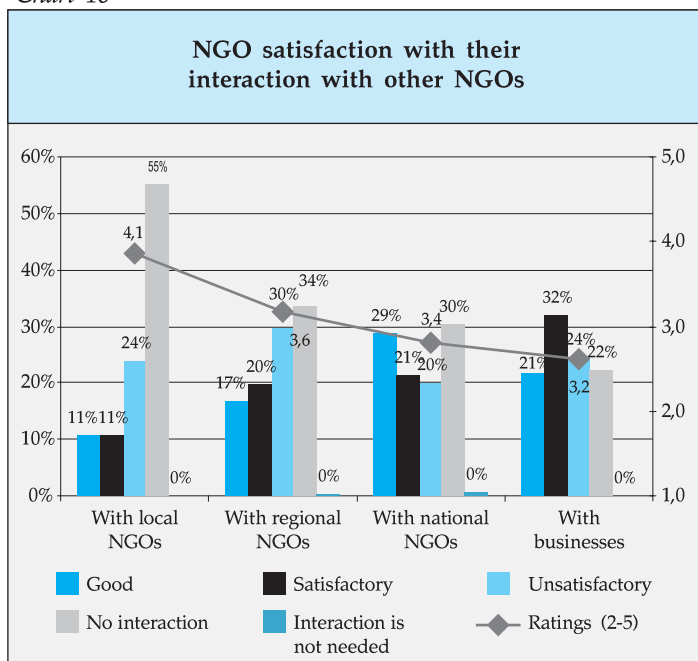
result is unexpected both in the context of foreign experience and in the light of direct observations over participatory planning processes in Bulgaria which show that participation costs are among the main barriers.

What is good news about this ranking of difficulties is that the barriers that have been highlighted are tangible operational barriers such as absent or deficient cooperation mechanisms and procedures, and are not abstract complaints about unsuitable legislation. At the same time there is also bad news – the trend to look for the reasons leading to poor interaction only in the other partner and to underestimate gaps in one’s own experience and own skills on how to interact with administration.

Cooperation and interaction with other NGOs

Practically all NGOs declare that good cooperation among them is a prerequisite for EU structural funds’ use: 73 per cent proclaim this a very important condition, and 23 per cent – an important one. The need for partnership with other NGOs is less well understood among those organisations who, to start with, expressed limited willingness to participate in structural funds’ use, and among non-governmental organisations from small municipalities and villages, sports and trade union organisations, farmers’ associations.

Chart 46



Intensity of interaction with other NGOs is high and it, too, tends to decrease reversely to the size of the work field of the partnering NGOs: 89 per cent of NGOs mention interaction with local NGOs, 83 per cent – with regional ones and 79 per cent with national NGOs.

Cooperation with other NGOs was rated as satisfactory, rather than good, and displayed the same trend. The closer an NGO is to the municipal and local level, the more often the others cooperate with it and this relationship is rated highly (see Chart 46). As the distance from the local field increases, so do low ratings on cooperation and the view that cooperation is nonexistent. This relationship holds regardless of the territorial scope of the NGO doing the rating: that is, local-scope NGOs, regional and national-scope NGOs alike rank the highest interaction with local-scope NGOs, followed by interaction with regional NGOs and put in the last place national-coverage NGOs.

For one big portion of NGOs, cooperation is an external requirement, norm and value which they have not integrated into their policy and behavior. 61 per cent of NGOs who have no interaction on the local level, 69 per cent of those who have no regional interaction, 64 per cent of those who have no interaction on the national level and 69 per cent of those who have no interaction with businesses proclaim cooperation a very important prerequisite for using the preaccession and the structural funds. In other words, real cooperation among NGOs and its rating are considerably lower than perceptions on the importance of cooperation. This is borne out also by the responses to other questions in the survey. Partnership is not identified as a major problem, for instance, when difficulties in the project application process are listed – NGOs (just like businesses) relegate it to the last, 18th place.

Cooperation with local NGOs receives the highest ratings. Some of the variations in this rating prove particularly noticeable:

- NGOs from rural municipalities report three times more cases of non-existent cooperation with other local organisations (35 per cent against an average of 11 per cent), a higher share of poor ratings and far less frequently rate interaction as good (24 per cent against an average of 55 per cent).
- The bigger the place where the NGO works, the more the categorically positive ratings of interaction with other NGOs: rural municipality – 24 per cent, small town – 55 per cent, medium-sized town – 57 per cent, large city – 60 per cent. Outside of this trend are Sofia NGOs (41 per cent).

In order to understand why cooperation between NGOs in villages is reported to be non-existent so often and to make sense of the low approval rates of existing cooperation, we need to take into consideration the fact that the number of NGOs in villages is small and thus there is no critical mass of partners to form a cooperation with. At the same time, NGOs from municipalities with over 50 registered organisations are the most optimistic and among them high ratings of their cooperation with local NGOs reach 65 per cent.

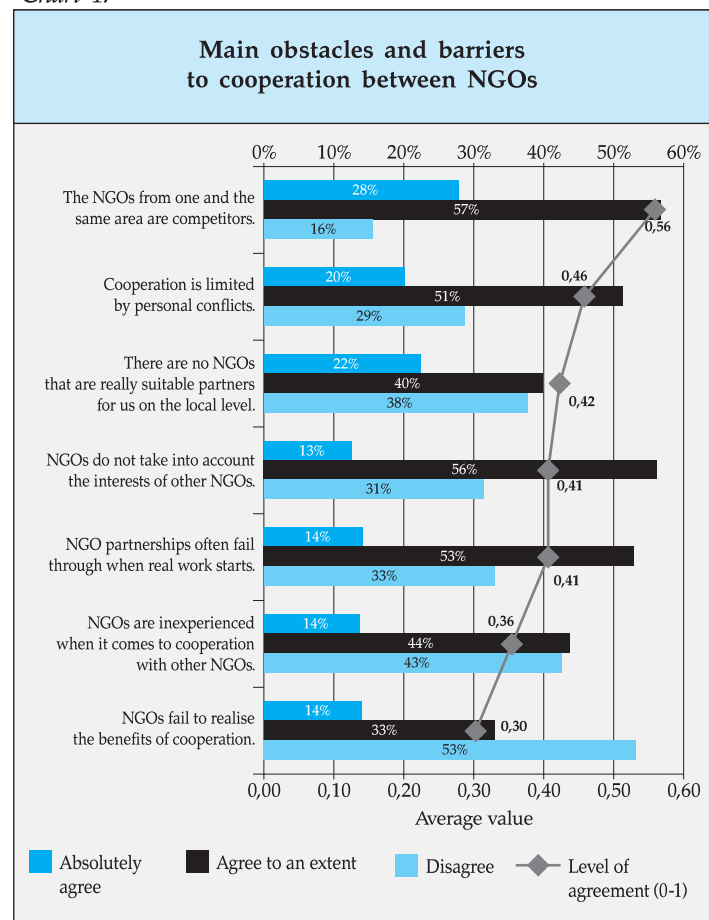
Municipal associations, development associations, regional development agencies, business centers, region-

al structures of the Bulgarian Industrial Association and the Bulgarian Chamber of Commerce and Industry and youth organisations practically do not report any lack of cooperation with local NGOs and declare a high degree of satisfaction with past cooperation.

Between competition and cooperation. NGOs are constantly faced with making the choice between competition and cooperation and this is one of the key interaction problems they suffer. Another typical trait is that organisations less often look for the underlying reason for their problems with cooperation in their own inadequate experience, and more often cite competition, past negative experience and failed partnerships, personal conflict, ignored interests, also there being no suitable organisations close by (see Chart 47). Against this background, operational barriers to the formation and functioning of partnership seem underestimated ('how to work efficiently in partnership').

Ratings NGOs gave on obstacles to cooperation and

Chart 47



NGO geographical location define two groups of NGOs:

- NGOs from small or medium-sized municipalities, based, respectively, in villages and small towns. Characteristically, absence of suitable partners ranks at the top for them, followed by competition in the sector, while personal conflict is of much lower significance. In small municipalities and in villages experience gaps are also of greater importance;
- NGOs based in large municipalities, Sofia and large cities for whom the topmost constraints are competition in the sector and personal conflict, while inexperience ranks last or last but one.

The largest partnership deficits are seen among NGOs from small, rural and medium-sized municipalities. Most often those types of territory in Bulgaria are also marked by a low density of NGOs. On the one hand, this is a constraint to partnership as there is nobody to partner with. On the other hand this could also be an advantage as the competition threat is weaker. In general, a lower number of NGOs in a municipality is paralleled by less intensive interaction and less favourable evaluations of interaction with all NGOs and with businesses.

Nevertheless, some NGOs stand out among the rest with intensive and satisfactory cooperation – municipal associations, policy-development, lobbying and NGO-support organisations, regional development agencies, business centers, structures of the Industrial Association and the Chamber of Commerce and Industry.

Something which can make us feel optimistic about opportunities for change is the fact that the NGOs willing to participate actively in using the structural funds and rating themselves as better informed and more prepared have also better interaction with other NGOs (and also with businesses) compared to those who are reluctant, poorly informed and prepared.

Cooperation and interaction between NGOs and businesses

Communication between sectors is weaker than communication within a sector – cooperation between NGOs and businesses is not yet a dominant type of behaviour.

More than half the NGOs have not interacted with companies or if they have, they have been dissatisfied with it. Even when in geographical proximity, the whole business sector is the most remote sector for the non-governmental organisations. As little as 22 per cent of NGOs rate their cooperation with businesses as good, and 24 per cent as satisfactory. 32 per cent say it is unsatisfactory, and 21 per cent claim it is non-existent. It would be appropriate to recall here that companies are not very flattering in their comments on business NGOs or business-support NGOs (22 per cent good rating, 38 per cent no interaction): i.e. there is reciprocal criticism and dissatisfaction. Still, there are some practices that link successfully local businesses and local NGOs.

Once again, the most unfavourable data on cooperation between NGOs and businesses come from rural and small municipalities. NGOs based in places with an average number of NGOs (11-20 organisations) are happier with cooperation than NGOs from places with small NGO-sectors (up to 10 organisations) and large NGO sectors (21-50 organisations). The hypothesis that low NGO density may be compensated by more intensive and better interaction with businesses was not borne out.

Among those dissatisfied with their cooperation with business are tourism associations, environmentalists, organisations in support of minorities and disadvantaged groups, youth and sports organisations as well as NGOs encouraging civic participation, protecting civic rights and doing advocacy work. At the same time NGOs oriented towards businesses, such as the structures of the Industrial Association and the Chamber of Commerce and Industry, paint an overoptimistic picture of cooperation with businesses (none among them report absence of cooperation, over 40 per cent give high ratings). They are followed by regional development associations, business centers and development associations. NGOs whose focus of work and area are regional interact with businesses more often and are more satisfied with joint work compared to NGOs of local or national coverage.

The third sector is extremely fragmented. This interferes with the efficient presentation and protection of NGOs' interests, also with regard to their work under the structural funds. Associations targeted at special support for the preparation of NGOs for the structural funds are few

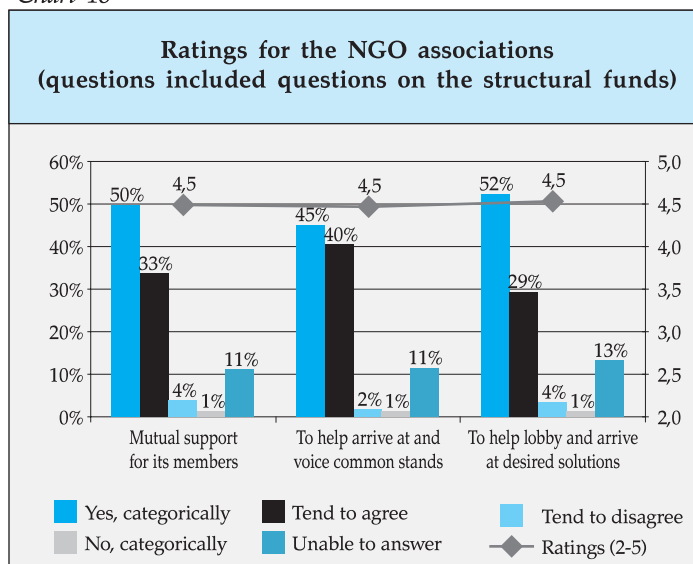
at the local and regional level: one-fourth of the NGOs interviewed are sure that there is such an organisation in their region, one-fifth that it is non-existent and more than half of NGOs say that even if such an organisation exists they know nothing about it. At this stage the existing NGO associations are not able to compensate for the absence of such specialized support. When it exists, however, its usefulness is strongly appreciated.

Hence, one of the feasible responses to a portion of the difficulties NGOs are facing may be the establishment of regional, district or municipal associations of NGOs to address some of the aspects of interaction between organisations and other issues of structural funds preparedness.

Since there are not enough institutions specializing in preparation for the structural funds, NGOs could use for this purpose other types of existing unions. 70 per cent of NGOs are members of the National Association of NGOs, 31 per cent – of a similar regional organisation and 34 per cent – of a municipal or district one. 18 per cent are outside of local associations even where those do exist, and 21 per cent are outside the existing regional ones. Actually on this particular issue there is a mismatch between the real interaction and membership in various associations and unions which may be identified as a problem. Real interaction is most frequent and most satisfying on the local and municipal level, while membership in associations and unions is shifted more towards the national level where interaction decreases and dissatisfaction grows. This shift towards national membership is probably useful for defending NGOs' interests before the national political institutions, but it is hardly the most useful one regarding their preparation for the structural funds. Maybe this situation is to an extent due to the fact that there are no suitable partners in the periphery but this attitude also seems to be a reflection of the incomplete decentralization process. Like municipalities and businesses NGOs tend to skip the municipal, district and regional levels and look for solutions to their problems right in the center where, however, interaction is more difficult and often disappointing.

Recently, however, there has been a process of regrouping and self-identification of one's place in the civic sector; NGO clusters are being created. One example

Chart 48



pointing to this is the Bulgarian Donor Forum, a membership organisation uniting 24 Bulgarian and foreign foundations providing financial and technical assistance for the development of civil society in Bulgaria. An expression of the same trend is the constitution of the NGO Council under the minister for European integration. To elect this council, NGOs, in clusters, voted which organisation from the respective 'family' of organisations should represent the entire community.

3.6 Capacity development

Capacity development needs

So far this survey convincingly revealed that there are enormous needs to develop the capacity of the third sector to participate meaningfully in the use of the structural funds. In this section of the report we will focus our attention on the views taken by respondents which do not necessarily match real gaps and needs.

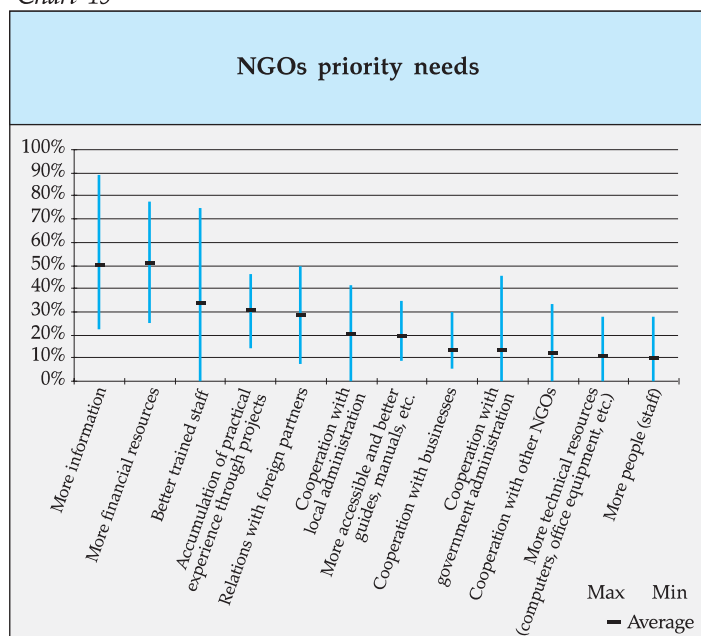
The major capacity development needs identified by the sector's representatives are: improving provision of information, improving financial capacity, recruiting better trained staff, accumulating practical experience in projects, contact with international partners. The great significance attached to relations with foreign partners appears strange at first sight. On the one hand this can be interpreted as poor familiarity with the way the structural funds operate, a type of operation where foreign

partners are not of much significance for the majority of projects, or as an unconscious transposition of a need which the NGO is experiencing in its core activity. On the other hand this result may also be interpreted in a positive light – desire to learn from external experience, improvement in capacity through participation in international networks, etc.

Problems of cooperation with other actors in the use of the structural funds are pushed deeper into the background.

This overall picture, however, conceals huge differentiation among the needs of the different NGO groups. Although differentiation is most apparent in terms of area of work and territorial coverage, variation in terms of location cannot be disregarded, either. This situation is a serious challenge for the design of capacity development programmes in general and training programmes in particular and calls for stronger emphasis on specific needs analysis. A fact not to be underestimated is that the needs respondents shared are only a rude orientation, and trusting only respondents' opinions involves the risk of addressing the problems inadequately.

Chart 49



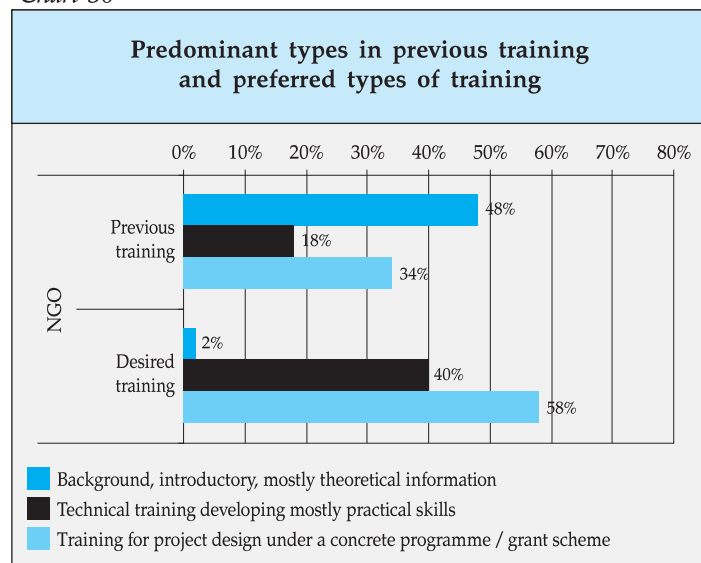
Training

According to NGO sector representatives, training needs are several times higher than the trainings conducted in the past few years in areas related to structural funds' use. Particularly great is the gap in specialized training for applying the funds – four times. Furthermore, it should be taken in consideration that not all knowledge accumulated in the preaccession period is transferable to structural funds' use.

Needs in the third sector are most acute (but not the greatest quantitatively) in small municipalities, small towns and villages as well as among local organisations. The needs of those who rate themselves as less informed and less prepared for participation in the funds' use are considerably more pressing. Needs significantly more acute than the average ones are typical of tourism associations, industry-specific organisations, civic participation, civic rights and advocacy organisations. The area where NGOs identify the greatest training needs is project implementation and development. The needs are smallest in strategic planning.

NGOs (just like businesses) categorically demand a change in the type of training offered (see Chart 50). Orientation is towards such training that would produce practical results. There is mass demand for specific training with a view to specific goals even with a view to a specific funding opportunity and not general training, especially if it is abstract, theoretical, resulting in pure factual knowledge and not in understanding, skills and habits.

Chart 50



It is unrealistic to expect NGOs to pay for training, especially if the fee is substantial. 63 per cent of NGOs say they should not pay for training taking place with a view to their preparation for structural funds use. Those attitudes are most pronounced among NGOs from small municipalities, small towns and villages, and least marked among NGOs from the capital. Women's and sports NGOs, as well as minorities-support organisations are least prepared to co-finance training. Probably owing to the strong external support characteristic of the early years of transition, NGOs are used to 'receiving' training and not lifting a finger to help it happen and one could make the guess that overcoming this attitude will be difficult for them.

45 per cent of NGOs who are ready to invest in co-financing a project, are not willing to make even a partial investment in their own abilities that will ensure for them successful access to future projects.

About 44 per cent of the representatives of the segment of the third sector well informed about the structural funds are inclined to allocate funds to co-finance training, compared to 27 per cent of those whose level of familiarity is poor.

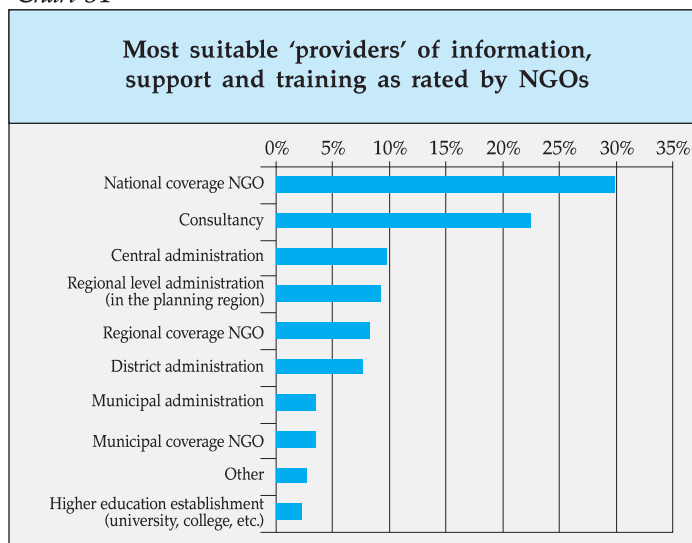
Practically all respondents from the sector share the opinion that there is a need for an organisation that will provide information, training and other types of support for structural funds' use. There is, however, no clear preference whether it should be an organisation of the sector itself, a consultancy selected by the sector or even a responsibility of the administration itself. Preferences in general lean towards an actor of the national level, no matter that it is far more likely for support to be more efficient and accessible if it comes from the regional level.

Whatever the decision, it needs to be 'bought' well – if not, it may risk disagreement, mistrust and dissatisfaction as the views of the different NGO groups are extremely differentiated.

3.7 Conclusions

Are NGOs aware of their place in the structural fund environment? The role of the non-governmental sector essentially is to steer, monitor and use structural funds' resources and not to manage them; this sector

Chart 51



belongs mainly to the "development community" rather than the "financial" community. NGOs in Bulgaria, however, are either unaware of this principle or refuse to accept it. They reveal a willingness to participate but by means which may involve conflicts of interest – on the one hand participation with projects of their own, participation as contractor or consultant, and on the other participation in the selection of projects, management, monitoring and evaluation of structural funds' programmes.

Taking this into consideration one should answer the question "Are NGOs aware of their place?" negatively. The third sector sees itself as an engine of development, no matter that it is not (could rather say ... "no matter that is only one relatively small part of the engine". The sector indeed does look forward to active participation in the work of the structural funds, although opportunities for it (especially from the point of view of access to resources /projects) will be rather limited than abundant. The big threat in this situation is for NGOs' high expectations to lead to great disappointment soon after the structural funds start operation. This threat may be reduced only through quality information and training.

General conclusions

The majority of NGOs take a very positive attitude on fast EU accession and one motive underlying it are the opportunities linked to use of the structural funds. Practically all NGOs want to participate in the use of the

structural funds and 74 per cent want to be very active in this. Against the background of this strong willingness, the third sector is only partially ready to participate in the structural funds.

Standing out among NGOs as better prepared are the national organisations and think tanks, lobbying and support NGOs, development agencies and business centers, municipal associations, regional structures of the Industrial Association and the Chamber of Commerce and Industry. In terms of geographical location, best prepared in general are NGOs and companies from big municipalities, and particularly those from Sofia and large cities. Standing fairly close to them are NGOs from medium-sized towns which means that bigger capacity is concentrated in Bulgaria's district centers.

Weak organisations are weak in terms of all, or the majority of aspects of their preparation. They come mostly from small municipalities, small towns and villages. Ranking next to them are organisations from medium-sized municipalities, local organisations and small NGOs. The regional and political problem arising from this situation is that capacity is most limited in the weakest regions that need development support the most and are potentially most eligible for structural funds' interventions. Poor NGO capacity in those regions is coupled with poor capacity in local authorities. Therefore, there is a pressing need to provide targeted support to actors

form territories / communities of limited capacity. Unless such support is provided, there is a huge risk for the purpose of cohesion policy to be skewed. There exists a vicious circle that must be broken: usually those most in need have the lowest capacity and thus their access to resources is limited; yet, without access to 'the development money', they stand no chance of catching up with the stronger ones.

As has been mentioned already, there are high expectations on the side of NGOs to play a role more important than structural funds' regulation and practice envisage. They entertain unduly high expectations concerning their direct access to resources, prominent participation in decision-making, as well as partnership approaches on the part of administration to them.

Unless addressed, all these problems create serious threats to Bulgaria's participation in the EU's structural and cohesion policy, especially during the first two or three years, impacting, however, the whole programming period. This means wasted opportunities for fast approximation of development levels and standards of living with EU member states. The NGO sector itself is also facing a threat – with the withdrawal from the country of the donors traditional for the transition period, the NGO sector will encounter a crisis, unless it adapts to the operation modes of the structural funds.

Chapter 4.

PARTNERSHIP – LESSONS FROM EU MEMBER STATES

4.1 Overview

The Japanese have a proverb saying: *“None of us is as clever as all of us”*.

Another saying goes: *“Two is better than one, provided two can work as one”*.

We reach thus two of the most important features of partnership. First — it is necessary. Second — it is not easy at all.

Partnership means joint work and sharing of responsibilities for a common goal. The point in partnership is that it ultimately enables each of the partners to achieve more than they would have done being on their own. The prerequisites are two. Partners need to have capacity. Partners need to trust each other.

Successful partnership is attainable and real. The partnership principle is fundamental for the EU structural funds. Its application is one of the obligatory requirements for benefiting from their assistance. The funds, however, do not require only partnership, they offer instruments and tools in its support. Therefore, the funds are an important catalyst for the establishment of the partnership principle in member states and its transformation into an inherent characteristic of policy-making.

The countries' individual peculiarities exert a strong influence on the use of partnerships and, more broadly, on the use of EU support. Differences between the individual countries are not so much in the application of the partnership principle as such but mainly in the quality of application. The most pronounced differences are between old and new member states. The former have working partnerships and emphasize strongly on its ef-

iciency. In the latter partnership is token, rather than real, and a reaction to external requirements. To a certain extent this is due to the fact that partnership takes time. Time is needed for the suitable national institutional environment to be created and trust between partners to develop. The very implementation of partnership is time-consuming – each consultation process needs to allow enough time for its smooth course, time which will ensure that partners make real and not token contributions.

Partnership is difficult and demanding – its success depends on there being or there being created conducive environments and on ‘investing’ in partnership. Among the reasons that make partnership, more specifically project partnership, to appear unnatural is the fact that in many cases potential partners are placed between competition and cooperation. Imposing partnership takes political will, commitment, resources and efforts. The government needs to decide whether it will regard partnership as the “necessary evil” (i. e., as a formal requirement of the structural funds) or will insist for efficient, benefits-motivated partnership producing a development impact. Yet, although it can be encouraged through national policies and by national authorities, partnership cannot be imposed or ensured from the top. Efforts are needed also on the part of local development actors, so that they are efficient and competent participants in partnership and experience real benefits from it.

Problems Bulgaria is facing on the eve of its EU accession are not unique to Bulgaria. Therefore, learning from the experience of other countries that have gone through a similar process may save a lot of effort and stave off many errors. This chapter looks at partnership practices for structural funds' use in Portugal, Ireland, the Czech Republic and Poland. It ought to be said straight from the beginning that mechanical transfers of ‘foreign’ practices always involve some risks, as they come with no guarantee about their being as successful in a context different from the one where they originally evolved. Best practices need to be applied with caution, and with a measure of adaptation. Furthermore, they should not be applied in isolation, rather, they should be integrated in overall development policy and practice.

If partnership were a film production, government would be holding the auditions. This is because structural funds regulations give only the overall framework for partnership. Detailed definitions, participants, mechanisms and levels of participation are set by the member states. This is done in accordance with national legislation, traditions, system of government, type and scope of programmes, partners' capacity and resources. Therefore, the role of the individual participants in partnership differs from country to country. This flexibility, which in general is seen as an advantage, is often criticized, most of all by non-governmental circles because their participation is left at the 'mercy' of national authorities.

There are two dimension of partnership – vertical and horizontal. The first one suggests participation of partners from different levels – starting from the EU level, going through the national level, and reaching down to the regional and local level. The second dimension entails the participation of partners representing various sectors in society – the public sector, the social and economic partners, civil society organisations, the business sectors.

Besides, partnership can take place on the level of individual programmes and projects. In the case of a programme broad consensus needs to be achieved on strategy, priorities, distribution of resources. In the case of projects we are concerned primarily with pooling together efforts and resources in the broad sense (social and technical expertise, technical and human resources, influence in addition to money) for joint project design and implementation.

Partnership has a different part to play during the different stages of the structural funds programming cycle. It covers preparation, implementation, monitoring and evaluation of support. Regulations, however, make express provisions only with respect to programming and monitoring: programmes need to be prepared in partnership and their implementation needs to be observed by monitoring committees set up in accordance with the

partnership principle. Regulations do not stipulate expressly a role for partnership in operational programmes' management and implementation.

The partnership principle was expanded and strengthened following the changes in cohesion policy for the years 2007-2013. There are, however, concerns that in the environment of increasing decentralization in funds management and disengagement of the Commission, also from its traditional role to encourage civil society participation, and in the absence of mandatory requirements and rules for the inclusion of partners and partnership work, control over the funds might be concentrated in the hands of national authorities which are not always capable of developing transparent mechanisms for resources management¹⁷.

Benefits and challenges

Partnership can mean efficiency, effectiveness, legitimacy and transparency in SF operation.

Applied properly, partnership leads to improved participation in the structural funds (thanks to the broader scope of expertise used); it leads also to better dissemination of information on programmes, better understanding of needs and, respectively, better use of resources. Partnership means transparent decisions and transparent decision-making, inclusive of prevention of misuse and corruption. Partnership heightens the level of engagement with programmes and interest in the success of interventions; there is mobilization of financial resources; there is institutional capacity development at the sectoral and territorial level. Partnership results in improved coordination among programmes and in public administration in general, which in turn means that duplication of effort is precluded. Partnership can ultimately lead to the development of a democratic political culture which is then the driving force for member state action in areas outside the structural funds.

¹⁷ Civil society as a partner..., 2004; p. 8; Public eye in EU Funds (in Bulgarian), 2005, p. 12-13 and elsewhere.

Human development is the end, economic growth is the means.

After a few years of increasing growth in countries from Central and Eastern Europe, Bulgaria in particular, the real challenge is how to transform economic growth into human development. The key issue is the nature of growth and the redistributive mechanism associated to make the increase in income transformed into increased prosperity for everybody in society.

Bulgaria has a big challenge ahead. As the process of integration into the European Union proceeds, the country will enjoy more financial resources through the EU structural and cohesion Funds to overcome structural barriers that in the past hindered an equitable process of development. Bulgaria has made important steps ahead in the area of MDGs and poverty alleviation; nevertheless, the central idea –strengthening capabilities to live a fuller life – remains the objective at the centre of policies geared towards human development

Human development puts people at the centre of the development policy. In the context of policies for growth, the challenge to reduce poverty is not the relation between poverty and growth or the relationship between poverty and inequality but the interaction between inequality and growth. The reduction of absolute poverty necessarily calls for strongly country-specific combinations of growth *and* distribution policies.

Why does inequality matter?

Inequality matters for a range of mutually reinforcing intrinsic and instrumental reasons. Some of these are:

- Social justice: Inequality has a bearing on what people can be and on what they can do. Thus, inherited disadvantage in opportunities because of race, sex, or income is not fair. Deprivation along those lines has limits in most societies and value systems.
- Political legitimacy. Extreme inequality weakens political systems and erodes institutions. Inequalities in human development often reflect inequalities in access to power, political representation, voice, etc. Where institutions are seen to perpetuate inequalities and favor the elite, the system risks breaking down and eroding the foundations of democratic governance.
- Extreme inequality is bad for growth and for poverty reduction. But coming back to the triangle “growth, inequality, poverty”, inequality represents efficiency losses. For

instance, a country where girls are denied education is not only endangering the creation of capabilities and preventing human development but wasting the productive potential of part of the population. Long-run efficiency and greater equity can be complementary. In addition, moves towards increased equity can help achieving the MDGs and foster human development goals at large.

From pro-poor growth to progressive growth

The notion of pro-poor growth is easy to agree with. It basically means that as the average income of the economy grows, the poor see their income growing. Nevertheless, if a higher share of the growth in income benefits the already rich people, this process of growth can be detrimental to equity. The first issue with this “pro-poor” growth is again an issue of social justice. A process of growth that allocates more to those who have more is simply not fair. The second problem is the conversion of growth into poverty reduction. Increasing the share of the growth benefiting poor people – “progressive growth” – can accelerate the rate at which rising incomes reduces poverty. The progressive growth puts redistribution alongside growth at the centre of the policy agenda to reduce poverty and to sustain the foundations of governance in the short run.

Effective steps to achieve progressive growth that have been successful in other countries are investment in education for all to increase efficiency and growth; reduction of health inequalities; creation of income, employment and incentive-based fiscal transfers to alleviate poverty in the short run, and public investment in rural infrastructure. In the case of Bulgaria, a country of wide regional disparities, investing in rural development is a condition for achieving a more equitable society and higher levels of human development in the process of full integration into the EU.

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Sources:

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THE PARTNERSHIP PRINCIPLE

Ability to apply the partnership principle is one of the dimensions of national capacity for efficient and effective use of EU funds' aid. In practice, the partnership principle means shared responsibility for the programming and use of the structural funds' allocations between the European Commission, the national authorities of the beneficiary country, its local and regional authorities and civil society.

In SF regulations the partnership principle relates and is limited to consultations with partners. The regulations stipulate that processes and structures for national and regional level consultations are to be established and they are to ensure the participation of regional and local authorities, social and economic partners (employers' organisations and trade unions), businesses and non-governmental organisations' associations. Plans (programmes), which are the basis for the allocation of support, must be presented by the member states to the Commission following consultations with partners. There are similar requirements on the inclusion of partners in the monitoring committees.

Individual national policies often give a broader interpretation to responsibility sharing as sharing of resources and expertise. In this context partnership is understood to mean inclusion of all stakeholders which may participate in the provision of national public co-financing as well as in the generation and implementation of projects part-funded by the structural funds. This interpretation is particularly valid for countries where SF support is intensive. Its pragmatic motivation is that central authorities alone cannot generate and implement all the projects necessary to absorb the available funding nor are able to provide the necessary national co-financing.

SOME IMPORTANT CHARACTERISTICS OF THE COUNTRIES STUDIED

For over 40 years, Bulgaria, the Czech Republic, and Poland lived under totalitarian governments, practically without any local and regional self-government. During this period the system was extremely centralized – regional and local authorities were completely subordinate to the executive, this leading to overall domination of state interests over local interests.

Another salient feature in the situation in Bulgaria, the Czech Republic and Poland is that regional development policy during the first stage of transition was weak or non-existent and only started to evolve in the late 1990s spurred not insignificantly by EU accession and expectations for deployment of cohesion policy instruments.

Portugal on its part went through an equally prolonged period of political dictatorship (almost 50 years) with the attendant centralized approach. Something that differentiates it from the post-socialist countries is its considerably longer experience in democratic governance (since 1974).

On the surface, the countries studied differ considerably in terms of economic development levels. There are, however, two important points to note here: i) with the exception of Ireland, all of them belong to the group of EU countries whose development is medium or low; and ii) at the turn of the 1980s not only Portugal but also Ireland stood among the EU's least developed countries (or cohesion countries). Hence the conclusion that the temporal dimension taken into consideration, these countries' base is similar to that of the new member states, albeit higher than Bulgaria's.

Portugal and particularly Ireland are often cited as examples of successful use of the structural funds. The new member states display considerably lower absorption rates (still, the first years of absorption are characterized by lower rates of uptake in any country).

4.2. Partnerships in planning and programming

Programming is the first stage of SF action where the partnership principle may, and ought to be applied. Partnering at this stage may make or break programme design and implementation. It is precisely during this stage that partnership reveals its role for the involvement of ownership in the programme: stakeholders must be convinced that this is *their* programme (and not the government's or the managing authority's programme). Feeling of ownership garners broader support, which is important for the programme's efficient implementation.

The situation in Bulgaria

Bulgaria does not have any established tradition in planning partnerships and, more broadly, in stakeholder and civic participation in 'policy making' on both national and local level.

The legal and institutional environments necessary for planning and programming partnerships to happen are largely in place. In 2004 the Ministry of Finance (being responsible for the overall coordination of the structural and cohesion funds) prepared a roadmap for partnership¹⁸, and the partnership requirement went down in

¹⁸ Social and economic partnership., 2004, <http://www.eufunds.bg/docs/partnarship2-bg.pdf>.

the guidelines for the National Development Plan (NDP) and the operational programmes and in the constitution of the working groups for the individual operational programmes. In 2005 there were regular public forums seeking to arrive at a consensus on the National Development Plan. One considerable portion of materials on the NDP and other planning and programming documents were released on the Internet prior to their adoption.

Nevertheless, use of partnerships in planning regional and local development and programming the structural funds remained poor and to a large extent only token. Any best practices there exist are chiefly the outcome of donor projects covering individual municipalities or regions. Public forums on the NDP served more the purposes of coordination between the working groups on the operational programmes, less the purposes of information and still least the idea to hold genuine consultations with partners and arrive at a consensus. In many cases there is just doubt in the efficiency of the working groups for the operational programmes and the real participation and contribution of some of the partners (especially those outside of the central administration). One extreme negative example of the dominance of the 'for your information' approach is the National Regional Development Strategy, the public hearing on which took place one month after it had been adopted by the government. There was a lot of criticism also on the general dialogue between the authorities and the non-governmental sector, most of all with respect to mechanisms for inclusion (selection of representatives), efficiency of the procedures, pressure on decision-making, end results, etc.

Among the more important reasons underlying the dissatisfactory application of the partnership principle in planning and programming are the following:

- Administration often fails to grasp the importance and meaning of partnership and accepts it as a 'necessary evil'. The non-governmental sector in its turn does not recognize clearly the benefits active participation in planning will bring to it and how that would impact on later use of the structural funds.
- It is not infrequent that meetings of the consultation bodies or public hearings are degraded to mere passing on of information constraining thus the

growth of ownership. It is common practice for critical views to be skipped by administration. It is, however, equally common for partners outside administration not to feel responsible for the process's end product.

Comparison

The countries surveyed display great similarities in the application of the partnership principle in structural funds' programming and regional and local development planning. In all countries planning and programming are dominated by consultation processes and not by partnership in its meaning of joint decision-making and joint action. One of the few exceptions are Ireland's city/ county development boards, entities where true partnership in planning and implementation can indeed be observed.

In all the countries surveyed, regional development planning is closely linked to but still distinct from structural funds' programming. The main differences in the design and the operation of the planning system are between the old and the new member states. The old member states (Portugal and Ireland) are characterized by:

- a simple system of mandatory planning documents oriented pragmatically to EU support programming;
- clear interpretation of planning documents' function on the regional and local level;
- a very centralized approach 'top-down', complemented by consultation and a particularly strong emphasis on coordination (most of all between sectors);
- strong orientation in planning and programming towards implementation; less focus on planning documents and processes and more focus on mechanisms for policy formulation, funding and implementation.

The new member states are characterized by:

- a complex system of planning documents, often with unclear purpose;
- strong emphasis on planning and the production of plans without due interest in their implementation;
- unclear linkages between regional and local plans and strategies and structural funds' programming;

- oftentimes plans' stated alignment with other planning documents is non-existent in practice.

Planning models in Ireland and especially models in Portugal seem more relevant to Bulgaria (more in terms of their general approach and principles and not in their details) owing to greater similarity in administrative and territorial organisation and in view of their proven effectiveness in terms of structural funds uptake.

The dominance of consultation processes is the underlying cause for dissatisfaction with the impact achieved, especially in the post-socialist countries, as there is no obligation to take into consideration recommendations made and integrate the outcome in the respective strategies and programmes. Nevertheless, despite this certain measure of discontent, consultations are important as they are a counterweight to the often centralized approach in planning and present an opportunity for proposals to be made.

When it comes to consultations, differences between old and new member states are clearly apparent. While new EU members stress more on legislative provision for the process and its quantitative dimensions ('mass' consultations and information dissemination), old member states put emphasis on operationalization, delineation of clear roles and responsibilities, provision of resources to the respective partnership structures and their functioning. In old member states consultations are targeted at consensus building, while in new member states they are often a token process and it is central authorities that make decisions, no matter what the outcome of consultations.

The prevailing attitudes to partnership, too, differ – while partnership in old member states seems at present to be fully realized and motivated by the benefits it brings, in new member states it is imposed as a token process, a response to external demands. One possible explanation to this phenomenon is furnished in the report on the Czech republic – "...Many people doubt the partnership principle. This has to do with the reaction to the communist past and respectively the fact that in the 1990s, and to a large extent also now, Czech political elites and public opinion have upheld individualism and the meritocratic principle".

Among the factors affecting quality of partnership and consultations are:

- Clear understanding of the meaning of the process, formation of suitable expectations (i.e. whether the process will involve information sharing, consultation or joint decisions).
- Clear roles and responsibilities and especially sound understanding among participants on those. In Poland for instance one important gap in the consultation process was linked to the perception of roles: programmes' management bodies underestimate their partners and believe that it is only them that are responsible for programme preparation and implementation. At the same time, the members of steering or monitoring committees on the side of the local authorities and the social and economic partners fail to understand that they are full members and have the right to a vote (even when it is only an advisory vote that they have). As a result, consultations often disintegrate into mere confirmation of the priorities and activities proposed by regional or central authorities.
- Timely provision of information on the part of the authorities as highlighted above was a very important factor for success in Ireland and Portugal. The Czech Republic, where there is insufficient communication between central government and the regions, as well as vague and sometimes misleading information, is a negative example in this respect.
- Provision of the resources necessary for the partnership and consultation structures to function – technical and expert resources (a secretariat), training, financial support .
- Involvement of those actors who would be key in decision-making and implementation: for instance the obligation for central agencies to participate in city / county development boards in Ireland and to align their plans with boards' decisions.
- Appropriateness of level – more efficient impact on the national level, for instance, motivates social partners to associate in larger and stronger nationally representative organisations (Portugal).
- Trust among participants – in the Czech Republic, mistrust between the self-governing regions and the central government and between self-governing regions and municipalities is considered to be one of

the main problems.

- Time – Firstly, the formation of efficient partnership structures itself takes time, and, secondly, consultation processes ought to provide enough time for meaningful reactions to be produced (respondents from the Czech Republic and Poland note that consultations are taken precisely because of the extremely tight timeframes set for reactions on the proposed draft plans and programmes).

At the same time it is control over resources that shapes partners' real role and the real impact of the consultation process (partners who are in control of resources carry the greatest weight in real decision making).

4.3. Project partnerships between government authorities and the non-governmental sector

With project partnership we are faced with several different types of partnership: partnerships for the identification, consultation and selection of projects to be implemented by other actors; partnership for the identification and design of 'own projects'; and public-private partnerships.

The situation in Bulgaria

Recently, project partnership between public authorities (especially municipalities) and the non-governmental sector (especially non-governmental organisations) has made considerable progress¹⁹. It is promoted by both bilateral donor programmes and requirements for access to funds of the preaccession instruments, notably Phare. Quite a few of the municipalities have signed co-operation agreements with the non-governmental sector for joint project preparation. Municipalities also tend to allocate on the municipal budget resources to be contributed as co-financing to projects of non-governmental organisations and in support of informal civic initiatives.

Bulgaria does have a range of best practices in the use of partnerships for project design (inclusive of prepara-

Box 35

A BEST PRACTICE

The Irish County/ City Development Boards address many of the problems important for Bulgaria – they ensure the coordination and implementation of integrated development strategies / plans on the local or regional level in an environment of fairly centralized resources.

The main features of the boards are the following:

- Broad partnership reaching out to all main stakeholders in the development of the respective area;
- City or county-lead and a vertical link to central government (through the mandatory participation of a representative of central agencies) as well as a horizontal link to other local actors;
- A partnership mechanism which in addition to consultations involves also joint decision-making and joint responsibility for enforcement of decisions;
- They are legally established and thus provide not simply an opportunity but, first and foremost, an obligation for participation and responsibility for the implementation of their decisions, along with clear roles and responsibilities; state agencies participate through senior officials mandated to make decisions who are not allowed to delegate representatives to meetings;
- Focus on strategies' implementation – ensured through stakeholder ownership in the strategy, and through clear distribution of responsibilities for implementation and goal attainment;
- Although they have no resources of their own, the boards are able to exert influence on state agencies' decision-making (also when it comes to structural funds' channeling) and to mobilize and pool together local actors' resources for common goals;
- Professional management and secretariat staffed with skilled personnel.

City / county development boards are multipurpose partnerships and are not limited to the planning process: they are also involved in plans implementation, coordination of partners' action, project identification, design and implementation, support for the NGO sector, etc. This suggests that the partnership established for a particular purpose may be used also for the attainment of other goals.

The majority of the general principles guiding the development boards are applicable to all territorial levels in Bulgaria. At the district and regional level in particular, the manner in which the current district and regional development councils operate could be modified. Taken in its totality, however, the Irish model is best suited for the municipal and / or district level.

tions for Leader-type initiatives in 11 municipalities), resources mobilization for the implementation of projects identified jointly by representatives of the three sectors in the local community (the Community Fund programme supported by the US Agency for International Development), cooperation between municipalities and companies. The UNDP-supported project JOBS (Job Opportunities through Business Support) created

¹⁹ See also I.3.

40 business centers and businesses incubators in high unemployment regions to provide support to small and medium enterprises and farmers.

Although the overall picture may seem optimistic, regional (local) project partnership between public authorities and non-public actors leave a lot to desire and display a series of gaps:

Tokenism. Partnership is often token and takes shape only as a reaction to requirements set by funding programmes, one part of the partners making no real contributions to project design, implementation or co-financing processes. Thus, partnership is not the result of a recognized willingness for better response to needs or for mobilization and pooling together of resources and capacity. Partnerships set up only to meet the formal requirements of funding programmes are usually artificial and unsuitably shaped; they do not rest on mutual trust and shared benefits, responsibilities and risks and are often unsustainable with the attendant implications for project implementation.

Sporadic occurrence. Projects (and their related partnerships) are often sporadic, conditioned by the available funding opportunities and their requirements and with no long-term vision and priorities.

One barrier to partnerships for joint projects are the financial constraints of the potential partners – yet, it is precisely when resources are limited that pooling them together should be the aim.

Isolation. Project partnerships are often restricted by the unavailability of suitable partners at the local level. This is particularly valid for small municipalities where the density of non-governmental organisations is low and businesses are predominantly small: only 39 per cent of small municipalities report consulting their projects with NGOs (compared to 74 per cent among large municipalities), and in some 40 per cent of small municipalities there are no suitable non-governmental organisations to form partnerships with.

Mistrust. Project partnerships are constrained by mutual mistrust among the representatives of the various sectors and the still inadequate understanding of the abilities and professional capacity of the potential part-

ners, as well as the advantages of partnership. The type of partnership most underdeveloped is the public-private partnership. In many cases existing partnerships of this type are implicated in corruption scandals (justly or not) and subjected to doubts regarding their economic feasibility and the benefits they would bring to the public sector and society.

Comparisons and lessons

Partnerships to identify, consult and select projects to be implemented by other actors

Projects identification is directly linked to planning and programming processes. If shaped appropriately, planning processes in a 'natural way' lead to project ideas generation.

At the same time, even when formally in agreement with the partnership principle, public administration is not always ready to apply it and to take into consideration proposals from the non-governmental sector. If the non-governmental sector is to have real influence on programmes' content (and resources they budget for the sector), it needs to be well organized, to participate actively in programming and to be well versed in the structural funds' rules. The non-governmental sector's contribution is in its participation in consultations, rather than in its involvement with programme documents' preparation and decision-making (which is related to control over resources).

Although they cannot qualify as project development partnerships, consultations provided to potential applicants by the executing agencies are important for the use of SF money. A good example in this respect is feedback from the authorities responsible for programme implementation to potential applicants prior to the official submission of proposals informing them what are the chances for their projects to receive funding and what potential modifications could be made in them. Such feedback is a safeguard against the investment of time, efforts and, potentially, money into the development of projects that stand no chances of receiving funding. Besides, it is in the interest of those responsible for implementation to receive suitable and good quality projects able to absorb programme funding. Portugal and the

Czech Republic make use of this practice, too, but it is particularly common in Ireland.

Project selection is one of the most important activities in operational programmes' management. Use of partnership-based entities for decision-making related to programme implementation, inclusive of the selection of project proposals from among those received, is a useful practice which in addition to better transparency also ensures shared responsibility for decisions and, respectively, ownership over the programme. Such entities should have as their members representatives of the group of the potential beneficiaries and their number should be proportional to their real contribution and participation (especially financial participation) in the implementation of the operational programmes.

Partnerships for own projects' identification, design, joint funding and implementation

'Partnership projects' (meaning that those participating in design and implementation are partners in the project) seem to be more numerous and easier at the local and not at the regional level. They make a fairly small contribution in structural funds' absorption. Nevertheless, these partnerships bring important benefits in terms of social capital development and the provision of 'local' and 'community' solutions to problems.

Partnership for own projects design and implementation is not that easy and natural as one might presume. Therefore, when such a type of partnership is necessary and desired, operational programmes should provide incentives and requirements to encourage local partnerships to engage in it.

Clear proof of the above is the strong impact Community initiatives exert on local partnerships development. One such initiative is Leader. Its parameters to a large extent are set by EC regulations and guidelines. During the most recent programming period (2000-2006) Ireland had 38 partnerships under Leader. Leader Groups in Portugal numbered 52 during the same period. In Poland over 200 potential partnerships applied under Leader and 70 to 100 groups are expected to have the implementation of their plans funded.

Under the direct influence of Leader the Portuguese

Box 36

A BEST PRACTICE

From the point of view of the partnership principle, the practice adopted in Portugal seems also applicable to Bulgaria with respect to the selection of projects to receive funding from the regional development operational programme. In Portugal project selection is a joint decision of the Programme Managing Authority (the president of the Regional Coordination and Development Commission) and the programme's Management Committee. The latter is a partnership body comprising representatives of central administration, municipalities and civil society. Thus it includes representatives of the potential beneficiary groups, their weight being proportional to the group's expected share in the matching funds. In other words, if partners co-finance directly action under the programme, they are entitled to a more active role in decision-making, while those who do not may have only an advisory function. In this way social partners and NGOs voice their opinions on the development strategy and priorities and monitor implementation, while local and regional authorities have more say on these issues and are included in the structural funds' management, also in decision-making on the award of funds to projects. The managing authority cannot make any decisions without a favourable opinion on the matter from the monitoring committee. When the managing authority disagrees with a consensus decision, the matter is brought to the minister for regional development for final ruling.

The key success factors are:

- suitable composition of the committee which takes into account the real contribution made to the programme;
- clear rules and responsibilities are in place how decisions are made, endorsed or challenged.

authorities developed two measures which were included in the operational programme on the development of the region's endogenous potential for 1994-1999: "Rural Centers" and "Historic Settlements". Thanks to their success during the next programming period (2000-2006) they were included in the regional operational programmes.

Partnerships for joint projects in Poland and the Czech Republic are significantly less developed. They are often ad-hoc and unsustainable. Competition thinking and fears of 'idea theft' are important barriers to project partnerships. Accumulation of trust takes time and is usually dependent on there being joint past work. Joint project partnerships are like an avalanche – success feeds the desire and the hardest time is the first time.

A BEST PRACTICE

One suitable practice that needs to be mentioned is the Leader approach. This approach has proved its efficiency as a Community initiative and its principles have gone down in the foundations of other practices, too.

Below are the initiative's main features:

- an area-based approach;
- broad partnership reaching out to local authorities, civil society and often businesses;
- needs and priorities identification and development of local development strategy and development plan;
- proposals compete for approval; among the criteria are quality of the partnership and quality of the development strategy and development plan presented;
- partnerships are institutionalized as local action groups (depending on national legislation, groups register as associations, foundations or not-for-profit corporations).

Its success factors are the following:

- Local ownership and responsibility – through Leader control on money goes to local people who are accountable not only to the funding bodies but also to their community limiting thus chances for corruption;
- Support and facilitation – Leader demonstrates that development actors, inclusive also of those from rural regions, *can* develop projects, provided there is encouragement, support and an appropriate structure;
- Competition among proposals – here competition mobilizes and focuses more narrowly partnerships;
- Accountability for implementation – partnership does not come to an end when the strategy and the plan are finalized: their implementation needs to be ensured and this makes planning more responsible and more realistic;
- Qualified partnership staff who ensure implementation on the local level.

Public-private partnerships as one particular case of joint projects between the public and the private sector

The underlying meaning of public-private partnership is that the public sector changes its role from service provider to manager and oversight body on private contractors. Risks and responsibilities are distributed between the public and the private sector.

In all countries, public-private partnerships deal with very large projects of transport infrastructure (roads, ports, airports, bridges, etc.) and environmental infrastructure (water supply and sewerage, waste water treat-

ment facilities, waste management, etc.) and thus 'relate' mostly to the Cohesion Fund.

In all countries, public-private partnerships are motivated by there not being enough public resources (and there being, respectively, a need to attract private resources) to implement in parallel and in a fairly short period of time all desired projects, as well as by the improvement in efficiency expertise from the private sector is expected to bring.

The typical solution is to grant a concession to a joint company in which the municipality has a 50 per cent stake and the rest is privately owned. The company then can get access to support from the Cohesion Fund and it will be responsible for building the infrastructure and operating the system, as well as providing services at real market prices.

Experience with public-private partnership seems to correlate strongly with experience with the market economy and experience with EU funds' use. In Poland and the Czech Republic public-private partnerships are fairly uncommon despite several isolated examples that are mentioned: construction of the new airport terminal in Warsaw (cooperation between a public and a private company), modernization of street lighting in Krakow (the investment in the lighting's modernization was made by a private company and it is being repaid by the municipality out of the savings in lighting cost it is able to make after the improvements). In both countries it is legislation that is regarded as the main barrier to public-private partnership.

Public-private partnerships are fashionable but also necessary and useful. Implementing them, however, is not easy. They need a conducive environment, among its elements being a positive attitude among central and local authorities, appropriate laws, economic feasibility and technical capacity to carry through public-private partnerships. Some special difficulties and risks they involve concern their alignment to requirements on state aid and the transparency and fair competition in the selection of the private partner. Owing to their complexity public-private partnerships (in the narrow sense) seem to be efficient only with respect to very big projects.

4.4. Partnerships in the non-governmental sector

Partnerships within the non-governmental sector (NGO to NGO, business to business and NGO to business) concern two different fields: partnership for participation in consultation (representing the interests of the respective sector); and partnership for joint projects.

The situation in Bulgaria

In Bulgaria there are no traditions for civil society organisations as well as for businesses to partner with their peers or with entities from the other sector. One reason is that similar partnerships have not featured so far among the requirements of the funding programmes.

Preparedness of the NGO sector to represent its interests and lobby for the structural funds is rated as particularly weak. Only three national NGOs participated in the working groups for the National Development Plan and the regional development operational programme.

The first step in partnerships among the NGOs active in the different spheres has already been made by means of the 'families of NGOs', one such 'family' being regional development. A positive example for proactive self-organisation among NGOs is the organisation of Bulgarian environmental and sustainable development NGOs who through Internet nominations and voting elect their representatives in various working groups, commissions, and councils.

Cooperation among non-governmental organisations for joint projects is perceived as limited. Nevertheless, there are many examples of best practices of sizeable potential. Particularly important among them seem the public forums. Supported by the Swiss Agency for Development and Cooperation and receiving technical assistance from Balkan Assist and the Foundation for Local Government Reform, over thirty public forums have evolved since 2000. Forums invite representatives of all stakeholders in a municipality – non-governmental organisations, citizens, businesses, local authorities. A series of discussions is held on important issues pertaining to community development. A forum could produce as outcome recommendations for action targeted at spe-

Box 38

A BEST PRACTICE

One suitable practice in the field of public-private partnership is the establishment of a company that built and later on started to operate the water supply and sewerage infrastructure for a group of municipalities in Portugal.

Below are its main characteristics:

- A joint venture company was set up under the relevant law on municipal, inter municipal and regional companies; by means of a concession, the implementation of part of the municipal functions in water supply and sewerage were delegated to it.
- Total planned investment of EUR 107 million; application to the Cohesion Fund for EUR 65 million and an opportunity for additional funding of municipal investment projects for the remainder of the sum by the EU Regional Development Fund.
- Participating in the scheme: municipalities, a regional association of municipalities and a private partner (selected following an international tender). Municipal shares are calculated based on their population and development levels.
- Joint decisions made among the representatives of public authorities before they discuss them with the private partner.

cific addressees, new civic initiatives and concrete projects to address some of the problems identified.

Businesses seem better organized – there are numerous employer and business associations. They, however, often express opposed positions and opinions. Representatives of national business organisations are part of the working groups under the National Development Plan and the operational programmes relevant to them. Nevertheless, knowledge, especially among small and medium enterprises, and especially regarding the structural funds, is very limited. There are insufficient examples of cooperation between companies in project design and the main reason is the absence of programmes and incentives.

Cooperation is particularly limited when it comes to NGOs and businesses. The Bulgarian Business Leaders Forum, which has over 160 members from NGOs and businesses, is the exception, rather than the rule. However, their focus of work to date has not involved preparations for structural funds.

Comparison and lessons learned

Respondents in the Czech Republic highlight the relatively strong influence the Czech non-governmental sec-

tor earned for itself vis-a-vis consultation on the national development plan which resulted in there being in some of the operational programmes co-financed by the European Social Fund (Human Resources Operational Programme and Prague Operational Programme) resource allocations for capacity-development of the NGO sector.

In Poland the role and the place of the non-governmental sector are regulated by law (2003) and there is a platform for the official representation and mutual consultation between civil society and public sector, namely the Public Benefit Works Council. Although formally given only a consultative function restricted to enforcement of the Public Benefit Works Act, the council is in reality a platform where the NGO sector can voice its interests and problems before the public authorities. In Poland non-governmental organisations are represented in all steering and monitoring committees and are regarded as the most active participants in consultations on the national development plan for 2004-2006.

There are also regional NGO associations, such as the Kujawsko-Pomorskie Council of NGOs which acts as a regional representation of the third sector. What is special about it is that it was created democratically (bottom-up) with NGOs in each district selecting one among them to represent them in the regional organisation (without this, surprisingly, causing insurmountable conflict). The region's public authorities recognized the Council as the most important (if not the only) representative of the NGO-sector and their 'common mouthpiece'.

Although there are in Poland numerous representative business organisations at the national and the regional level they are not as active as NGOs. One special problem Poland experienced was providing the necessary number of businesses organisations representatives to be members of operational programmes' steering and monitoring committees. Nevertheless, there are many good examples. Numerous business associations support their members through the provision of information, conferences, training and consultations.

The leading factor in the development of partnerships for joint projects in the non-governmental sector are

the mandatory requirements for partnering in programmes. Such requirements are imposed when projects, in order to meet their goals, must combine activities implemented by various actors. EU initiatives (LEADER, URBAN, EQUAL) played in this respect an important role in partnership promotion but they were often complemented by national programmes using similar approaches (for instance the Portuguese programmes Historic Settlements and Rural Centers). Those programmes' rationale is to enable partnership to continue after the completion of the project, and old member states' experience confirms that one sizeable portion of partnerships were indeed sustainable.

Partnerships among non-governmental organisations depend to a large extent on the overall situation in terms of NGO participation in structural funds' use. NGO expectations for direct participation in SF uptake, particularly in the new EU member states, are high and the realities may prove disappointing. If NGOs wish to secure for themselves broader access to resources, they must participate more actively and more competently in programme design (i.e., in consultations on programming). Their participation, however, is also limited by their capacities, financial capacity also being important. Project partnerships in the NGO sector are relatively uncommon and quite often the case is that they appear only thanks to the concrete requirement laid down by the funding programmes. Therefore, programmes should encourage partnerships, provided they bring an added value to projects.

Examples from the countries studied show that partnerships of the 'business to business' type are relatively the most infrequent ones, to an extent due to the predominant competition relations between businesses, but also owing to the lack of any experience in such cooperation.

Cooperation between NGOs and businesses is restricted by rules on state aid which stipulate that profit-making companies and not-for-profit organisations are entitled to different types of support and profit-generation activities are to receive sums other (smaller) than those allocating to the rest of activities.

In order for partners to create an efficient partnership, they need to have worked together before and to trust

one another. Among the critical barriers to partnership in the non-governmental sector are shrouding ideas in secrecy and restricting the number of partners in order to minimize the need to share economic benefits.

4.5 Partnership between municipalities

The situation in Bulgaria

In the past several years Bulgarian municipalities have started to realize the need for inter-municipal cooperation for the implementation of joint projects or joint service provision. The Bulgarian Regional Development Act lays a requirement for such projects to be identified and, consequently, formally encourages inter-municipal cooperation. A similar goal is contained also in the National Regional Development Strategy. One big portion of municipal and regional plans, however, do not feature such projects or they have not been developed as joint ones.

Although there are examples of successful cooperation in the development and implementation of concrete projects, such examples have not grown into a common practice. In other words, municipalities are lonely players²⁰.

When financial resources are sought or solutions to problems, 'vertical' links are much stronger. Instead of partnering, municipalities turn their backs on one another, keep information secret, perceive their peers as their rivals. The common approach is for a municipality to approach central government on its own with its specific request for support without any discussion of the matter with the other municipalities or attempts to find a common solution.

Among reasons for limited inter-municipal cooperation are competition for access to restricted resources, very pronounced preferences for communication and consultation with central government (lobbying) and absence of concrete incentives for inter-municipal cooperation. Another reason is related to expectations that local problems will be resolved with central government resources, lack of experience and best practices, etc.

Box 39

A BEST PRACTICE

A model that can be regarded as directly applicable to Bulgarian practice is the Polish model. Polish stakeholders gained the insight that if all partners are to be included in a meaningful way at the national level, it is particularly important that there be initiative and pressure on the side of the non-governmental sector. Therefore, the existence of a uniting organisation of NGOs is deemed a must and a precondition for enhanced communication and cooperation among public authorities and non-governmental organisations. Such an organisation could serve as the official forum where to discuss draft laws, planning documents, etc. and as a single source for the selection of NGO representatives for monitoring and steering committees, working groups or other bodies, as well as a main driving force behind building and strengthening the capacity of the NGO sector to understand structural funds' mechanisms as an important prerequisite for its equitable representation and influence.

The main success factors and prerequisites for this practice are the following:

- Establishment of an organisation of leading NGOs specially oriented to the sector's participation in structural funds;
- The organisation has its representation (liaison office) in Brussels;
- Establishment of a regional network of structural funds experts for support to non-governmental organisations. The main activities they carry out are the following:
 - » facilitate the exchange of information among NGOs, public administration, businesses and media from their region;
 - » organise discussions in the non-governmental sector (on planning and programme documents, project proposals and other issues concerning the social and economic development of the region);
 - » organise interaction with public authorities on the regional and local level;
 - » monitor the establishment of regional steering and monitoring committees for transparency and the involvement of NGO representatives;
 - » support (through advice) the generation of project ideas, project development, partnership building, intermediation among NGOs;
 - » monitor the biddings organized under the pre-accession instruments and the structural funds for use of requirements to applicants that unfairly exclude NGOs;
 - » inform the central office about problems in the management of the structural funds in the region (the central office on its part informs the respective ministry).

Comparison and lessons learnt

In terms of structural funds' use, cooperation between municipalities is particularly important in view of their roles as development actors and their size, often small and insufficient for efficient use of funds resources.

²⁰ See also 1.5.

Comparative review of countries in this study showed that individualistic approaches, 'local patriotism', 'local thinking' and competition among municipalities can be overcome. The conditions are: recognized needs and municipalities that are open to dialogue and, respectively, to consensus building. It ought to be stressed here that while cooperation can be promoted from the 'top', it cannot be imposed or ensured from the top.

There exists a clear distinction between old and new member states:

Old member states, who have a longer history of democratic development, demonstrate stronger inter-municipal cooperation ('maturing' for cooperation takes time).

What was of paramount importance in Portugal was long-term cooperation within the framework of municipal associations. In post-socialist countries despite the fairly

large number of municipal associations, cooperating in specific projects and investment initiatives is more often on an ad-hoc basis and outside of all associations.

The approach taken in programmes' implementation may be an incentive and a disincentive to cooperation between municipalities. Predominance of large projects identified in advance encourages cooperation (Ireland, Portugal), while the predominance of mostly small projects funded through grant schemes tends to restrict partnership and promote competition (the Czech Republic, Poland).

Inter-municipal cooperation does not happen out of itself, independently from needs for its existence and their recognition. It takes time to grow and needs to be 'nurtured' and encouraged. Laying a requirement for the identification and development of joint projects (as is the case of the Bulgarian Regional Development Act) does not lead out of itself to the generation of such projects. The creation of the legal mechanism is not enough to ensure well organized inter-municipal cooperation; more important than that is its implementation.

Leadership, proactiveness and styles of thinking adopted by municipal decision-makers, municipal associations and regional authorities are several factors that probably matter more than laws or direct incentives. Another important factor is the participation of regional authorities as facilitators and / or entities directly supporting inter-municipal cooperation.

4.6 Partnerships in support of small and disadvantaged municipalities

The situation in Bulgaria

In the majority of cases small size of municipalities is coupled with, or is the consequence of unfavourable development characteristics. The capacity gaps are the following: limited financial, technical and human resources, limited project experience and poor confidence in own abilities. Only parts of this problem can be addressed through partnership between small municipalities themselves. In general, there is also a need for 'external' support so that they are not excluded from structural funds use.

Box 40

A BEST PRACTICE

Municipal associations from Portugal seem to be the model in inter-municipal cooperation for joint projects that is most suitable for Bulgaria. One of its important advantages is that one association usually brings together municipalities of different sizes and capacities in structural funds use and thus, at least to an extent, resolves the problem of smaller municipalities' limited capacity. Portuguese experience shows that one can start with very centralized management of structural funds and gradually to move to decentralization as capacity at the regional and local level strengthens. An important condition in this respect is for national legislation to provide for more powers of local authorities to organize and make use of joint services, as well as to manage them, and to participate in regional and other public companies. Capacity permitting, municipal associations may become part of the system managing the structural funds (certain components of the regional programme are delegated to them by the managing authority), which is an additional factor for cooperation between municipalities and a broader role for them in decision-making.

Among this model's most salient features are the following:

- Municipal associations have a leading role; they cover the whole territory of the country in accordance with its NUTS 3 regions and enjoy the same legal status as municipalities themselves;
- All municipalities are included in discussions and in decision-making; there is consultation on those processes with the social and economic partners;
- A consensus is built based on the specific local needs;
- Eligibility and selection criteria are determined in advance and endorsed by all municipalities;
- There is expert support and intensive individual work of the team of experts with the representatives of all municipalities.

If a country chooses to rely on a fairly active participation from local authorities in the uptake of EU funds, then there is a need for targeted and comprehensive support for small and disadvantaged municipalities. If such support is not given, there is a threat that the 'vicious circle' of low capacity of funds absorption will close – municipalities of lower abilities do not gain access to projects and are thus unable to build their capacity. If such support is unavailable, one considerable portion of municipalities will be left out from structural funds use.

What has been up to now the dominant type of support – support through training – is not considered very effective. Trainings are mostly short, made-up of lectures, abstract and theoretical and divorced from concrete needs. Trainees are not provided with opportunities to develop their skills, gain experience, receive support for concrete projects and plans. One problem specific to small municipalities is that they find it the most difficult to 'free' staff to be trained, especially for longer and more intensive trainings.

For small municipalities it is particularly important to be provided with technical assistance. In some parts of Bulgaria the regional municipal associations and the regional development agencies have the capacity to establish support structures for small municipalities with a view to future use of the structural funds. In general, however, the fundamental need is for the creation of structures to support municipal capacity-development and the formation of inter-municipal partnerships as proposed in the draft operational programme on regional development. For areas where local administrations do not have sufficient capacity and where there are no suitable support structures, one possibility would be to set up joint advice services (or teams of consultants) to deliver services to several municipalities that will in turn fund them jointly. Another type of support for disadvantaged municipalities could be the provision of special financial resources.

Comparison and lessons learnt

All countries surveyed provide support to small and disadvantaged municipalities and areas to ensure their access to the EU structural funds.

There exist several different types of support:

- Special status is granted and it ensures privileged access to the resources of some of the programmes. A best practice in this respect is the Irish experience – special status given to areas under the RAPID programme makes them eligible to receive resources also under other programmes. It should be noted, however, that this special status is granted following a competitive process.
- Technical assistance is provided by regional administrations (Czech Republic) or special newly created support services (Portugal). Guidance in the Czech Republic is very limited (help with filling in application forms). In Portugal there is comprehensive technical assistance for the development of projects, plans, surveys, needs assessments for technical and social infrastructure, preparation of written opinions.

Support which takes the form of an overall increase in municipal revenue has been discussed only in the Czech republic and more as a theoretical possibility: the general feeling is that it would be unrealistic to expect the government and Parliament to agree to such type of support and, besides, its potential effectiveness is felt to be limited.

The meaning of special support for small and disadvantaged municipalities is to strike a balance between municipalities' legal, technical and financial capacity.

Efficiency in support rendered seems more important than mere availability of support. It is also important to find a sustainable solution in the provision of support. The claim that the reason for limited capacity for participation in the structural funds among small and disadvantaged municipalities is the inadequate level of financial decentralization is a debatable claim. Financial decentralization is a solution in terms of general municipal capacity; it, however, is more likely to aggravate, rather than resolve the capacity problems of small and disadvantaged municipalities. The small ones will always be smaller than the big ones and their financial and technical capacity will always be more limited.

Pure reliance on capacity-development in those municipalities (for instance through training) is not realistic, either, also because they have limited capacity to 'free'

staff for more intensive training.

Simple provision of resources to small municipalities to be used to pay for consultant support is not suitable either, and due to at least two reasons. Firstly, clever use of consultant support entails considerable skills and knowledge (drafting terms of reference, identification and selection of suitable consultants, organisation of the bidding process, interaction with consultants and oversight on their work, etc.) and is an additional demand on local administration. Secondly, finding 'good quality' consultants is difficult in remote and more underdeveloped regions.

The approach to delineate special action areas across Bulgaria has not shown any positive outcomes so far and those regions were not taken as the foundation for the construction of the regional development operational programme. It seems wise to look for another approach: a decision from municipalities themselves or an application from them to be granted special status. Whatever approach is chosen, the criteria against which decisions will be made whether an area is disadvantaged or not, should be laid down in the programmes themselves – subsequent decisions on this matter (when proposals are

being selected) as well as discretionary decisions (Poland reports such cases) involve serious political risks and may generate partiality, corruption, etc.

Supporting only projects' technical preparation is not enough. Gaps that especially smaller municipalities need to close concern also the process of generating appropriate, feasible, effective and sustainable project ideas and the process of development of partnerships with other municipalities. Last but not least, small municipalities need most of all support for the development of inter-municipal cooperation as it is precisely among their ranks that needs to pool together resources and knowledge to resolve problems in a cost-efficient way is the greatest.

4.7 Conclusions

The main principle in partnership is that there is no partnership in principle. Partnership is always for a specific goal and within a specific field. For partnership it is vital to have clear answers to the questions 'What are we partnering for?' ('Why this partnership?'), 'Who are we partnering with?' and 'How are we partnering?'.

Fifteen principles of effective partnership. Effective partnership needs:

- Acceptance from institutions and promotion in national policies;
- Flexible and supple regulation in laws;
- Programme incentives when it brings added value;
- Resources to ensure its functioning and to develop partners' capacity;
- A minimum set of rules and procedures for the functioning of partnership structures, especially for the selection of their representatives;
- Inclusion of the organisations that are key to decision-making and decision implementation; a suitable level for its decision-making and an appropriate mandate given to the participating representatives;
- Timely dissemination of essential and appropriate information;
- Clear understanding of the meaning of partnership and a readiness to share resources and responsibilities;
- Competent and strong partners;

Box 41

A BEST PRACTICE

Most appropriate seems to be the practice of the technical support offices in Portugal. Those offices provide various types of support (more specifically in project development) for a group of municipalities.

Below are their main characteristics:

- The offices are true partnership organisations. Although they were set up by the central government in support of local authorities, they appeared after in-depth consultations with municipalities;
- The majority of technical support offices cover a territory that fully coincides with the territory of a municipal association (there may be, however, two offices on the territory of one association);
- The partnership approach that went into their establishment ensures shared responsibility and funding between partners and thus guarantees efficiency and effectiveness. No matter that priorities for the offices are set entirely by the municipalities, the financial burden for the offices' operation is covered by the central government (municipalities usually provide premises and cover administrative costs while central administration pays staff salaries out of the budget of the Regional Coordination and Development Committee);
- Staff is qualified and qualifications meet the specific needs; the government's decision to staff the technical support offices with civil servants on a permanent basis is provided for in a law.

- Recognition of the underlying benefits of partnership in principle and provision in every concrete partnership of clear and real benefits for every partner;
- Trust developing between the partners;
- A clear understanding of the nature of partnership in a concrete sphere and a concrete situation;
- Clear division of roles and responsibilities and a clear understanding of one's own role;
- Focus on the quality and outcome of partnership and not on its mass adoption (number of partnerships);
- Besides on structures, focus should be also on interaction processes.

Partnership depends on both the institutional environment and the individual entities and individuals. Although the institutional environment (legislation, policies, etc.) is important, key for the distribution and efficiency of partnership is also development actors' motivation and capacity: for partnership to take place and be effective, actors must be willing and able to work in partnership.

The EU structural funds impose the partnership principle and partnerships in the broad sense and at the same time prove to be partnerships' main success factor. Initially an obligation imposed from the outside, partnership gradually evolves into an essential trait of policy-making. This transformation, however, takes political will, commitment and time. The latter explains the differences there are in approaches to partnership taken by old and new member states.

Partnership is not a panacea. Partnership is not the only, nor the decisive factor for efficient and effective use of the structural funds. There is a need to invest in overall preparedness for using the funds led by the understanding that the EU's money ought to be earned and this will require putting down own resources. Overall preparedness involves not only the capacity of managing authorities but also the capacity of real development actors. Support from the structural funds ought to be integrated to a suitable degree with the national system of public investment. Spending the limited national resources through national programmes which do not mobilize co-financing from the structural funds brings down the country's financial capacity and is a barrier to the use of SF resources.

Last but not least, structural funds' management warrants a careful balance between conflicting demands and a pragmatic approach. Structural funds' rules stipulate fast absorption, otherwise the money is lost. Therefore, many appropriate, innovative and partnership-based projects may be sacrificed for more traditional but ready to start their implementation projects.

Centralization does not restrict partnerships. In a situation of limited national resources and limited regional and local capacity, centralized decisions and centralized implementation of the structural funds' programmes are not a drawback but an advantage. Thus they are not a barrier to partnership, either. Most telling in this respect is Ireland's example. Ireland stands out with its very centralized (especially before 2000) programming and planning, its highest success rate in the use of the structural funds of all the cohesion countries and with its very developed formal and informal partnerships at all levels. The main success factor of the Irish model was its mix of a clear national political framework, strong national agencies and local partnerships.

Capacity enhances motivation for partnerships. Partners' capacity is crucial for efficient partnerships. Particularly in new member states the main reason for there being problems with funds' absorption is not the absence of partnership but the weakness of development actors. When actors develop their capacity, it is natural for their motivation to establish partnerships also to strengthen. There is a need for a critical mass of people who understand well enough development processes and development problems, the institutional set up and responsibilities for funding and implementing development policies as well as the rules and the practical way in which the structural funds operate.

Among important factors for successful partnership are the appropriate process, appropriate roles and good grasp on those on the part of partners. It is not uncommon for partners outside the national authorities not to understand the opportunities that are open to them to express opinions, make proposals, and often also to take part in decision-making. In new member states consultations in the planning and programming processes often remain token (pure endorsement of decisions already made). Partnership is influenced by the understanding (or misunderstanding) of the essence, manner of opera-

tion and funding opportunities of the structural funds, and the link between local and regional plans and the structural funds programmes (the resources and openings actually available). Misapprehensions on these issues, which are prominent in the new member states, lead to over high expectations (the belief, for instance, that operational programmes are going to fund every item on local or regional strategies and plans) followed by severe disappointment after the clash with reality.

It is mostly in new member states that there is dissatisfaction with the inequality of the different partners in decision-making expressed, particularly on the side of NGO sector representatives. Dissatisfaction finds either a direct expression – claims for participation in decision-making – or indirectly surfaces as unhappiness about there being no mechanisms to integrate the outcome of the consultation process in the final planning and programming documents. Old member states seem to have to a great measure resolved this issue. In Portugal stakeholders accept as perfectly normal the fact that there is different treatment with respect to the partnership principle between the municipalities and the non-governmental sector, while those in Ireland do not feel concern about the country's fairly centralized programme planning, management and implementation. Money is the primary criterion for partners' roles in a partnership: if partners participate directly in the co-financing of operational programmes, they are entitled to an active role in decision-making; when partners are only beneficiaries or stakeholders in the country's or the region's development, their role is purely consultative.

The overall design of the national planning and programming system, too, exerts considerable, albeit indirect, impact on partnership. While old member states use simplified, pragmatic and clearly resource- and implementation-oriented systems, new member states have constructed complicated chains, with many planning documents which, and particularly on lower levels, often do not take into consideration resources but rather reflect the aspirations of local communities and the pressures of various groups.

Laws can only set a framework. Legislative regulation is important for clarity in responsibilities, roles and tasks. On its own, however, it is not enough for the development of efficient partnership. What legislation ac-

tually provides is a framework within which partners can work together and learn by doing things. Besides, genuine readiness, willingness and determination to establish partnership as an approach is needed. Furthermore resources should be provided to support the functioning of partnership and this support must be timely, knowledgeable and carefully suited to needs.

Partnership needs to be organized and supported at different levels, due account being taken of the functions it can perform on those levels. The national level is a level of processes that are almost entirely consultation processes and thus planning (consultation) partnerships are most suitable for them. The national level, however, is not enough in order for regional and local interests to be taken into consideration and the genuine participation of the development actors to be ensured. Partnerships at the regional and local level can cover both planning (consultations) and programme management and especially project generation and implementation.

Competition underpinning the selection of projects to be funded is a hindrance to partnership. This is more marked in new member states and to a large extent it is a legacy of the Phare programme experience. Old member states are much more flexible and pragmatic in this respect, especially when it comes to public actors' projects. They also make greater use of the planning and programming process for the identification of future projects and for consensus-building on them.

Limited capacity cannot serve as an excuse or an argument to provide less support. On the contrary – it should attract more support to compensate capacity gaps. If it does not, there is a huge risk for the vicious circle of low capacity to close and to corrupt the meaning of cohesion policy: areas most in need have the least capacity and access to resources and resources are their only chance to catch up with the stronger ones. Efficient support for disadvantaged regions, however, is more important than support in general – assistance should be provided based on an overall national policy, it should come on time, match needs, take the right format and come from knowledgeable people. Support for areas with limited capacity is particularly effective when it is formulated based on the partnership principle and when its beneficiaries take part in its formulation.

A coordinate system for partnership. Partnerships are diverse, they include various types of actors and take place at different levels. Horizontal partnerships (within and, especially, among parallel levels of the three sectors) are important but equally important are vertical partnerships (between the levels). Vertical partnerships are the mechanism that allows for contributions from regional and local actors to be made most actively. Vertical partnerships are particularly important for programming while horizontal ones are more useful for the joint generation, development and implementation of projects.

Partnership in programme planning, development and monitoring seems to be more important than partnership within the framework of a concrete project. To help explain this comes the fact that at project level there is always strong competition for resources, while planning and programming are concerned with setting the overall distribution and direction of these resources. If all important interests are not put on the table as early as this stage, it is almost certain that plans and programmes will not correspond to the needs of the development actors and the citizens. Furthermore, an appropriately crafted planning process creates the basis for identifying and coordinating common interests and projects. When this linkage is in place it is possible to take a holistic and preemptive approach to designing joint projects. Conversely, when this linkage is missing, projects are not subordinate to an overall strategy, individual interests prevail and competition for access to resources exacerbates.

Partnership between municipalities reveals different intensity and takes on different shapes in old and new member states. In old member states it is dominated by sustainable structures and is of a long-term and multi-purpose nature (municipal associations), while in new member states, even when there are such structures, the better part of partnerships are ad-hoc and with a view to a concrete project.

Project partnerships between NGOs and between businesses, as well as partnerships involving the two sectors, are more rare than partnerships between municipalities or between the public and the non-governmental sector. The underlying reason is to be found not only in competition between actors in those sectors, but also in the purpose of the structural funds themselves which co-finance public investments and in the majority of cases presuppose the involvement of a public actor as a beneficiary. Project partnerships within and between the sectors of NGOs and businesses are the exception, rather than the rule and if they are considered necessary and suitable, they need to be specially encouraged through programme incentives and requirements.

Public-private partnerships are necessary and useful with a view to attracting investment and expertise from the private sector but they can also be a risk in structural funds' absorption. Owing to their complexity and high criteria on actors' capacity in their preparation, public-private partnerships appear efficient only in the case of large projects.

Chapter 5.

CONCLUSIONS AND RECOMMENDATIONS

As was said in the beginning of this Human Development Report, miracles can happen only when they are well prepared. Despite considerable progress that was noted with respect to Bulgaria's preparation for EU accession, and for participation in the structural funds in particular, we can hardly expect any miracle-making in the coming months.

The surveys this Report is based on show that Bulgaria is not fully prepared to participate in the management and use of the EU funds. Preparations of the development stakeholders continue to display numerous gaps. Lack of sufficient knowledge and experience the authors observed is a sure sign that there will be difficulties in the efficient use of the EU funds after 1 January 2007.

Faced with such a situation we must not despair, of course. Preparations can never be ideal: experience from the use of the EU pre-accession instruments is not enough as use of the structural funds is a completely new type of public policy. Quality in its delivery can come only from increased experience.

Nevertheless, bearing in mind the example of the new EU member states and the practices already well established in Bulgaria, we as authors of this report, believe that provided there is focused effort on the part of government administration, international donors and local development actors themselves, a lot of progress can be made. Firstly, because there is willingness to achieve progress on the part of all – NGOs, businesses and local authorities do wish to participate in the structural funds and central administration should by default aspire to arrive at better quality utilization of EU funds. Secondly, the experience of municipalities and district administrations in the past two years shows that quality progress *can* be made within a fairly short period of time. Thirdly, barriers, although complex, often concern “soft” measures that do not need large financial and technical resources and predominantly concern stronger capaci-

ties, better and more needs-sensitive information, , and/ or a clarification of roles in the process of use of EU funds and development of partnerships between the different actors.

With respect to these barriers, the key ones are linked to actors' inadequate capacities to co-finance and finance project design, including the limited past experience in project development and implementation of non-governmental organisations and local administrations, and the relatively small size and the structure of companies that preclude the use of internal resources for catching up in preparations. Resolving these problems is difficult, but careful construction of the operational programmes and a sound assessment of the level of preparedness of beneficiaries can help overcome one large portion of them.

This report took a close look at capacity for participation in the European funds, as the higher the participation level, the more likely it is for EU cohesion policy to produce a development impact. A high capacity to participate means more than simply the ability to absorb all the money. High capacity suggests that all actors through their own action will help achieve the maximum development impact using the European funds. If this happens, it will mean EU funds would help Bulgarians translate into practice the fundamental notion of the human development concept – that people through their participation become both the means of prosperity, and the ultimate goal. Unless this happens, the prospect of EU membership, just like the upward economic development of the past years, will bring about pessimism rather than satisfaction. Loss of faith and hope will lead in their turn to lasting social and political problems and will prove a barrier to further accelerated economic growth.

For everybody but only as much as they need. All three types of development actors have some innate social and economic characteristics, which limit their capacity to use structural funds. First comes the size of settlements. Most disadvantaged are municipalities below 10,000 people, which make up 38 per cent of all municipalities. Lagging behind in terms of many criteria are also municipalities of 10,000 to 15,000 people, or half of all Bulgarian municipalities. Companies from these municipalities, and especially NGOs, are weaker, something that generates real development risks, as it is

then difficult for local actors to take initiatives, and equally difficult to achieve sustainability.

There will likely be hardship for non-governmental organizations dealing solely with local problems and groups, as well as for companies operating exclusively on local markets. Furthermore, companies active regionally are not very different from local market companies in a range of aspects. In general, a local focus of activity narrows the horizon and does not help build the needed capacity. In terms of size, it is more often small NGOs and micro enterprises that experience capacity problems.

In this way a paradox emerges and it is this paradox that is the main threat to structural funds producing maximum impact – those who are more in need and more eligible are less prepared than those, who according to the rules, should play a smaller part in direct absorption of the structural funds.

Conversely, a more favorable situation is to be seen among those municipalities who have populations over 50,000 and particularly in Sofia and large cities (in practice higher capacity is concentrated in the country's district centers). In terms of the country's territory, readiness for participation has an even distribution, with the South-East planning region being something of an exception. Among NGOs, those who stand out as more prepared, are national organisations, think tanks, lobbying and support organisations, development agencies, business centers, municipal associations, regional structures of the Industrial Association and the Chamber of Commerce and Industry. In the business sector there are no industries that stand out with their degree of comprehensive readiness with the exception of consultancies, and accountancy and training companies. A higher degree of readiness in many aspects is seen among companies operating on the national market and internationally.

Municipalities and district administrations seem in general more prepared vis-à-vis their participation in EU funds: they are in possession of both more resources and more targeted preparation. Non-governmental organisations, for who access to European programmes is vital, have some knowledge and experience but those are far from being sufficient. Businesses seem to be least prepared and most plagued by wrong ideas about the structural and cohesion funds.

No pain in training, no gain in absorption. EU accession brings to businesses, especially to those industries that must invest a lot of resources to align with EU standards, an increased threat of bankruptcies caused by the new competition and the new standards, especially when businesses are caught unprepared. For NGOs, who are already feeling the impact of the traditional donors' withdrawal, mastering the manner of operation for the structural funds may be difficult. Of course, this risk will not affect all, but companies and NGOs who have less resources of their own as a buffer, will for sure experience hard times, unless they succeed in using the EU funds to restructure their work. Municipalities will realize that they are not the main beneficiary for the funds and that not every idea put in their plans can be funded by the operational programmes. Furthermore, they will understand that despite the decision concerning the alleviation of their financial problems, the practice "Everything is a priority" will have to be left behind and they will have to face the challenge to select what is most important and to concentrate on it. Last but not least, central government – the managing authorities – will find out that programming and the establishment of the programmes' management structures is not enough to generate a sufficient number of suitable and doable proposals.

At the same time poor SF absorptive capacity may lead not only to failure regarding the use of one large part of the allocated resources but may also bring unfavourable socio-economic consequences. The inability of some of the EU funds' beneficiaries to use this "new" money, will increase regional disparities, meaning this could be a factor in a future serious political problem. Even if the government specifically allocates funds to address inequalities, this will not make a difference, unless local authorities are ready to use efficiently this money. The experience of the public investment projects of the past several years is enough proof of this concern. Thus the likelihood of there emerging 'Brussels-forsaken regions' is particularly high. The non-implementation or partial implementation of the municipal and district development plans and strategies, which the Regional Development Act made mandatory to prepare, is a warning signal of the chances of this scenario materializing.

Imbalanced development, furthermore, aggravates the problems of growth in development centers: increasing

migration pressure, soaring property prices, appearance of infrastructure gaps (transport, cleanliness, social, health and educational services, etc.). This ultimately creates also political threats, for example, those from a situation of changed demographic and ethnic balances.

In a situation where the real beneficiaries are unprepared, there is a threat that there will appear in business circles, in some municipalities and especially among NGOs, projects and activities that meet the criteria for the funds available, rather than meeting any genuine needs of the region and the local community. Judging by the bad reputation which the word 'absorption' has had up to now, we could claim that if after the launch of the structural funds capacity remains unchanged, this may undermine the whole process.

Cooperation – the closer to the community, the better. Satisfaction with cooperation between businesses,

NGOs, and local authorities and public administration and their willingness to participate in structural funds' planning and programming, intensifies the closer it is to the local level. The moment one moves to a higher level (be it district, regional or national) involvement in planning decreases, together with interaction with the administration, within the different sectors and between them, and together with satisfaction with this participation. Something very characteristic is that businesses are 'closer' to the local level and municipalities than non-governmental organisations are. Even for companies whose activity is of a national and supranational scope, participation in municipal planning remains a dominant commitment.

When the municipal level is in discussion, we must say that the signs suggesting that decentralization is still incomplete, and that systematic regional policy is still forthcoming, are contained in practically every single

Box 42

ILLUSIONS AND REALITIES

Illusion: Municipalities will be the main beneficiary under the structural funds. / Non-governmental organizations will be receiving a considerable portion of the allocations.

- *Reality:* The EU funds are first and foremost a public policy and one that is delivered by central administrations. In reality municipalities will have direct access and will be the main beneficiary only for the Regional Development Operational Programme and parts of the Administrative Capacity Operational Programme. Non-governmental organizations will come against much stiffer competition from businesses in areas they have previously considered their reserved territory.

Illusion: In terms of their type and funding, projects will be similar to the pre-accession instruments or to projects funded by external donors other than the EU.

- *Reality:* The structural funds either do not make, or make very small advance payments unless the government ensures a different provision on this. Although the application process will be in the Bulgarian language, the requirements will not be any simpler.

Illusion: If we have put something on the municipal, district or regional plan, it will be funded by the structural funds.

- *Reality:* Only when that priority is covered by the operational programmes. Even then project approval is not guaranteed.

Illusion: Public administration (especially central administration, inclusive of the programmes' managing authorities) is obliged to take a partnership approach and to be positive to partnership and consultations, being also obliged to accept all proposals made to it.

- *Reality:* This is not mandatory. For administration to think and behave as a partner to the other stakeholders, they should put pressure on it. Ultimately, it is those in charge of programmes' management that are responsible for the decisions: they may not accept all proposals.

Illusion: Structural funds money will be available as of 1 January 2007 and we will be able right from the start to ensure 100% absorption.

- *Reality:* There is no country that has achieved this and this problem is quite apparent with the new EU member states. Although some of the strategies and other documents prepared by ministries in 2003-2004 spoke of 100 per cent absorption in the first year, government views on this changed in mid 2006 and the draft budget now reflects more modest targets of about 20-25 per cent.

Illusion: We are extremely well prepared, all we need now is access to the EU funds.

- *Reality:* Businesses and non-governmental organizations are self-confident above their true preparedness for participation in projects and programmes of the EU funds. When examined against objective criteria, such as number of persons trained, financial capacity or project experience, it becomes clear that their preparedness is not enough. The contrast is particularly stark among NGOs, who feel prepared because they consider themselves well informed disregarding the fact that they may possess no true capacity for participation.

Municipalities are much more self-critical, but even among those who see themselves as prepared rather than unprepared, one-third are poorly informed about the structural funds, close to one-third have no experience with the pre-accession instruments, eight per cent have no project experience at all, one-third are able to co-finance projects with only up to BGN 50,000 per year, and one-fourth cannot fund project design.

section of the survey. Decentralization is not an abstract issue but something tangible actors themselves note and speak about. Interaction at the local level with all types of organisations, the local administration included, are the most frequent and the most treasured. In contrast, the local level is not sufficiently empowered, nor has enough resources, it seems, to adequately meet this keen demand. Constitutional amendments that need to be passed by the end of 2007 will address this problem, at least at the institutional level, as they will give greater freedom to local authorities to determine their budgets.

Irish and Portuguese experience on this shows that one of the key decisions that national authorities need to make concerns the equilibrium between efficiency and concentration²¹, on the one hand, and decentralization and SF programming and management, on the other. It points also to the fact that in the case of fairly centralized countries and in a situation of acute development deficits of national scope, coupled with weak local and regional authorities and limited resources (no matter that at a first glance structural and cohesion funds' resources may seem huge), the choice is to be made in the favour of efficiency, respectively, in favour of maximization in uptake.

Great with planning, hopeless with practice. It should be noted that some of the reasons leading to the non-implementation of municipal and district plans and strategies under the Regional Development Act have nothing to do with local authorities. Problems arising in this regard are linked to an extent to capacity but are more the result of the fact that the overall concept behind the planning system could function only under ideal conditions (i.e. a planning documents' system that is already fully established and has produced some plans, experience among the stakeholders on the various levels, smooth linkages between them, timeframes large enough to prepare planning documents and align them one to another, etc, which, clearly, do not exist in Bulgaria).

Compared to 2004, the environment in which planning takes place has become more demanding in terms of

the outcomes (feasible action, allocated funding) but it has not become more conducive in terms of prerequisites for the implementation of the planning process (there is no clear concept, no secondary legislation, no guidelines, etc.).

Difficult interaction with administration. NGOs and businesses (though less categorically) consider their interaction and cooperation with the public sector in planning and project design something very important and do really cooperate intensively with administration. The quality of actual "real" cooperation, however, is rated much more unfavourably. NGOs' give more critical overall "rating" than businesses do – however businesses are more skeptical towards administration, more reluctant to interact, but also less prone to disappointment afterwards.

In the opinion of non-governmental organisations, the main barriers to better cooperation are the following: 1) there are no officially regulated formats and procedures; 2) formats and procedures now used are inefficient; 3) there is centralization of decisions and resources, and this in a situation where the municipality is the closest partner; 4) administrations tend to work alone and then face the public with the *fait accompli*; 5) administrations do not treat NGOs and businesses as their partners on an equal footing. Respondents emphasize the technical barriers rather than the more abstract concepts of unsuitable laws or their being no mandatory legal requirement for administrations.

Administrations are often expected by NGOs to possess magical powers: for instance, to consult non-governmental and business entities on every imaginable matter. This is physically impossible, to start with, and, furthermore, not always necessary. A good clue in this respect is the fact that the better part of respondents are either not familiar with municipalities' real roles in funds' absorption or see municipalities as the main beneficiaries (only 10 per cent of NGOs and companies give answers close to the correct one).

At the same time it seems that when interacting in real life with NGOs and companies, public administration puts greater stress on appearances and mass scale events, thus turning interaction into a token gesture.

²¹ The joint regional operational programme, for instance, included a large number of grant schemes (over 70) whose management was delegated to the self-governing regions. The aim was to make up for unified priorities, achieve a regional approach and address the individual peculiarities and problems of regions. Owing to lack of capacity to design the grant schemes, however, in reality those turned out to be of uniform content in their vast majority. (Structural Funds Advisor Programme. Manual, DFID, ITS, 2005.)

There is a certain mismatch between the ratings municipalities and NGOs give on the usefulness of their cooperation – NGOs rate it a lot more positively. It seems that in the pre-accession period municipalities have been more useful to NGOs and not the other way round. This could present a problem after accession as municipalities will be considerably bigger customers for projects than NGOs. District administrations rate cooperation with regional and national NGOs considerably less favourably. This is a concern as regional and national NGOs should be much more relied upon precisely in the preparation of district and regional plans and strategies. In this respect they are more important than local NGOs, which are rated a lot more favourably.

The mismatch between municipalities and businesses is larger. Prevailing mutual dissatisfaction among the two is a serious problem as it foreshadows friction in planning and project work in the use of the structural funds. As local authorities have available to them large opportunities for participation, there is a risk that the remaining actors be excluded.

One of the problems is that local authorities underestimate the benefits of improvement in their interaction with other actors from administration, the NGO and the businesses sectors when identifying priority needs in capacity-development. Municipality and district administrations either fail to recognize the importance of these interactions, or consider the situation in this sphere to be satisfactory.

Fend for yourself! Similarly to their attitude to interaction with public administration, non-governmental organisations and businesses proclaim (albeit not that categorically) cooperation within the limits of their own sector as a key prerequisite for structural funds' use. Although cooperation has become a norm and a value for non-governmental organisations, competition remains predominant, and there appear to be personal clashes. The fact that at the local level there are no vibrant organisations does not help networking between the separate actors, either.

Municipalities, who in terms of priorities rank "Cooperation with other municipalities" first, are in fact dissatisfied with the reality so far, and rate it between poor and satisfactory. They, too, far too often perceive their

peers as rivals, are given no immediate economic incentives to cooperate with them, lack experience in cooperation, often fail to grasp the benefits of cooperation, and do not take into account the concerns of other municipalities. The feeling of competition permeates also membership of regional municipal organisations. Such membership is useful for municipalities in terms of capacity development, initiation of joint projects, formulation and expression of joint positions and lobbying for the implementation of desired solutions. When, however, projects of and about concrete municipalities are in discussion, associations do not seem to participate. This, of course, may also be due to associations' own limited capacity.

Compared to municipalities, district administrations rate their cooperation more favourably, especially their cooperation with municipalities. Certain problems, however, continue to exist with respect to inter-municipal cooperation.

Communication between sectors is less frequent compared to communication within sectors; it is also asymmetric. More than half the NGOs have never interacted with companies and those that have, are dissatisfied with the experience. Even when in geographic proximity, the business sector as a whole turns out to be for NGOs their most distant partner. Although they acknowledge NGOs' importance, over half the companies have never been in any relations with non-governmental organizations, who undertake more general activity, and over one-third of companies have not even interacted with the NGOs of the business sector, or NGOs supporting businesses.

One special feature of such relationships is that NGOs that cooperate well with businesses, also rate extremely positively their cooperation with other NGOs, while those that do not cooperate with businesses, statistically more rarely interact within the limits of their own sector. The reverse relationship, however, does not hold.

Partnership, undoubtedly, is one efficient way to overcome low capacity – provided each of the partners is investing their unique experience and skills and the outcome of this is shared profit. Although there are no municipalities, and there are hardly any districts that do not consult their projects with at least some stakeholder groups, partnership seems fragile. It has not yet

grown into a sustainable practice and for the time being remains on an ad-hoc basis. Partnerships in concrete projects are more common among intra-municipal partnerships (for half of municipalities) and account for only 6 to 7 per cent of inter-municipal partnerships.

For partnership to come into being and to be efficient, actors must be willing and able to work in partnership. Another important conclusion that arises out of both the review of Bulgarian practices and the comparison to other countries, is that a sound recognition of benefits is needed. For Bulgaria at present such attitudes remain fairly rare and institutions take a somewhat superficial approach – very often they go for large-scale partnerships that would be easy to see for the rest of the world and not for quality work and results. Besides, there is a need to determine very clearly (not necessarily by law) who does what in partnership – beneficiaries should be able to consult programme managing bodies but they should not expect to make any decisions on the allocation of resources. All partners need to understand fully what exactly they have undertaken because joining in, led by the Olympic ideal that participation itself is the most important thing, creates nothing but noise in the system. In order to achieve their proper role, non-governmental organisations and businesses need to be organized, to participate actively in programming and to be truly familiar with the way the structural funds operate.

Overestimation of the degree of preparedness, underestimation of own weaknesses. One of the fundamental reasons for over positive self-assessments is the fact that even among those persons who have been informed and specially trained, it is general and not operational knowledge that predominates, and we as observers are thus unable to assess the level of preparedness realistically. It will be only when more operational knowledge starts to develop, as is happening in municipalities, that we will be able to claim there is real progress to preparedness. This shift to operational knowledge, however, should happen as soon as possible, and not only because of the risk of lower absorption rates of the EU funds, but also in order to avoid disappointment and disaffection among local development actors. The latter could lead to a crisis in confidence in the whole process of structural funds' use, and not because of problems or irregularities, but just because of pure ignorance. Related to this problem, and again ow-

ing to a lack of information, are unrealistically high expectations – about one's own role in the EU funds and about what central and local administrations will contribute alike. Quite a few among businesses and NGOs would like not simply to have access to the programmes resources – with projects of their own, or as contractors and consultants – but also to take part in decision-making on the channeling and deployment of resources. These are two clearly conflicting roles and the two sectors are aware of this clash – the better part of businesses and non-governmental entities would like to participate in the structural funds mainly through their projects; but when they make a claim on participation in programmes' management it is usually with a view to improving their own chances. Besides, although possibly commendable, activism often fails to take into account its own resources.

The underlying cause of this situation should be sought not only in NGOs and businesses, but also in the fact that there is still vagueness about the concrete parameters of the operational programmes, and in the characteristics of the information and training provided so far, which have failed to explain clearly enough what are the possible respective roles in the structural funds' absorption.

District administrations on their part hope to participate in the structural funds with a fair number of projects of their own, while the national system of government and the operational programmes make no provision for such participation. Thus, although they have the capacity to be a successful mediator and a good helper of municipalities and other development actors while those try to coordinate their projects, districts do not seem to use this capacity enough because of their focus in the wrong direction.

It is important to stress that the three types of local development actors differ in terms of their fundamental features, their preparedness vis-à-vis the structural funds and their capacity-development needs. They may often display identical weaknesses, but their fundamental development needs are different. When asked to make a self-assessment of their capacity, they themselves point to many of their weaknesses. These weaknesses, when compared with objective criteria measuring capacity, reveal the real gaps – and suggest what else could be done to help actors to be better prepared.

EU membership in terms of human development opportunities and the role of the Bulgarian National Assembly

Like the other countries acceding to the EU, Bulgaria is witnessing lively discussions and a broad range of expectations about the changes EU membership will bring to the life of the individual citizen. As a rule, it is the strongly optimistic expectations that have been dominating in Bulgarian society, and in the eve of 2007 those remain almost unchanged.

At the same time, some point, and rightly, to a possible scenario where soon after accession we see diminishing support for EU membership as a result of the disappointments already felt. Therefore, it is very appropriate to place all evaluations of membership prospects and benefits within the objective framework of the human development indicators that UNDP measures and to link those to readiness to make meaningful use of the resources earmarked for Bulgaria under the EU funds.

When working within this framework of indicators we ought to assess the benefits of membership based on progress achieved in terms of the three main measures: incomes, health and education. Against this background it is clearly apparent that the structural funds – the regional development fund, the agriculture and rural regions fund, the social fund – and the cohesion fund have a very special role to play in terms of creating otherwise inaccessible opportunities for accelerated human development in the above three areas.

Resources earmarked under the EU funds are indeed significant and come up to 4 per cent of the country's GDP, being thus two times larger than those under the preaccession funds. Their efficient absorption, however, is known to be a problem: in mid 2005 the highest absorption rate among the eight new member states from Central Europe stood at a mere 15 per cent and, besides, as of the first year of Bulgaria's EU membership, there will be its commitment to the EU budget to

meet, the new regime in the collection of the main type of budget tax – value added tax, the significant deterioration in national energy balances as a result of the close down of the small units of the Kozloduy nuclear power plant.

Hence the crucial significance of the provision of a sound framework of national economic and social policy along with all other preparatory action in getting ready for using the funds. This is exactly where the National Assembly's main role is as the institution called upon to generate in-depth discussion and provide legislative regulation with a view to combining in an appropriate balance a multitude of regional, sectoral, local and group interests in the development of the operational programmes and building the administrative capacity for EU funds' absorption.

The Bulgarian Parliament is getting ready in earnest to meet the challenge of developing a well coordinated policy and this starting from its work on tax laws and the state budget for the year 2007. In parallel to this, Parliament is building its capacity to partner meaningfully with the executive and with local authorities for the use of the EU funds.

Last but not least, this effort entails also the set up of specialized parliamentary bodies and units for effective parliament audit and control on the absorption of resources from the EU funds. For us it is very important that for the whole range of actions in preparation for EU membership we are able to rely on continuous support from a large number of well established multilateral partners, the United Nations Development Programme standing out particularly strongly with its work on human development and good governance issues.

Georgi Pirinski
Chairman of the National Assembly

Barriers to meaningful use of the funds. The human development report has identified numerous problems and made concrete recommendations how they could be overcome. At the end we would like to recap once again on the major barriers that hinder efficient use of the EU funds. The core problems stem from the legal environment, the schemes for the mobilization of financing and co-financing, the unrealistic expectations of key actors, the inadequate absorptive capacity, serious ca-

capacity inequalities, territorial disparities, problems with long-term vision, inefficient past training, poor coordination, communication and transparency.

In the context of the remaining challenges Bulgaria is currently facing, overcoming those barriers will be a daunting task for the Bulgarian government and people. But, as is evident from the experience of other EU member states, barriers to efficient and effective use of

the structural funds are surmountable, and the Bulgarian people have the strength to overcome them.

5.1 Specific gaps

There are some gaps common for local administrations, businesses and non-governmental organisations that this report would like particularly to draw attention to.

Information – not exactly what I was looking for.

Ratings given to the currently available information are borderline between unsatisfactory and satisfactory, there being no serious variance among the three groups. The main problem is the quantity of information (that information is enough) and its intelligibility (that it is understood by its audiences). In addition to the strange “lingo” impeding good understanding, information is sketchy and NGOs, businesses and local authorities base on it a rather vague idea of how the structural funds actually work. They understand there will be opportunities for them but they do not know how exactly the structural funds will operate here; when, where and how the opportunities will materialize and what their special role in the whole process will be.

There are also gaps in terms of the information channels used or, in other words, information is disseminated in a way that target groups do not take notice of. Information can rather be collected via different channels and from different sources – NGOs for instance are more oriented towards the Internet and seminars, while businesses go for television, radio and newspapers.

I know I don't know, I don't know what I don't know. A considerable portion of municipalities who through their answers to other questions all reveal serious gaps in some areas, do not mention the same “some areas” as priority ones for their capacity development. This is particularly problematic when those gaps are crucial gaps such as improving financial resources, project experience, availability of trained staff and an inadequate amount of information. This apparent inconsistency could be accounted for in part in some municipalities by their own low levels of preparation and information which prevent them from making an adequate assessment of their own needs. However there is indeed a need for careful interpretation of this situa-

tion, as the needs of municipalities are numerous, and the better part of them are acute, making it thus difficult to select among them the most important ones to meet first.

Experience – not exactly where it should be. One serious problem is that experience is concentrated in a limited number of organisations and it is mostly linked to projects outside the framework of the pre-accession instruments.

In the NGO sector, the concentration of experience among some, is probably due to specialization of NGOs and the subsequent approval of their project proposals due to experience or possibly favouritism. Among municipalities three-fourths of projects under the pre-accession instruments are concentrated in one-fourth of municipalities. Moreover, two-thirds of district administrations have no project experience at all regarding the pre-accession instruments. More experienced districts and municipalities also achieve higher ‘success rates’ for their proposals and are thus able to develop their capacity. Most disadvantaged in this process turn out to be small municipalities, 13 per cent of whom report an absolute absence of project experience and half of whom have no experience of the pre-accession instruments. Comparison with 2004 suggests that serious disparities persist: although there is reduction of the gap between medium-sized and large municipalities, the disparity between small and large ones remains and the gap between small and medium municipalities is growing. Although reduced, the risk of a ‘vicious circle of low capacity’ cannot be considered eliminated.

Furthermore, the use of pre-accession instruments, particularly Phare, and the use of national programmes (where requirements are less exacting and which were mostly used by businesses) do not always generate a kind of experience that is relevant to the structural funds. This may turn out to be a very serious problem, especially for NGOs who are used to working with much more flexible external donors. Municipalities and district administrations also will not have an easy transition from national and donor funding to the structural funds’ regime as in the past five years pre-accession instruments had a rather modest share in approved and ongoing projects (for smaller municipalities over 50 per cent of project experience is based on national instruments).

Training: still in elementary school and unresponsive to needs.

In terms of quantity, training needs are several times larger than what has been received in the past few years. 'Where should I participate?', 'How should I participate?', 'How much will it cost?', 'Where can I find information?', 'Where can I find a consultant or a partner and do I need them at all?', 'Is this suitable training for me?' – these are questions that one sizeable portion of organisations cannot answer, and are probably not even asking. Although many businesses and non-governmental organisations, local authorities and their staff have been trained in the past several years, nevertheless on many issues there are no notable differences between the informed and the uninformed, the trained and the untrained, the prepared and the unprepared. Inadequacies in work so far are particularly clearly seen among districts and municipalities, who even compared to 2004, continue to be of the opinion that they receive mostly just inception trainings. Knowledge disseminated so far followed the way of least resistance, progressed rather chaotically, involved many often inexperienced organisations, offered to audiences one and the same information under different titles, and did not make use of advance surveys of attitudes. This gives us grounds to claim that until now training has been predominantly of a general nature, it has not built concrete knowledge, practical skills and habits how to work with the structural funds. Organisations clearly state that they want to be *specially* trained to develop projects targeting concretely the structural funds.

Unity is not yet strength. Heavy fragmentation in the non-governmental and the private sector is a barrier to the efficient representation and protection of their interests, also with respect to the structural funds' planning and programming. It is also a limitation to their participation in programme monitoring and evaluation; to the identification of suitable partners for projects; to building flexible social networks and mobile social capital; to the establishment of suitable international contacts; to effective access to information and, last but not least, to mutual support inside the sectors. One of the many manifestations of this problem is the mismatch between organisations' common desire to participate directly in planning, programming and monitoring and the restricted number of seats on the respective bodies.

Real interaction – between NGOs, between businesses

or between the two sectors – is most frequent and most appreciated at the local and municipal level, while membership of associations and unions is moved up to the national level, where, however, cooperation is less and dissatisfaction with it more. The problem is made worse by the fact that associations offering specialist support in NGOs' and businesses' preparation for the structural funds are few at the local and regional level. Existing industry-specific organisations and NGO associations are not able at this stage to make up for the absence of specialist support. When they exist, however, their usefulness is much appreciated by both NGOs and businesses.

Businesses, NGOs and local authorities believe that support organisations are necessary but they do not have any concrete idea which is the most suitable type of support organisation. The sole unambiguous preference is for it to be a national one.

District administrations still do not grasp the huge role they can play in the capacity of support organisations. They have both the resources and a unique position – direct access to central government and an ability to provide at the same time a fairly neutral ground for cooperation between businesses, non-governmental organisations and local authorities.

Consultants may sometimes need a lot of consultation themselves. Two-thirds of municipalities and half of the districts have used consultant services to develop their planning documents and 82 per cent of municipalities say there is a need for specialized surveys and evaluations in the design of projects. Problems in this area are numerous – for small municipalities it is difficult to get to consultants; in the past one large part of consultant services was provided within the framework of donor support and was free of charge; operational programmes plan support for project design but the funds for this will come only in late 2007, excluding thus many municipalities from participation in the structural funds in the first years of EU membership; and there are delays regarding urgent Phare projects that are supposed to ensure the project design process for the structural funds.

Although there seems to be a certain improvement in success rates in the use of consultant services, their effi-

ciency remains arguable. Oftentimes consultants are not qualified and knowledgeable enough to meet the level of expertise they claim they provide.

Red tape – barriers – more red tape. When it comes to their past experience with projects, NGOs identify three major problems: a) objectivity, transparency and feedback in project selection; b) gaps in financial resources or requirements on financial resources that are too great; and c) complex and bureaucratic application procedures. Businesses on their part highlight bureaucratic hitches, nontransparent selection of projects and lack of feedback. For local authorities the key difficulties are those related to financial resources and financial requirements, and the ‘rules’ in funding programmes and their operation – complex and bureaucratic procedures, tight deadlines, documents in foreign languages, etc. Transparency and objectivity in the evaluation process, too, raise concerns with local governments.

Very often respondents say that a barrier to their participation is corruption. Concrete proof of corruption (despite the existing anecdotal evidence), however, is difficult to find because the perception of it is often based on a subjective feeling stemming at least in part from poor transparency and absence of feedback. Over two-thirds of municipalities, however, feel that consultants can help them with lobbying and could facilitate approval of project proposals, a conviction suggesting the existence of corrupt practices or at least the existence of a perception that such practices are decisive for project proposals’ success. Many respondents, particularly in the NGO sector, identify corruption as a major problem affecting all aspects and stages in structural funds’ absorption.

Financial failure. A sizeable group among NGOs and companies say also that they are unable neither to co-finance projects, nor to finance their design. Co-financing requirements, project design costs and delayed payments are among the chief difficulties respondents speak of with respect to past experience with pre-accession funds. The same aspects are also identified as priority aspects for capacity development by half of the NGOs and businesses. Insufficient financial resources or high requirements for co-financing are also deemed a major difficulty in project design and implementation by municipalities (52 per cent). Improvement in finan-

cial resources, respectively, is seen as a priority need for capacity-development (51 per cent of municipalities).

In general, businesses, NGOs and local authorities speak of difficulties with co-financing their participation in the structural funds. In the case of businesses this is a worrying trend as co-financing, and in larger amounts, is a mandatory requirement to beneficiaries. What municipalities most often cite as a feasible co-financing contribution is BGN 100,000 on a yearly basis, mentioning fairly rarely, the larger amounts of up to BGN 500,000. The smallest municipalities experience the most difficulties in raising their co-financing: they are either unable to allocate such resources (26 per cent among them) or, most often, able to allocate only up to BGN 50,000 to co-financing. Although the need for co-financing is clearly understood, the scale needed in co-financing is still poorly grasped and so is the need to mobilize own resources in order to attract money from the structural funds.

Municipalities continue to overlook the project design process – they would rather allocate resources in project co-financing (80 per cent), than in project development (53 per cent). This problem plagues particularly municipalities which believe that they can allocate fairly small sums for co-financing. About two-thirds of municipalities are unable to allocate funds for the preparation of projects.

Last but not least, one small portion of companies and notably NGOs say they would or they could pay on their own for their capacity development.

These problems may become worse in the future due to the structural funds’ different regimes of advance payments.

Public-private partnership (PPP) is a murky concept. It seems that the benefits from PPP will not be felt soon in projects part-funded by the EU.

Businesses do not recognize well enough the direct benefits there are for them in PPP cooperation. The better part of companies have experience only with standard types of interaction such as service, supply or lease contracts while their familiarity with more complex joint activity which also involves sharing managerial respon-

sibilities (concessions, joint performance contracts, joint ventures) is limited. Owing to there being limited familiarity with the PPP concept, and its concrete formats, and also due to its limited practice in Bulgaria, there is a risk that unrealistic expectations will develop in businesses with respect to issues such as, who, how and when can join public-private partnership schemes (among small companies for instance). Therefore, a careful approach is needed that will concentrate attention to big projects of high capacity actors and the private sector. In this way true results can be achieved and they will provide the momentum for more PPPs.

The situation in the 'business-science' partnership is more favourable — over half the companies surveyed deem cooperation with research institutes or individual scientists important. Bulgarian businesses, however, are not used to cooperating with organisations of the research community — only one-third of companies have such experience; and among close to 50 per cent of those who consider such cooperation important, these positive attitudes have not yet resulted in any real interaction. Cooperation with the scientific community is more often than not non-institutionalized (in 60 per cent of cases cooperation is with individual scientists and not with organisations), there being thus no good environment for larger-scale projects, inclusive also of projects to be co-financed by the structural funds.

Planning: Pay attention that seven-year plans do not perform as the five-year plans of socialism!

There is some risk that planning under the EU funds becomes a token process divorced from Bulgarian realities. Among NGOs and businesses, as well as among local authorities to an extent, there can be seen already a mismatch between their declared very positive attitudes to planning processes and their real participation in them. Over half the NGOs do not participate in planning at the municipal level; some three-fourths do not participate in planning on the district and regional level, close to 90 per cent do not take part in planning at the national level. Businesses' participation in planning processes seems to be generally low with businesses more concerned about what this will cost them. Twenty per cent of small municipalities believe that participation in planning is tokenism and pointless as their opinions are not taken into consideration; and 15 per cent state that the development of national, regional and district

plans and programmes is solely a responsibility of central government.

There are several reasons to account for this situation. Firstly, the existence of a situation of stated rules, values and standards, which, however, have not translated into practical action. Secondly, a planning process that is not participatory enough: public administrations responsible for planning on various levels do not attract enough NGOs and businesses despite the fact that those actors are willing to participate. Thirdly, responsibility avoidance on the part of the two sectors: "participation in planning is useful, important and good but better leave the others to participate". This situation is a potential threat that plans remain 'dead paper' and are perceived as something Brussels has imposed — a sort of seven-year reincarnation of the five-year plans of socialism.

While participation of the same actors at two and more planning levels is positive, participation of the same actors at the same level in two or three different formats is a problem (such a trend *does* exist) because it narrows down the circle of participants and impedes efficiency, causes the deliberations of working groups to be repeated in quasi-public discussions, complicates coordination, strains the NGO and the business sector, and results in a physical inability for direct participation, especially at the national and regional level.

5.2. Recommendations

Let us move from the general to the specific. Overall, there are two general recommendations to central authorities and local development actors:

- Reconsider capacity-building measures. Capacity-building is a lot more than the provision and, respectively, use of training opportunities. There is thus a need for a more comprehensive project which offers a combination of actions 'external' and 'internal' to the actors. Among areas that would benefit from external action are financial capacity, skills and awareness, while areas related to the number and motivation of staff involved in the absorption of the structural funds seem more readily resolvable through internal action.
- Address the problems of expectations and expecta-

tions management. This is something that should happen both at central government level and among actors themselves. Local development actors entertain a variety of expectations that are often contradictory, rather vague or plainly unrealistic. Thus, in order to avoid the problems that dissatisfaction brings about, it would be necessary to modify carefully and 'manage' expectations. At the level of central government this means clearer positioning of actors, and at the level at which the actors work, first and foremost a more down-to-earth approach, realistic thinking and sound consideration of the realities.

Here are the concrete recommendations:

Recommendations to central government

Change the funds' image.

There is a need for a change in the structural funds' image and more close linkage of their programming and use with issues of local and regional development. One chance to make this transformation happen is to change the types of arguments stated by decision-makers and to orient them towards greater appreciation for local and regional development as opposed to national development ("It is important whether the country is absorbing money from the structural funds and it is *equally* important whether Krivodol is doing the same").

Give actors clear positions.

- Show businesses, NGOs and municipalities their correct places. Efficient participation in structural funds absorption needs clearer positions and profiles: an organization or institution belongs either to the group which develops and implements projects or to the group that manages programmes. Those in charge of managing the structural funds should articulate more clearly what the possible roles are and what requirements they set for each of them.
- Clarify the role of district administrations. The most natural choice would be for them to be catalysts, facilitators, coordinators and helpers of the remaining actors from the development community. This is particularly valid for many of those districts whose

municipal make-ups are to their disadvantage (numerous and small municipalities generating limited revenue and employing limited staff, etc.) and where municipalities are unable to organize and fund on their own project development. Such a role would require a change in attitudes and operational approaches among district administrations as well as an increase in their financial resources and special training for them vis-à-vis their new role of facilitators.

Give feedback.

Those in charge of the structural funds should give adequate feedback to local actors to enable them to make more realistic self-assessments.

Feedback may concern:

- *Projects:* outline *typical* mistakes and weaknesses of 'unsuccessful' projects.
- *Consultations:* give information which recommendations made by participants in consultations are not accepted and for what reasons. In parallel to this, look for feedback on the level of satisfaction among partners, discuss with them problems and look jointly for suitable solutions. The usual administrative practice to limit action to letting the others know of its intentions and the decisions already made, and treating the non-governmental and the private sector as subordinate "partners", needs to be overcome.
- *Preparations:* when the issue concerns NGOs or businesses, show them models of prepared and successful entities, show them what a business or not-for-profit entity adequately prepared for the structural funds looks like, no matter whether it comes from Bulgaria or an EU member state. When it comes to municipalities and district administrations, central government should urgently develop a check list. It should then be sent out to municipalities and districts and based on it they should make a self-assessment of their progress.

Provide clearer, more accessible and more concrete information.

Turning to information, the main problems are linked to its structure and quality, rather than its quantity or

currency. Therefore our main recommendations to central authorities for improving stakeholders' familiarity are the following:

- Be more targeted. Inform mostly those who need to be informed and let them receive only this information that they need.
- Do not emphasize on mass involvement but on quality and efficiency. Information should become more accessible and understandable.
- Disseminate concrete information about funding opportunities under the operational programmes as well as about the practice of the structural funds.
- Identify a supporting organization to provide information, training and specific support to local actors. It may be a ministry, an agency, a national NGO or a private consultancy.
- Finalize all details about the operational programmes. There should be enough clarity on all issues of interest to beneficiaries (eligible applicants, eligible activities, project size, preliminary preparations needed, expected timeframes, principles underlying projects selection).
- Pay attention to Internet access. Both Internet access and skills development for its use should become a priority of the administrative capacity programme.
- Use different channels to get to the actors: for NGOs – the Internet and seminars; for businesses – TV, radio, newspapers; for municipal and district administrations – seminars.

Go for practical, modern, differentiated training.

Local actors' capacity gaps cannot be bridged without the help of a training strategy that is new in both its scope and its underlying philosophy:

- Change the overall approach to knowledge – move away from general and abstract knowledge to concrete and applicable knowledge, verifiable through standardized tests.
- Customize training to suit the structural funds. Formal requirements – as set by regulations, funds, operational programmes – should be transformed into practical knowledge and practical skills.
- Make use of modern techniques in training. Replace didactic teaching by interactive learning and system-

atic feedback.

- Make use of all the radically different teaching materials now available – case studies (successful as well as unsuccessful examples), films, interactive computer programmes, multimedia, simulations, simulation games.
- Combine training with consultations: training consultations or consultative training, either of which leads to concrete results, for instance good project proposals. What is paramount is to ensure the quality and efficiency of consultants' advice. Doing this would involve suitable preparation of requirements to consultants, to the procedures for their selection and control over the outcome of their work.
- Differentiate training in accordance with the needs of the different groups. Abandon the now dominant mass and uniform training – training should be based on more comprehensive and in-depth analysis of needs.
- Carry out systematic and good quality training for your trainers.
- Build a complete coordinated training programme as an alternative to isolated, uncoordinated often overlapping activities for one and the same participants. A coordinated programme does not mean centralized provision of training by a single entity but adoption of shared goals and principles and coordination of the action of the different organizations funding or delivering training.

Ensure an environment suitable for projects.

The design of operational programmes, and especially the design of their implementation arrangements need to take into consideration beneficiaries' capacity. To do this authorities should follow several key principles:

- Design the process simply and efficiently. Avoid unnecessary complication and bureaucracy.
- Ensure objective and transparent decisions for project funding (evaluation, project selection).
- Make sure that your documents are clear, understandable and consistent.
- Provide real support prior to the application process. Support should not be limited to the dissemination of formal requirements and procedures but should also include real help – manuals and other aids, answers to enquiries, opinions and advice on

separate projects, etc.

- Suit requirements to beneficiaries' funding capacities, apply 'softer' requirements regarding the co-financing non-governmental organizations are expected to make and use larger advance payments.
- Encourage project partnerships every time when they seem necessary and suitable and bring value added.

Shift to more pragmatic and efficient planning.

The mere production of plans is not what is really important. What matters is that plans are developed appropriately, they are acceptable and doable based on appropriate and not on 'mass' inclusion of stakeholders. The new generation of plans needs to be pragmatic, focused on resources and oriented towards the achievement of clearly defined results. The report has the following concrete recommendations to make in this respect:

- Include suitable participants in suitable roles and through suitable formats (after the set of participation formats and roles have been defined).
- Reconsider the regional development planning system and its processes. One of the levels in the development of planning documents (the regional or the district one) seems redundant.
- Shift focus away from planning and the 'production of planning documents' to their implementation.
- Reconsider and modify more substantially the planning and programming system for the mid-term (e. g. up to 2010). It needs to be more pragmatic, simpler, appropriate to the context, also to the capacity of the participants in planning, oriented to resources and the provision of implementation. Such a change needs to be preceded by a more comprehensive evaluation of the enforcement of the Regional Development Act, planning documents and processes as well as their implementation during the first years of structural funds' absorption.

Invest resources and efforts in partnership.

Partnerships depend on the overall institutional environment. For partnerships to form, their benefits need to be recognized, they need to be accepted by the institutions and promoted through national policies. Part-

nerships also take resources. If they are to learn the benefits and the results of partnerships, authorities need to 'invest' in them and to provide the resources needed for the attainment of the desired results:

- Provide resources for the functioning of a partnership and provide even more support for partners' capacity development: efficient partnerships need strong partners.
- Provide for partnership incentives when designing the operational programmes (experience of the EU member states shows that such partnerships emerge and are successful mostly when they are expressly encouraged). Often the potential partners are in a position halfway between competition and cooperation. Programmes should seek to avoid the competition principle in the consideration and approval of projects and instead of that work on a 'first come, first served' basis.
- Regulate legislatively or formalize some of partnership's aspects (e. g. public-private partnerships, inter-municipal partnerships).

Develop a clear concept about public-private partnerships.

When combined with limited knowledge and experience, the complex nature of public-private partnerships may grow into a threat for the absorption of the EU funds. Recommendations on this are the following:

- Develop a simple, concise and clear concept on public-private partnerships in the context of the structural funds.
- Clarify which are the types of projects where PPP is appropriate and what types of business partners are desirable and eligible.
- Try not to give rise to unrealistic expectations that small companies from underdeveloped regions can easily join PPPs.

Give actors financial support.

The barrier of insufficient financial resources exists in earnest for one big portion of the organizations surveyed. We are concerned here not only with project co-financing but also with funding their preparation, the development of local capacity, etc. Resolving the problem of

financial resources will differ in many respects when it concerns NGOs, businesses and local authorities.

Recommendations regarding NGOs are the following:

- Allocate resources for the development of the sector's capacity vis-à-vis the structural funds.
- Apply a 'softer' approach to co-financing requirements inclusive of the reduction or complete removal of those requirements under certain conditions based on the programme specifics, concrete project activities, etc.

The possible solutions, valid for both the NGO sector and the business sector are:

- Reimburse such entities for direct costs they incur when participating in the planning and consultation processes.
- Use compensatory advance payments made from national public sources that would mitigate the acute cash-flow problem NGOs and firms might experience.
- Set up a revolving fund to provide more favourable interest rates, service fees, grace periods, coverage for loans and / or bank guarantees needed for the provision of co-financing.

In the case of *municipalities* there are several possible solutions:

- The long-term solution: Increase globally municipalities' financial capacity to turn them thus into participants that are strong and equitable to central authorities in the use of the structural funds. Deepen the decentralization process, financial decentralization included. Nevertheless, bear in mind that although a solution when it comes to municipalities, as a whole financial decentralization would aggravate, rather than resolve the capacity problems of small and disadvantaged municipalities unless there is provision for strong equalizing mechanisms. Besides, the overall outcome of all action targeted at decentralization will not be felt quickly and possi-

bly will impact the use of the structural funds only during the next programming period.

- The short-term solution: Compensate directly the financial capacity gaps municipalities are experiencing today. In other words, lower the co-financing requirements and provide support for the provision of the resources necessary for project implementation until payments from the funds are received. This should be done through simple instruments that are well known to all administrations²². Provision of differentiated co-financing support, however, will need an appropriate and accepted categorization of municipalities. It makes sense if such a categorization is proposed by municipalities themselves, for instance through the National Association of Municipalities.
- The possible mid-term solution discussed by the government — the idea to set up a special fund (a local authorities support fund, FLAG) to support municipalities through loans in the provision of co-financing involves a series of limitations and risks. Firstly, the mechanism of the fund requires experienced managing authorities and intermediate units, knowledgeable staff for the fund itself and most of all, experienced beneficiaries. Secondly, the time planned for training is too short for the finance directorates of municipalities to make this a routine instrument. Thirdly, the mechanism of the fund may complicate and delay the entire procedure for the approval, implementation and monitoring of projects. Fourthly, the majority of municipalities are inexperienced with taking out and repaying loans. This suggests that there will be some psychological barriers difficult to overcome within a short period of time as well as political risks. Fifthly, there is also a macroeconomic risk owing to the fact that Bulgaria has no experience with municipal debt and one should not rule out a possible desire to transform municipal debt from structural funds' operation into central government debt.

Whatever the decision on this issue, it needs to be clear, to be made quickly and to go down into the design of the operational programmes and not simply be communicated to municipalities and districts. They should be trained about the practicalities — where, when, how and how much they will receive to mobilize the co-financing they need.

²² Such as, for instance, target subsidies for municipal capital expenditure, project feasibility budgets of the ministries, the water supply budget of the MRDPW, the fourth grade road network scheme, the Social Investment Fund, the Environmental Management Company.

Help weak actors.

There is a need for targeted and overall support for smaller and disadvantaged actors so that the vicious circle of low capacity does not close. At the same time efficient support for weak actors' capacity development entails precise identification of their real needs and gaps. Possible 'care' options include:

- Provision of larger and more professional technical assistance covering not only the technical aspects of project design but also project identification, partnership development and partnership work.
- Coverage of the training expenses of weak actors, also through structural funds' resources.
- Provision for them of preferential access to programme resources.

Recommendations to local development actors

The actions mentioned above, which are primarily external actions, are by no means enough. Capacity-building for structural funds' use should not be interpreted as an exclusive task of central authorities only. It benefits and consequently it should be a responsibility of local actors themselves. There is a need for the efforts of municipal and district administrations, businesses and non-governmental organizations to deal with the problem that each one of them, to one extent or another, is facing. Generally, the problem could be said to be resource shortage in the broad sense (financial resources being only one example) to make use of the opportunities of the structural funds. Concretely, our recommendations are the following:

Know your place.

If you would like to participate in operations under the structural funds, you need to identify more precisely your interests and capacities, as well as to find out what is your appropriate level and format of participation. Local actors' clear specialization and positioning can by no means be a responsibility of central government only. Actors themselves should actively seek information about roles and requirements and to decide whether they belong with the community of project development and implementation or within the community of programme management.

Be realistic.

Do not overstretch your capacity and learn to live with the fact that resources are limited, learning also that this requires prioritization and focus in your action.

Reconsider your self-assessment.

When you set out to reconsider your self-assessment on your readiness to use the structural funds, take previous experience into consideration; identify your main internal gaps and weaknesses. Bear in mind that it is not easy for actors to reconsider their self-assessments on their own. It would be easier if they do this in dialogue, their associations, central government and consultants participating in it, too.

Invest in your own capacity.

Mobilize your own resources to the maximum and invest them in mobilizing and using efficiently structural funds' money. Strive to avoid 'dissipating' your efforts and resources in actions that are not eligible to be funded under the operational programmes.

Realize the need for and the benefits of partnership.

National policy alone would not be enough to ensure broad and efficient application of partnership. Partnership does not need legislation as much as it needs its rationale and benefits clearly recognized by partners and trust between them emerging. Partnership also depends on the administrative culture of the individual organization and especially on the positive attitude and proactive stand of their leaders. Although cooperation can be encouraged by national policies, and by national authorities, it cannot be ensured from the top. Partnership takes efforts by the potential partners so that they can be indeed efficient participants in cooperation and really benefit from it.

Strengthen your associations.

One key recommendation to NGOs and businesses is to strengthen the structures that bring them together. Stronger associations in a sector enable it to exert more effectively pressure on administration and to boost its

influence in decision-making (especially on the national level). More efficient involvement in decision-making, especially in programming, means that actors are able to provide for themselves better opportunities for access to the programmes' resources.

It would be a weakness if NGOs and businesses were to think that the administration is obliged to interact with them. Even if the administration is legally obliged to do this, its interaction may remain purely a token process. To be able to put constructive pressure for meaningful cooperation, the non-governmental and the private sector need to form sustainable or ad hoc coalitions, specially targeting participation in structural funds' absorption. Careful consideration should be given here to deciding on which level such unions should be formed: whether in the planning region, in the district or in the municipality. The correct choice depends on purpose, effectiveness and efficiency. Whatever the decision, however, national unions and associations are not enough in themselves, since interactions with national organizations have proved to be more difficult and less satisfying than the interaction at other levels.

Change your human resources and organizational policy.

- Recruit staff of suitable educational backgrounds and qualifications. A deficit of the staff key for the design and implementation of structural funds projects (for example engineers, economists) is hard to compensate for through short-term training.
- Restructure and redistribute responsibilities. This is an option that can have a big impact on resolving the problem of insufficient staff. Municipalities in this respect need to assign responsibilities for operations under the structural funds and back this up by strengthened political responsibilities, charging for instance a deputy mayor with responsibilities in investment and structural funds. For large municipalities, in particular, it would be suitable to concentrate these responsibilities in one administrative unit. One efficient solution for cases where specialized knowledge and staff are limited, especially in smaller municipalities, is to strengthen inter-municipal cooperation and hire 'shared' experts or set up 'shared' units for project design and implementation.

* * *

The "capacity" of capacity-building measures, especially training and awareness building, should not be overestimated. One important point to remember here is that practice is the best teacher. Therefore there should be attention given now on minimizing the risks emerging from actors' low level of capacity, and on best using the abilities they *do* have .

It is the meaningful use, and not the mechanical absorption, of the EU structural funds that will translate into more opportunities for Bulgarian citizens to have better lives, in other words to increase considerably the level of human development.

THE TEN GOLDEN RULES OF GOOD STRUCTURAL FUNDS' USE:

- *Know your place* in structural funds' operations. Use your chances to the maximum. Do not try to take somebody else's territory.
- *Invest in capacity-development*. It is never too early and never too late to do it and the sooner, the better. If you are a local development actor, do not be stingy about investing your own resources and efforts. The structural funds' money needs to be 'earned'.
- *Look carefully into your beneficiaries*. If you are a managing authority, do not blame poor absorption on them. If you did not prepare them, the fault is all yours.
- *Manage beneficiaries' expectations* so that later on you are not faced with the consequences of their disappointment.
- *Make sure you are well informed* so that you act competently. Differentiate between facts and assumptions, decisions made and expectations, general recommendations and imperative requirements.
- *Teach skills*, not background knowledge. Background knowledge brings about background results. Train

through practical tasks and not through presentations. Say what is necessary, to those to whom it is necessary, when necessary and in a way that can be understood.

- *Find your partners*, use their capacity and do not forget to make your contribution, too. Accept partnership as an opportunity and a resource and not as a 'necessary evil'.
- *Do not overdo planning*, move on to implementation.
- *Do not transplant, adapt*. 'Best' practices are the best choice only when they work in your local environment.
- *Do not forget what the structural funds are for* – not to be absorbed, but to produce a development impact and change people's lives.