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The Emergence of Regional Policy in Bulgaria: regional problems, EU influences and domestic constraints

Vassilis Monastiriotis

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Vassilis Monastiriotis[#]

ABSTRACT

In most of the European transition economies regional policy is a relatively new phenomenon, given the absence of a coherent framework for such policy during the Communist era. In Southeast Europe in particular, regional policy was slow to develop also in the transition period. This was in many respects due to the relative hysteresis of the transition process in the region but also to other particularities related to the ethnic conflicts and a generally slower European association process. Regional policy in Bulgaria has for all analytical purposes been notably absent in the 1990s and only started shaping up mainly as a response to EU pressures and requirements. This was despite the significant problems of disparity and backwardness faced by many regional and local economies of the country – and the trend of widening inequality associated with the processes of transition and fast economic growth. Nevertheless (or, as a consequence), the emerging regional policy framework in Bulgaria reflects strongly the EU influence and shows little sensitivity to, and appreciation of, the main regional and spatial problems that policy in the country should be addressing. This paper addresses the structure and effectiveness of the emerging regional policy in Bulgaria by evaluating the nature of regional disparities in the country, examining the development of regional policy, and discussing the role played by the EU (through its accession conditionality, its own regional policy and its pre-accession aid) for these developments. This analysis provides useful conclusions regarding the strengths and weaknesses of Bulgaria's regional policy and helps highlight the main challenges for the future design of regional policy in the country, in its new phase of development as a full EU member.

Keywords: Regional disparities and policy; Bulgaria; Transition; EU accession

[#] Lecturer in the Political Economy of Greece and Southeast Europe, Hellenic Observatory, LSE.
Correspondence: Vassilis Monastiriotis, European Institute and Hellenic Observatory, LSE, Houghton Street, WC2A 2AE London. Tel.: +44 (0)20 79556937, Email: v.monastiriotis@lse.ac.uk

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1. Introduction

The collapse of the communist regimes in the former Soviet Union and Eastern Europe almost two decades ago brought about sweeping changes in the economic and political institutions of the formerly centrally planned economies. With the critical influence of a number of supranational and international institutions an unprecedented process of transition took off in these countries, encompassing both the political and economic spheres.

The main political (democratisation, civil society, institution-building) and economic (market liberalisation, privatisation and restructuring, macroeconomic stabilisation) priorities under this process (Roland, 2000; Sokol, 2001) were meant to address the key problems that the transition countries were facing in the advent of the 1990s: very centralised and inefficient state bureaucracies; inefficient organisation of production (both within firms and across sectors or space); lack of private and, importantly, financial capital; and a disparity between use-values, market prices and production costs (Pickles and Smith, 1998; Lavigne, 1999). More importantly, however, they aimed at two much more immediate and crucial deficits: on the one hand, the democratic deficit and problems in the rule of law; on the other,

the problems of indebtedness and hyper-inflation that the fast monetisation of the economy and the liberalisation of the market mechanisms brought about (EBRD, 1996; Pickles and Smith, 1998). In this context, attention to issues of regional and cohesion policy was at best limited.

This deficiency of regional policy is of course important on theoretical grounds, given the fact that persistent regional imbalances raise issues not only of economic cohesion and social justice, but also of economic efficiency. Substantial and persistent income and unemployment differentials lead to inflationary pressures for the national economy, as upward price movements in the better-off areas are not counter-balanced by deflationary movements in poorer areas (Archibald, 1969; Thomas and Stoney, 1971; Jackman et al, 1990; Wall and Zoega, 2002).[1] Further, they lead to out-migration of the most skilled from the poorer regions thus limiting the capital flows to these regions that could ameliorate their economic situation and increase their growth potential (Faini, 1996 and 1999; Borjas, 1999). This in effect leads to a nation-wide retraction of investment, as human and physical resources are used sub-optimally and allocation efficiency for the whole economy is reduced (Richardson, 1971; see also Faini, 2003).

Besides these efficiency considerations, however, in the context of transition the deficiency of regional policy is particularly important due to one of the 'stylised' characteristics of the very transition process, namely the fast and stark widening of regional disparities (Petrakos, 1996 and 2001; Wyzan, 1997; Milanovic, 1999). Importantly, despite this widening of disparities, in most

[1] This is under the assumption that prices exhibit downward rigidity. Further, price increases in the richer areas may even spill over to areas with lower demand pressures thus further intensifying regional and national problems of inflation and unemployment.

transition countries regional policy gained a momentum only when, and insofar as, the external factor (most notably the European Union) put pressure on the central administration to place more emphasis on issues of regional development and policy (Bachtler et al, 2000; Brusis, 2002; Hughes et al, 2003; Enyedi and Tozsa, 2004).

This paper examines exactly this process of delayed and conditional development of regional policy, focusing on the case of Bulgaria, one of the latecomers in both processes of transition and European integration. The paper first provides a brief review of Bulgaria's progress with transition and the development of its relations with the EU. Section 3 examines the nature, history and evolution of regional problems in the country, while section 4 reviews the development of policy responses to these problems. The analysis of the role that the EU played, through conditionality and pre-accession aid, for the specific development of regional policy in Bulgaria – and the problems and limitations that this has created – is presented in section 5. The last section summarises and concludes with some considerations about the direction for the future development of regional policy in the country.

2. Bulgarian transition and EU relations

Bulgaria's transition has been in many respects particularly painful and turbulent. The country entered the transition period with exploding external debts and a continuously worsening balance of payments, largely due to its extensive integration to the CMEA structures and its status as a satellite Soviet economy (Bristow, 1997; Dobrinsky, 2000). When the communist government

of Zhivkov lost power in 1989, a prolonged period of political instability (with five different Prime Ministers and perhaps twice as many governments between 1990 and 1994) and of significant economic depression followed. Influenced to an extent by IMF and World Bank conditionality[2] the country seemed to be flirting momentarily with a 'big-bang' approach to transition (Spenner et al, 1998). For example, at the time of securing its first loans from the international financing institutions (IMF in February 1991; IBRD in July 1991), Bulgaria had already introduced or designed a number of reforms, including legislation on Commerce and Competition (both bills adopted in 1991), an aggressive liberalisation of prices (EBRD, 1996; Jones and Miller, 1997) and a restrictive incomes policy (in the form of wage-growth ceilings; Tzanov and Vaughan-Whitehead, 1997). Nevertheless, and owing – at least to an extent – to the fact that the (reformed) Socialist Party remained in power for much of the early 1990s and the lack of wider support for critically needed but painful reforms (Dimitrov, 1995), soon the country adopted a more gradualist approach to transition and reversed some of its earlier aggressive liberalisation policies (for example, re-activating the 1988 Decree, with which administrative controls for about 50% of consumer prices were introduced and lasted until around 1996). The combination of the regression to a gradualist approach to transition with the rather turbulent political climate of the early 1990s led to on-and-off implementation of reforms and eventually the emergence of excruciating soft budget constraints, as the slow pace of large-scale privatisation and

[2] As has been widely discussed in the academic and non-academic literatures (see Stiglitz, 2002), IMF and World Bank conditionality entail strong restrictions in the policy options regarding the direction, content and pace of reforms for the benefiting countries. Moreover, IMF structural conditions for transition countries in particular have been disproportionately skewed towards conditioning on 'prior actions' rather than 'structural benchmarks' and/or 'performance criteria' (see IMF, 2001, for a further analysis and explanation of these terms), while IBRD conditionality was disproportionately focusing on privatisation and (trade/price) liberalisation (Koeberle et al, 2005).

restructuring made the option for the state of not bailing-out ailing companies particularly costly (Claessens and Peters, 1997; Budina et al, 2000; Everaert and Hildebrandt, 2001; Calacean and Aligica, 2004). Under these conditions, the Bulgarian economy registered significant rates of decline with employment and GDP declining by 30% and 25%, respectively, between 1990 and 1994 and unemployment and inflation shooting to above 20% and 100% respectively over the same period.

The country had just started showing some signs of recovery when it was hit by a deep financial crisis triggered by huge bank indebtedness and the unsustainably high external debt (see Dobrinsky, 2000, for a detailed analysis of the causes and characteristics of the 1996/97 crisis). In response to this crisis, the newly elected centre-right coalition in 1997 established a Currency Board[3], pegged the leva to the DM (and later to the Euro), and speeded-up the privatisation of state-owned enterprises (SOEs), thus managing to control inflation and lead the economy to a sustainable path of recovery. Following this change of economic and political fortunes, the process of association with the EU also intensified. Building on the first Trade Agreement of 1990 and the Europe Agreement of 1995, Bulgaria signed an Accession Partnership in 1997 and opened accession negotiations with the EU in 2000. These were concluded in 2004 and in 2005 an Accession Treaty was signed, leading to the accession of Bulgaria to the EU in January 2007. The intensification of the process of European association – and the continuing inflow of EU funds and international aid – helped further the economic recovery, leading to increased inflows of FDI, increased trade flows and accelerated privatisation (EBRD, 2003).

[3] The initial steps for the establishment of the Currency Board were in fact taken by the interim government of Stefan Sofianski, which was put in place to prepare for the 1997 elections after the collapse of the socialist government of Georgi Parvanov.

3. Regional problems and performance

Under this turbulent transition phase, almost naturally, the emphasis placed on issues of regional economic performance was limited. At hindsight, this made a poor situation worse, arguably contributing to the widening of regional disparities and intensifying problems of asymmetry and backwardness for the less developed areas of the country.

In the beginning of transition, as with many other transition economies, Bulgaria had only modest regional imbalances, at least in terms of standards of living (Naidenova, 1983; although, admittedly, regional structures and potentials were noticeably disparate – Hoffman, 1972; Donchev, 1983). Unemployment was hardly an issue in the pre-transition era (although labour hoarding and hidden unemployment were not), while for the largest part incomes and prices were determined by the central administration in a more or less equitable way. The main regional issues in the pre-transition period had to do with patterns of depopulation of rural areas and environmental degradation but, in line with the ideology of economic macro-management by the State, these issues were dealt with in *ad hoc* but clearly redistributive, if socially challenging, ways (Paskaleva, 1990; Jackson, 1991). The fiscal crisis of the late 1980s actually intensified some of these problems, strengthening further the patterns of urbanisation and over-concentration in Sofia and linking more closely the performance of the regions to that of the key SOEs (Begg and Pickles, 1998). Although immediately after the fall of communism regional disparities initially declined (as rich regions were most affected by the

transition shock),[4] regional disparities started widening notably by 1993 and problems of depopulation and unemployment intensified for the less prosperous areas.[5]

In the second phase of transition (post-1997) the economic take-off nationally favoured particularly the main urban areas (Sofia, Strata-Zagora, Burgas, Varna) and led to further increases in regional inequalities – and the emergence of notable intra-regional disparities (Sklavounos, 2002; Marinov and Malhassian, 2003; MRDPW, 2005). This was not unrelated to the specific spatial patterns in the geographical allocation of physical and human capital in the country or indeed the patterns of structural change of its regions. On the one hand, continuing trends of internal migration intensified the over-concentration of high-skill / high-education workers in the Capital and its wider NUTS-2 region (where, in 2001, the population share of university graduates was about double that of the rest of the country). Perhaps not unexpectedly so did foreign direct investment (with about 60% of total FDI stock by 2004 being concentrated in the South West region, which in per capita terms had attracted up to ten times more cumulative FDI flows than the South Central region – the second, in absolute terms, FDI location) (MRDPW, 2005; Monastiriotis and Alegria, 2008). On the other hand, following the slow progress more generally with transition, industrial restructuring and production diversification at the regional level were particularly slow, with little evidence of restructuring until

[4] Minassian and Totev (1996) report a practical collapse of industrial production in the two main cities of Sofia and Burgas between 1989 and 1991 (Table 8 in their paper), which can partly explain the strong narrowing of regional disparities between the two years, with Sofia and Burgas losing around 20% and over 40% respectively of their income advantage relative to the country (Table 7).

[5] Whether or not this evolution reflects the impact of yet another 'invisible' market mechanism, either in the form of an 'empirical regularity' tied to the process of transition (Petrakos, 2001; Hapiot and Slim, 2004) or through a more theoretically grounded mechanism linked to the process of development (in line with a regional Kuznets curve – see Williamson, 1965), is in a sense an empirical issue, which goes beyond the immediate interest of this paper (for a more focused discussion of this see Monastiriotis, 2007).

1996 and with most of restructuring being backward (i.e., towards agriculture) with the exception of Sofia that took on the function of a 'service centre' (Totev, 2004). Petrakos et al (2005) also report very low Coefficients of Structural Change for the Bulgarian districts until 1999 and an increasing dissimilarity to the EU-15 average.

Owing to such developments, by the turn of the century Bulgaria's regional and spatial problems exhibited a combination of characteristics of polarisation, peripheral backwardness, spatial un-connectedness and localised (sub-regional) inequality. These characteristics are rather clearly depicted in the spatial patterns of inequality in terms of regional incomes in the country.[6] First is the emerging dichotomy of development paths, at least since the mid-1990s, between the most dynamic urban regions and the rest of the country. Between 1995 and 2002 district-level growth rates varied in real terms between less than 1% (in Sliven, Dobrich, Kardjali, Haskovo and Pazardjik) and above 6% per annum (in Vratsa, Silistra, Sofia, Burgas, Gabrovo and Smoljan). Although there is little, if any, evidence to suggest continuing beta-divergence nationally[7] (at least at the NUTS-3 / district level – Petrakos, 2001; Marinov and Malhassian, 2003; Monastiriotis, 2006 and 2007), at closer inspection two interesting patterns are evident. On the one hand, outside the top-five districts in terms of GDP per capita, inter-district disparities have been reasonably low and increased only marginally since 1995, while the ranking of districts in terms of GDP per capita has been rather volatile, suggesting limited persistence

[6] The description of these patterns in this section draws heavily on Monastiriotis (2008).

[7] Beta-convergence (or divergence) shows the speed at which the poorest regions catch-up with (diverge from) the most well-off regions, by examining the extent to which the former experience higher rates of growth compared to the latter. In that, it does not capture evolutions in the overall extent of disparity, as slower growth in the richest regions (beta-convergence) can well imply a widening of absolute differences in per capita incomes.

of disparities at this level. On the other hand, disparities for the whole of the country, including the top-five districts, have been widening rather fast, almost doubling since 1998, suggesting a clear pattern of polarisation between the most dynamic regions and the rest of the country.

Second, a result of this polarisation has been the strengthening of the primacy of Sofia (and few other main urban areas) in the Bulgarian economy. According to Eurostat data, GDP per capita in the Capital is in real terms up to three times higher than that of the poorest region (Kardjali at the South Central region). At lower levels of spatial aggregation (NUTS-4 / municipalities), these differences are much more emphatic, reaching over tenfold differences between the richest (Radnevo in the Strata-Zagora District or Chelopech in Sofia) and poorest (Satovcha in the Blagoevgrad District in SW and Ruen in the District of Burgas in SE) municipalities (UNDP, 2002).[8] Third, beyond this polarisation, importantly patterns of spatial inequality are rather localised. Disparities across NUTS-2 regions are very low by international / European standards (Spiridonova, 2002) and while disparities across NUTS-3 areas are much more notable (Petrakos, 2001; Totev, 2004), around 75% of disparities are intra-NUTS3 (UNDP, 2002; MRDPW, 2005), with almost every top-5 district (NUTS-3) having at least one bottom-10% municipality (NUTS-4).[9] Clustering of low-income municipalities does exist (especially in the North-West and in

[8] Spiridonova and Grigorov (2000) refer to uncited studies that 'report differences of over 100 times in the values of production output', even excluding Sofia, for the early/mid-1990s (p.78). Differences in unemployment and activity rates are also very wide, ranging even at the very aggregate (NUTS-2) level between 13% and 27% (data for 2002; Dimitrova and Sirak, 2005).

[9] Own calculations from the Data Tables in Annex 2 of UNDP (2002). In this sense, it would appear that the optimal level for the design and delivery of regional policy in Bulgaria would be the District level (NUTS-3). However, as we discuss later, this was not possible and, in reality, has never been considered, as the EU architecture does not envisage NUTS-3 regions as policy-making units. Instead, Bulgaria moved on to weaken the role of Districts in regional policy, by decentralising the initiation of policy proposals to the municipality (NUTS-4) level and centralising the financing and delivery functions to the central and macro-regional (NUTS-2) levels.

parts of the south and east but outside the main cities), but it rarely translates into a macro-geography, i.e., into one that would identify the main economic disparities with existing higher-level administrative divisions (MRDPW, 2005; Monastiriotis, 2008).

Finally, besides these patterns of regional and sub-regional inequality, one of the main problems for regional and national development in Bulgaria appears to be related to the very weak and heterogeneous spatial connectivity of its local economies. The dimensions of this characteristic have only recently been identified (both in policy circles and in the academia), mainly through the realisation of the role that upgrading the transport infrastructure can play for the intensification of economic links between localities – and some targeted policy innovations in this direction are currently being implemented.[10] Importantly, however, the lack of economic connectivity across space, which is also evidenced in the weak association of economic outcomes across neighbouring areas (Monastiriotis, 2008), appears to mask two very opposite trends: a pattern of absorption or competition between the main urban centres and their hinterlands (evidenced as strong localised negative dependence for cities[11]) and some evidence of locational path-dependence (spatial heterogeneity) and localised clustering outside these centres (evidenced as strong localised positive dependence outside the main urban areas which turns negative at very long distances).

[10] For example, with the setting of 'Local and Regional Connectivity' as one of the five main Priority Areas of the 2007/13 Operation Programme for Regional Development (MRDPW, 2005).

[11] The term spatial dependence is used in the spatial statistics literature (see Anselin, 1988) to describe the degree of (statistical) association between local and neighbouring outcomes. The notion of distance indicates the scale at which a neighbourhood is defined, e.g., from immediate contiguity ('short' distance) to a distance threshold that includes more areas than the immediate neighbours ('long' distance). Spatial heterogeneity is a concept describing the fragmentation of economic space into different 'regimes', e.g., cases of North-South divisions or of urban-rural dichotomies.

In a sense, then, the nature of the regional problem of Bulgaria has largely remained qualitatively the same, but intensified, throughout the transition period. The only exception to that is perhaps the disconnection of the regional economies from the large SOEs that they used to host, at least in those cases where reconstruction and privatisation have been relatively successful (Spiridonova and Grigorov, 2000) and a diversified pool of foreign direct investments have flown in (Carter, 2005; Totev, 2005) – although much of this disconnection happened through disinvestment and downsizing, especially in the first half of the 1990s (Begg and Pickles, 1998; Staddon, 2005).[12] But besides this, the main regional problems for Bulgaria are today, as they have been for over two decades, (i) the primacy of few urban areas; (ii) the rather localised spatial economic disparities; and (iii) the weak economic links between the regional and local economies.

4. The development of regional policy

Despite the fact that under central planning regional policy obtained naturally a secondary role, some elements of regional policy can be clearly identified in the pre-transition period. The first attempts for such policy date back to the early 1960s, when a policy of relocation of industry to small- and medium-sized towns in the periphery of the country was initiated, aiming at addressing issues of peripheral backwardness and counteracting the strong urbanisation trends and resulting housing shortages. In the following years district-level planning committees were created and in 1970 the State Planning Committee,

[12] Another facet of this disconnection is captured by Totev (2004) who identifies a structural shift from enterprises influencing local economic performance (until around 1996) to enterprise performance becoming dependant 'mainly [on] the general economic performance of the districts' (p.5).

which was responsible for the annual economic development plans, obtained a General Directorate for the Territorial Location of Production Forces, which was responsible for the 'spatial dispersion of productive forces' (Hoffman, 1972, p.203). These developments succeeded in bringing closer together central planning with regional and local (district-level) needs, but in economic terms they were not particularly successful, or sustainable, not least because of the inherent conflict between the requirements of regional planning and the emphasis that the ideology of central planning places on specialisation, concentration and vertical integration of production units (Paskaleva, 1990). Following the reversal of the trend of declining spatial disparities in the 1980s (Naidenova, 1983), a reform of regional administration was undertaken in 1987, which abolished the intermediate tier (*okurg*) with the aggregation of the 28 districts into nine regions. This constituted a first step towards local empowerment, as it gave more administrative power to the municipalities (Paskaleva, 1990; Kapitanova and Minis, 2003), but its main effect was the real empowerment of the central administration through the 'thinning of vertical structures' across different levels of administration (Dimitrov, 1995, p.27).[13]

After the collapse of communism, the new governments continued with this approach of mixed decentralisation, empowering further the municipal administrations (through the 1991 Local Self-Governance Act) but also not addressing the issue of weakened regional representation at the centre.[14] Besides these administrative changes, in the early transition period the size and

[13] This aggregation served in fact an additional role, namely to dissolve the presence of ethnic minority groups within administrative authorities and thus to pre-emptively cancel any potential secessionist attempts, especially by the Turkish minority in the South East (Dimitrov, 1995; Pickles, 2001).

[14] In fact the post-communist governments only restored the original administrative geography in 1999, under the general restructuring of sub-national administration structures in the advent of Bulgaria's accession negotiations with the EU.

scope of regional policy was notably limited, its response to the problems of polarisation and spatial un-connectedness highlighted above was at best slow and fragmented, and its objectives were largely vague and abstract (Marinov and Malhassian, 2003). The 1990 Constitution of Bulgaria mentions the objective of 'balanced regional growth' as a responsibility of the State, but neither this or any subsequent legislation introduced any specific formal institutional structures to implement policies. An inherent conflict between the need for central control and for regional autonomy is evident in the early reforms (Kapitanova and Minis, 2003) while the political and financial instability experienced in this period delayed significantly the development of specific regional policies (Minassian and Totev, 1996; Kamenova, 1999).

In fact, until 1996 regional policy was largely conducted at an ad hoc basis, mainly through a number of subsidies for local-level interventions targeting mainly projects on transport, environment, and employment (Kamenova, 1999). Following the model of municipal self-governance, these interventions were initiated by the municipalities and financed directly by the State Budget, but without a clear design of regional allocation formula and, importantly, without regional identification of the allocation of funds.[15] This interaction of localised planning and lack of central design meant that the few projects that were undertaken failed to account for inter-regional imbalances and the wider spatial development needs of the country. At the same time, even nationally, public investment was particularly low (less than 2% of GDP or around 4% of total government expenditure – Monastiriotis, 2008), while the limited foreign investments were heavily concentrating in a few better-off regions (Carter,

[15] Private communication with policy officials at the Statistics department of the Bulgarian Ministry of Finance (March, 2006)

2005), especially given the absence of any incentives policy (e.g., tax exemptions) in this period. The ad hoc nature of regional development initiatives during this period was perhaps reinforced by the fact that the allocation of EU aid (under PHARE) was mainly directed towards border regions (cross-border cooperation) – which were not necessarily the ones of most acute need (Illes, 2004).[16]

In the mid-to-late 1990s some firmer attempts where made, both within and outside the central administration (NCRDHP, 1995; MRDC, 1996), to measure the extent and nature of regional disparities in the country and provide some prescriptions for policy – but largely these attempts remained at the level of identification of sub-national developmental needs and development of general policy proposals and did not translate into specific action plans.[17] Area designation only took some tangible form post-1997 (i.e., after the 1996/97 financial crisis and the irrevocable commitment to a path of 'Europeanisation' as a response to it), with the introduction of a system of regional incentives (tax exemptions for investments in 'depressed areas') through the Corporate Incomes Tax Acts.[18] But this policy was under the responsibility of the Ministry of Finance (both for the specification of the incentives and for area designation) and thus did not form part of standard regional policy (which was

[16] The 1997 and 1998 PHARE programmes focused specifically on dealing with emergency relief under the Emergency Social Assistance Programme, which was exclusively of a horizontal character. Other sources of international assistance (EIB, IMF, EBRD) were also either targeting horizontal interventions (EIB, 2006; EBRD, 2006) or implicitly favouring local authorities with above-average financial and administrative capacities (UNDP, 2004).

[17] The 1996 Ministry for Regional Development and Construction publication moved slightly further, to identifying specific priority areas (mainly mountainous/disadvantaged and depressed/peripheral regions), but this did not seem to inform or influence relatively contemporaneous legislative developments (e.g., the Administrative and Territorial Organisation Act of 1995).

[18] The first such Act was introduced in 1997 (effective from 1998) and has been amended annually since. Presently the designed incentives provide up to 100% tax exemption from the Corporate Income Tax (standing at 15% since 2005 and down to 10% for some tax categories under the October 2006 Act) and cover municipalities with unemployment at least 1.5 times above the national average. Some further progress was also made with the 1998 amendment of the 1995 Administrative Act.

the responsibility of the Ministry of Regional Development and Public Works). It was further 'significantly hampered by the fact that [most regions] feature a combination of structural problems', including problems of decline, structural imbalances and human capital shortages (Spiridonova and Grigorov, 2000, p.79).

It was only at the turn of the century that a dramatic change in Bulgarian regional policy occurred. With the dynamic generated by the strengthening of Bulgaria's European perspective (see discussion in section 5) the first Regional Development Act was adopted in 1999 and, with it, a new approach to regional policy emerged, with the introduction of important changes in the regional administrative structure, the institutions of regional policy, and the planning of regional interventions.

First, the Act introduced in the country the European classification of Territorial Units for Statistics (NUTS) and four NUTS-level tiers were established.[19] Second, the new policy legislation created a thick (and complicated) institutional administrative structure that assumed responsibility of regional policy in the country.[20] Overall responsibility for regional and development policy was shared between the Council of Ministers (CoM) and the Ministry for Regional Development and Public Works (MRDPW). The CoM had the responsibility for adopting the National Economic Development Plan (NEDP) and, within this, the National Regional Development Plan

[19] In fact the 1999 Act did not provide for NUTS-1 and NUTS-2 tiers; these were created a year later under a special Council of Ministers Decree (No145). As is discussed later, these developments were significantly influenced, if not motivated, by the need to accommodate specific Eurostat requirements and satisfy aspects of EU conditionality (Brusis, 2002). The designation of NUTS-2 regions changed again in 2006, to deal with the inconsistency between the local and Eurostat definitions.

[20] The description of this structure is based on MRDPW (2001). Some further developments in the institutions of regional policy in the country have occurred since, but they have not altered the main structure described here (see SIGMA, 2005; Primatarova and Ganev, 2008).

(NRDP), which defined assisted areas and areas of priority. The MRDPW (which, of course, was also represented in the CoM) was responsible for the preparation of the NEDP and NRDP and the design and implementation of regional policy.[21] Two specialist bodies were established within these organisations: the Regional Coordination Directorate (within the CoM) took the responsibility of coordinating actions between central, regional and municipal authorities; while the Central Coordination Unit (within the MRDPW) was to oversee the implementation of policy at the regional and sub-regional levels. At the lower level (but still under the CoM) a Council for Regional Development was established (with participation of a number of Ministries, District Governors and representatives from the National Association of Municipalities), which was responsible for developing policy proposals under the NRDP and for coordinating implementation of regional policies. This had a vertical structure, with Regional Development Councils created in each of the six newly-created NUTS-2 macro-regions; 28 district-level Councils for Regional Development (responsible for designing and implementing the district development programmes); and a Development Office or Directorate in each of Bulgaria's 264 Municipal Councils (where responsibility was mainly on initiating policy proposals and designing policies through participation at more central levels).[22] Finally, a Commission for Economic and Social Cohesion was also established (with six offices, one in each macro-region), with participation from all stakeholders (including central and district government officials as

[21] Financing and management of governmental and EU funds was, and still is, under the responsibility of the Minsitry of Finance.

[22] Characteristically, a special Directorate has only been possible to be created in about 50 municipalities (which were, incidentally, the largest). About a hundred of medium-size municipalities have instead established a Unit within an existing Directorate, while the bottom 45% of municipalities have only created a one-person Office (Primatarova and Ganev, 2008).

well as NGOs and employee and employer associations)[23] and with a more consultative role but also some shared responsibilities with regards to policy implementation.

Third, the institutional changes of the 1999 Act also allowed a more integrated policy approach to emerge, and policy emphasis to shift from ad hoc redistribution to enhancing administrative capacities at the regional and local levels. Following, the first integrated national regional programmes were developed, initiating the first Operational Programme for Regional Development (OPRD) in 2000 (within the 2000/06 NRDP of the National Economic Development Plan). Despite this significant policy innovation, some inherent inconsistencies in the new regional policy design hampered significantly the effectiveness of regional interventions. The OPRD was designed on the basis of planning regions (NUTS-2 and to a lesser extent NUTS-3), which were 'the basis for the programming of pre-accession funding and later on of the Structural Funds' (Totev, 2004, p.10). At the same time, the NRDP introduced a parallel spatial division, with explicit designation of 'areas of purposeful intervention' (areas for growth; areas for development; areas of industrial decline; backward rural areas; areas for cross-border cooperation), which covered around three quarters of the total population of the country (Totev, 2004). Designation of these areas was at the municipal level, since it was at that level that problems and differences in performance could be identified (Marinov and Malhassian, 2003). This led to a rather mixed top-down and bottom-up approach, with programmes proposed and initiated by municipalities, but with allocation of resources being on the basis of NUTS-2

[23] Two of the most relevant NGOs in this context were the National Association of Municipalities in the Republic of Bulgaria (NAMRB) and the Bulgarian Association of Regional Development Agencies (BARDA), which also have representation at the Council for Regional Development.

regions (*not* municipalities), which, incidentally, did not obtain a governance structure but remained largely statistical divisions.[24]

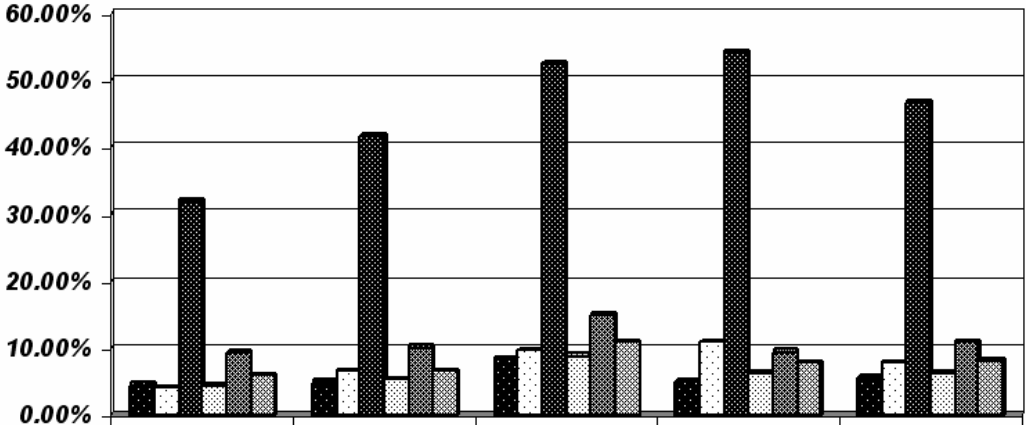
Moreover, area designation under the NRDP was largely directed towards serving national objectives. More than half of the available funds was allocated to the 'areas for growth' (identified as dynamic areas that can stimulate national growth) while the rural, declining and developing areas together received less than a quarter of the funds (around 64% of the funding that was directed to the 'areas for growth' in per capita terms) (Totev, 2004). Naturally, this tended to reinforce regional disparities in the country. The prioritising of national objectives and interventions is also evident in the allocation of funds under the OPRD (i.e., for regionally targeted interventions under PHARE co-financing). As is depicted in Figure 1, the main element of regionally identifiable expenditure under the first OPRD was the PHARE funds (with around half of PHARE spending directed to regional interventions) while the regionally identifiable element of domestic financing was a mere 6.3% of total domestic expenditures under NEDP. The implication of this was that, even in relative terms, within the limited budget of the NEDP, the total level of spending on regionally identifiable interventions in the OPRD was particularly low, with total funds allocated to the OPRD constituting less that 8% of total NEDP spending in the period 2003/06 – or less than a mere 1% of GDP (see Table 1).[25] Thus, as domestic resources were disproportionately directed towards national programmes, the first OPRD had only a limited impact on

[24] It is worth mentioning that while the central (NUTS-1) and municipal (NUTS-4) levels are autonomous (self-governed), in the two intermediate tiers officials are directly appointed by the State and their function is merely to promote the policies of the central authority.

[25] Of this, domestic financing accounted for 25% of total OPRD commitments, with 13.5% coming from the Central Government Budget, 1.5% from the Municipal Budgets and 10% from the private sector.

addressing regional development problems and the process of regional convergence was significantly compromised.

Figure 1. Regional development expenditures under OPRD by source



	2003	2004	2005	2006	2003/06
Government	4.48%	4.78%	8.35%	4.91%	5.56%
Private	3.95%	6.46%	9.67%	10.90%	7.79%
PHARE	31.86%	41.67%	52.53%	54.01%	46.75%
All_BG	4.25%	5.33%	8.83%	6.30%	6.28%
All EU	9.23%	10.11%	14.89%	9.45%	10.85%
Total	5.96%	6.62%	10.92%	7.84%	7.96%

Notes: Designated expenditures under the 2003-2006 Regional Operational Programme, expressed as shares, for each corresponding category, of total designated spending under the 2003-2006 National Economic Development Programme. BG includes funding from the Central Government Budget (13.5%), the Municipal Budgets (1.5%), and the private sector (10%) (the remaining 75% is provided by PHARE funds). EU includes regional spending under PHARE (46% of all PHARE spending) as a share of all EU-financed expenditures (PHARE, ISPA, SAPARD).

An implication of these deficiencies was that even the limited amount of resources allocated to regional development had only a weakly redistributive character. The allocation of OPRD funds to the six macro-regions[26] ranged between €8.80 per capita in South West and €33.40 per capita in North West or between 0.3% and 1.8% of regional GDPs, respectively. The South West region, which includes Sofia and is by far the richest region in the country, received the fewest funds in relative terms (but not in absolute terms, due to its large population size) – around 13.7% of the total (for about 27% of total

[26] Comprehensive data for lower spatial levels are not readily available.

population). Overall, the redistributive capacity of OPRD (measured in both absolute and relative terms) appears particularly high when the South West region is included (correlation between spending and regional incomes is between -0.71 and -0.82). However, outside the capital region regional spending under the 2000/06 OPRD was in fact strictly counter-redistributive.

Table 1. Regional allocation and redistributive capacity of OPRD funds

NUTS Region	Population (th)	GDP		ROP		
		(pc, €)	(€m)	(€m)	(pc, €)	(% GDP)
BG11 North West	527	1,866	983	17.6	33.4	1.79
BG12 North Central	1,187	1,826	2,166	24.0	20.2	1.11
BG13 North East	1,299	1,777	2,308	32.0	24.7	1.39
BG21 South West	2,103	3,054	6,421	18.6	8.8	0.29
BG22 South Central	1,963	1,701	3,339	36.1	18.4	1.08
BG23 South East	791	1,734	1,372	18.3	23.1	1.33
BG – Bulgaria	7,868	2,108	16,589	146.6	18.6	0.88
Correlations	**All regions**			**Excluding SW (Sofia)**		
r(ROP pc, GDP pc)	-0.707			0.717		
r(ROP/GDP, GDP pc)	-0.816			0.636		

Note: Own calculations from MRDPW, Ministry of Finance and Eurostat data. Data refer to committed expenditures for 2003 under the Economic and Social Cohesion leg of PHARE (including national contributions).

As is depicted in Table 1 (data are for 2003 only, but are indicative of the general allocation formula), regional spending followed strongly the distribution of regional incomes in the other five Bulgarian macro-regions (correlation coefficients between 0.64 and 0.72). To an extent this simply shows that the typical emphasis of PHARE on border regions is not in itself necessarily redistributive. However, more importantly, the evidence of regressive redistribution outside South West effectively reflects two more subtle characteristics: on the one hand, the limitations of the regional policy design under the first OPRD that tended to favour the more 'absorptive' and/or more resourceful municipalities and districts; on the other, the fact that the architecture of the administration and the design of regional policy in Bulgaria

seemed to prioritise on national objectives and to lack a targeted redistributive character.

Overall, then, even at this period of strong policy development, policy design and implementation was problematic. Some elements of over-commitment to EU-like structures (e.g., the design of policies at the NUTS-2 level), combined with a notably thick and complex institutional architecture, poor national finances to support an effective regional policy, and an emphasis on national growth over the aim of tackling disparities, meant that regional policy failed to address the main regional problems of the country, particularly those relating to backwardness, polarisation, and spatial un-connectedness.[27] More recently, following some further legislation (2001 Spatial Planning Act, 2003 Territorial Organisation Act, 2004 Regional Development Act) and the conclusion of Bulgaria's EU accession negotiations in 2004, Bulgaria's regional policy has developed further and a new National Strategy for Regional Development (for 2005/10) and new Operational Programme for Regional Development (under the 2007/13 National Strategic Reference framework) have been produced (MRDPW, 2005) – although the operationalisation of these encountered prolonged problems and was only approved by the European Commission just a few months before Bulgaria's accession to the EU (NSRF, 2007). The new OPRD is managed by a central Managing Authority (a DG within the Ministry of Regional Development) assisted by six Regional Implementing Bodies, which however have only an implementation role, reflecting again the centralised character of the design of regional policy in the country.

[27] In the own words of the policy-makers of the MRDPW, the first NRDP/OPRD 'has established a system of non-coordinated, frequently overlapping and inefficient planning documents, failing to comply with the requirements for the form and content of such documents in the acquis' (quotation given in Minkova, 2004, p.25). See Minkova (2004) for a more detailed discussion of the deficiencies of the first NRDP/OPRD.

Nevertheless, the new OPRD also introduces a number of policy innovations for Bulgaria, including its emphasis on polycentricism (identifying areas of agglomeration and their hinterlands), its adherence to a number of EU frameworks (Community Strategic Guidelines, Cohesion Policy in Support of Growth and Jobs, European Spatial Development Perspective), and its 'European' structure – which identifies specific thematic priority areas for intervention. Interestingly, the new NRDP explicitly introduces a new objective for regional policy, defined as the 'elimination of regional discrepancies' (CM, 2005, p.1) – but this objective is not to be found in either the draft or the final document of the 2007/13 OPRD (MRDPW, 2005; NSRF, 2007), which still emphasises the objective of balanced and sustainable regional development.[28]

We discuss these aspects in detail in the following section, where our emphasis shifts from the conduct of Bulgarian regional policy to the role that the EU, through its own regional policy, its accession conditionality and its instruments of financial aid and development, has exerted on regional policy formation in the country.

5. Discussion: developing regional policy and the role of the EU

It is clear from the review of the development of regional policy in Bulgaria that this can be rather easily divided into four sub-periods: the late central planning period, where some territorial policies were incorporated in the wider planning of sectoral and industrial policies; the transition period, where policy

[28] Also characteristic is the fact that Bulgaria opted for a single centralised OPRD for the Programming Period 2007-2013, which is seen as a transitory phase before the next programming period when it is envisaged that the country will adopt six regional OPRD (one for each NUTS-2 region).

developments were slow and largely dictated by national needs and internal constraints; the accession period, where the role of the EU became more central and policy design and implementation started becoming 'Europeanised'[29]; and the post-accession period, where regional policy obtains a clear European form and structure. However, it is also rather clear that throughout these phases of policy development, regional policy has largely failed to tackle regional and sub-regional disparities in the country and, more specifically, to address the particular spatial problems of the sub-national economies (unconnectedness, polarisation, backwardness, decline). Although the focus of this paper is largely on the role of the EU in shaping Bulgarian regional policy, it is of course important to examine the range of factors that have conditioned the development of Bulgaria's regional policy and the ways in which regional policy responded to the influences exerted by the EU.

Internal limitations seem to have played a significant role in delaying the designing and deployment of regional policy in Bulgaria. These limitations encompass all institutional, economic and policy spheres. As with most transition economies (or perhaps even more, because of its tighter links to the Soviet model – Bristow, 1997), Bulgaria emerged from the central-planning period with very little experience of conducting regional policy and very weak sub-national administrative capacities. The combination of this inexperience with the abolition of the regional tier in the early transition period intensified local antagonisms (Brusis, 2002; Minkova, 2004) and transmitted the developing culture of corruption and clientelism to the domain of regional policy (Jones and Miller, 1997). Owing partly to the clinging of the former

[29] The term 'Europeanisation' is used here with some caution. In reality, regional policy development reflects less a process of adaptation to EU processes and more a simple downloading of policies and processes (Hughes et al, 2001; Brusis, 2002).

Communist Party to power, the early transition period was characterised by slow and ineffective transition reforms, while restructuring and privatisation were also delayed, leading to the emergence of significant soft budget constraints (Claessens and Peters, 1997; Calacean and Aligica, 2004). The inefficient and distorted structure of production in fact intensified the emergence of soft budget constraints and of course made the application of effective restructuring policies more problematic (Begg and Pickles, 1998). Following, economic performance during the early transition period was dismal and came to add to the significant transition shock that the economy experienced in 1990-1992 (Minassian and Totev, 1996; Dobrinsky, 2000). Among other effects that this had, were the limited availability of resources for regional and development policies (which hindered further the development of a comprehensive regional policy design) and the natural prioritising of national growth over regional development and convergence (Marinov and Malhassian, 2003). This in turn led to further regional imbalances (for example, as foreign investment was disproportionately directed to the most advanced areas – Carter, 2005; Totev, 2005) and thus intensified the already complex regional problem of the country.

Besides these factors, a number of external influences played a role in delaying the development of a comprehensive regional policy during the early transition period. The initial involvement of IMF and the World Bank in the setting of the restructuring and transition policies and objectives in the country led to the prioritising of stabilisation, market liberalisation and loan repayment over the implementation of regional and cohesion policies, which are largely seen by these international organisations as distortionary (Koeberle et al, 2005).

Further, as has been argued earlier, the financial support from these and other international organisations tended to favour horizontal or spatially fragmented projects and thus was not conducive to the development of a robust framework for national regional policy (UNDP, 2004; EIB, 2006). The involvement of the international private sector was not sufficient to counter-act these imbalances and fill the policy vacuum. Under the implicit (but very real) competition with the more attractive economies of Central and Eastern Europe, the FDI flows directed to Bulgaria were limited (Totev, 2005; Demekas et al, 2005) and, of those that came into the country, the ones that were not concentrating in the main cities were mainly of regional character (mainly from Greece) and of low technological content (Labrianidis, 2001). The localised character of FDI and its low quality and size also implied that its economic impact, in terms of both localised sectoral spillovers and wider spatial diffusion effects, were also limited, further hindering the developmental potential of the country's backward regions and limiting the ability of (regional) policy to exploit functional and technological spillovers (Monastiriotis and Alegria, 2008). The situation was not helped by the developments in former Yugoslavia, where the wars, embargoes and regional instability not only impacted adversely on the internationalisation of the Bulgarian economy (Gechev, 2008) but, importantly, hit asymmetrically particular regions of the country (in the North West; AEBR, 2003).

Within this context, the role of the European Union in this early transition period was characteristically limited. In fact, until the Accession Partnership agreement of 1997 the EU put little, if any, pressure on Bulgaria to develop any regional policy, let alone a coherent policy framework that would adhere to one

extent or another to the EU standards.[30] The EU gave access to PHARE funds as early as 1990/91, but financial flows through PHARE only took off after 1994 with Commission Regulation No1628/94 (see Table 2). The early EU interventions put emphasis (through PHARE) on emergency assistance (to address the acute problems generated by the 1996/97 crisis) and cross-border cooperation (thus favouring border areas, irrespective of the extent of their regional problems vis-à-vis other backward areas in the country; Illes, 2004). Later, assistance from the EU (through both PHARE and ISPA) was mainly directed towards institution- and capacity-building as a means to assist the accession process (Hughes et al, 2001), thus undermining the more urgent needs for supporting and integrating the regional and local economies that suffered the most. Both of these factors meant that the early interventions were rarely matching the true local needs and priorities.

Table 2. EU aid to Bulgaria, by category and year/period, 1991-2007/9

Year	PHARE			Nuclear	ISPA	SAPARD	EIB	Total
	Total	CBC	ESC					
1991/98	750	*	*	-	-	-	500	1,250
1999	150	*	*	-	-	-	100	250
2000	150	*	*	40	104	53	160	507
2001	150	*	*	40	107	54	130	481
2002	150	*	*	40	111	56	87	444
2003	123	*	*	40	113	57	60	393
2004	173	28	95	60	135	68	40	476
2005	175	36	137	60	135	68	30	468
2006	175	40	135	60	135	68	30	468
1991 – 1994	300[E]	*	*	-	-	-	200[E]	500[E]
1995 – 1998	450[E]	*	*	-	-	-	300[E]	750[E]
1999 – 2002	600	*	*	120	322	163	477	1,682
2003 – 2006	523	*	*	180	405	204	100	1,412
1991 – 2006	1,996	*	*	340	840	424	1,137	4,737
2007 – 2013[#]	-	-	-	-	-	-	-	6,674[C]

Notes: author calculations from various EC sources. [E]: estimates; [C]: funds committed; *: information not available; [#]: total allocation of EU funds under the 2007-13 NSRF, excluding national participation (of which, 1,361m€ will be channelled through the OPRD).

[30] Brusis (2002) argues that this can be partly explained by the fact that a specific and unified framework for national regional policy is missing from the EU 'acquis' – although the emphasis from both the EU and the transition countries on political and economic transition (i.e., prioritising of other policy areas) is perhaps an equally strong, if not stronger, explanation.

Despite that, two positive developments in this period should perhaps be emphasised. On the one hand, the financial and institutional support of PHARE actually allowed the creation of a number of independent sub-national institutions, most notably the Regional Development Agencies that took an important role in the design and implementation of regional policy in the country. On the other, the adherence to the 'European perspective' helped to 're-legitimi[se] concepts like "strategic planning" that were stigmatised as "obsolete" during the first years after 1989' (Dimitrova and Sirak, 2005, p.61) and thus made the design and implementation of national plans for regional and national development in later years more acceptable and less problematic.

Following the Accession Partnership, the European Commission started publishing its annual Regular Reports on the state of transition in Bulgaria and its progress with accession. With these, the role of the EU in shaping Bulgarian regional policy changed notably. In 1998 the EC asked explicitly Bulgaria (along with the Czech Republic and Slovakia – Brusis, 2002) to develop the 'administrative framework and budgetary procedures for regional policy' (p.34) that would be compatible with the EU requirements regarding the allocation and absorption of PHARE and, later, CSF funds (EC, 1998). A complementary but significant role was played by Eurostat, which required –for statistical and monitoring purposes– the development of a territorial-administrative structure compatible with the European classification of Territorial Units for Statistics (NUTS) – most emphatically represented in the communications that led to the 2000 Decree that amended the 1999 Act, which initially did not provide for the establishment of NUTS-1 areas in the country. Nevertheless, although the EU continued to influence the formulation of regional policy in the country through

the European Commission's Regular Reports, besides requirements in the field of regional administrative divisions, the EC recommendations were largely vague and consisted mainly of describing the existing policy framework, thus only implicitly hinting towards the actions that should be taken (Brusis, 2002).[31]

In this context, the Bulgarian authorities (as with all other accession countries) were encouraged to develop a(ny) framework for regional policy. But the lack of specific conditions and guidelines (combined with firmer conditions in other policy areas and the weak tradition of regional policy domestically) meant that the response of the 'policy receivers' was a rather mechanical adoption of the EU regional policy framework (seen mainly as an administrative task of book-copying – Hughes et al, 2001). Bulgaria introduced its first Regional Development Act in 1999 and, through this, its first National and Regional Development Plans and the first Operational Programme for Regional Development (for 2000/06). With the OPRD and the introduction of the NUTS territorial system, the expansion of PHARE funding post-1999 (see Table 2 and Figure 1) allowed policy to finance a wider range of more targeted regional interventions – although as was shown earlier, this did not really obtain a clear redistributive character nor did it prioritise on the most needy areas.

Overall, the policy innovations in this period (under the 1999 Act) were not always well-thought[32] and suffered from a number of deficiencies, including the lack of a clear demarcation of the functions of each body involved in

[31] For example, the 1999 Regular Report (EC, 1999a) devoted less than a page on 'regional policy and cohesion' and still this was subsumed under the chapter on 'Employment and Social Cohesion' (pp.45-47).

[32] In some instances they were even incompatible with general EU rules. For example, the budgetary provisions of the 1999 Regional Development Act, with regards to absorption of EU Structural Funds, was in breach of EC Regulation No1260/99 (Minkova, 2004; Dimitrova and Sirak, 2005).

regional policy and the limited provisions for monitoring and evaluation of the implemented policies and projects (Minkova, 2004; Dimitrova and Sakir, 2005). Crucially, however, they had three more salient and very negative implications. First, by adhering to a perceived (but vaguely defined) dominant 'European acquis' on regional policy, very limited attention was paid to developing an own national regional policy (Dimitrova and Sakir, 2005) and the few elements of an independent national regional policy that were in place were subordinated to the externally designed framework for regional interventions under PHARE. Second, by relying on and replicating an architecture that was practically designed for countries with already well-established structures of national regional policy, Bulgaria's regional policy adopted (i) a macro-geographic perspective (based on NUTS-2 regions) that was largely non-representative of the actual scale of spatial disparities in the country[33]; and (ii) a set of policy priorities that were often non-reflective of the actual nation-wide regional development needs (especially with respect to the issue of connectivity but more elementarily also with regards to the prioritising between 'areas of purposeful intervention' and border regions under PHARE). Third, the adoption of EU's fiscal decentralisation model contributed to increasing the problems of governance and effectiveness of policies, raised the bargaining power of individual municipalities (thus fostering distortionary forms of intra-regional competition – Brusis, 2002), and thus hindered the slow and smooth adaptation of the regional institutions and policies to the new conditions of the post-transition / pre-accession era (Minkova, 2004).[34] It is the

[33] The revision of the NUTS-2 geography in 2006 made in fact this situation worse (Monastiriotis, 2008) – an observation which reinforces the point about the negative aspect of adhering uncritically/unconditionally to an externally inspired design.

[34] Despite this, Bulgaria is still committed to strengthening further fiscal decentralisation – albeit with very slow steps of implementation. In 2005 a Memorandum for decentralisation and capacity building

combination of all these factors that led to the development of ineffective regional policies and a continuing widening of regional and sub-regional disparities in Bulgaria until the turn of the century.

Importantly, with the process of the accession negotiations (especially the negotiations under Chapter 21[35]) and informed by the experience of the first OPRD, recently the design and structure of objectives of regional policy in Bulgaria has changed dramatically.[36] In 2004 a new Regional Development Act was enacted and a new National Strategy for Regional Development (for 2005/10) was developed, leading in 2005 to the formulation of the new Operational Programme for Regional Development for the country's first post-accession planning period (2007/13 – MRDPW, 2005; NSRF, 2007). Although the administrative structure of regional policy under the new Act (and the new OPRD) is not significantly changed (Minkova, 2004), the relation between the various Regional Development Plans (national, regional, district-level, municipal) has been clarified better (Dimitrova and Sirak, 2005) and good progress has been made with regards to monitoring and evaluation (EC, 2004 and 2007). But the most significant policy innovations are with the setting of the wider objectives of regional policy and with the designing of policies in a very European(ised) manner. For example, the 2007/13 OPRD (i) identifies for a first time so explicitly the importance and nature of intra-regional disparities in the country; (ii) relates, again for the first time, explicitly to a number of EU

was signed between the government and the National Association of Municipalities in the Republic of Bulgaria while the 2007 revision of the Constitution of Bulgaria also introduced a provision for local tax-financing for municipalities (which, however, has not yet been transposed into law).

[35] Chapter 21 is the chapter devoted on Regional and Cohesion Policies in the Accession Negotiations for the adoption of the EU acquis.

[36] This was complemented by initiatives by other international organisations and institutions. Among them, of catalytic role was a series of UN Reports (e.g., UNDP, 1999, 2000 and 2002; UNICEF, 2004) that helped measure and emphasise the size and character of the regional problems in the country and provided needed data that helped shape the development of policy priorities (Marinov and Malhassian, 2003).

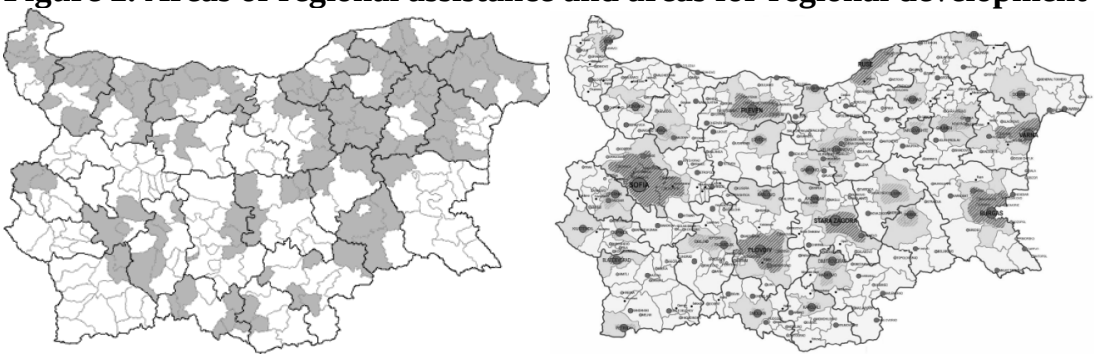
documents and processes (e.g., the Community Strategic Guidelines – see EC, 2005a; or the European Spatial Development Perspective – see EC, 1999b); (iii) identifies five thematic priority areas[37]; and above all (iv) introduces for a first time a National Spatial Urban Model, based on a polycentric development approach in line with EU's Spatial Development Plan. Although some problems with regards to administrative decentralisation (for NUTS-2 authorities) and financial management and control remain (EC, 2004 and 2005b), Bulgaria closed successfully its Chapter 21 negotiations with the EU and is today considered to have developed a functional and effective 'European' regional policy (EC, 2007). The influence of the EU in these developments is unambiguous. The architecture of the new OPRD reflects clearly the constraints stemming from the restructuring of EU's own cohesion policy, with the shift in its emphasis on thematic interventions (point *iii* above) that are made more explicitly consistent with the revised Lisbon Strategy (point *ii* above) and form part of a wider spatial strategy for Europe (points *i* and *iv* above).

With these developments, some further steps have been made also in the direction of establishing a firmer framework for national regional policy. A 2002 Decree (CM, 2002) has helped clarify the set of incentives under regional state aid (tax exemptions, grants and subsidised loans) while a set of successive regulations on regional incentives (included in the various Corporate Income Tax Acts) have simplified the designation of areas for assistance. Area designation for regional incentives is now based on a single criterion of unemployment above 50% of the national average, with assisted areas being

[37] These include: urban regeneration and development; local and regional connectivity; sustainable tourism development; encouraging regional and local development; and technical assistance (MRDPW, 2005).

eligible for tax exemptions of up to 100% and state grants of between 50% and 75% (for large and small enterprises, respectively).

Figure 2. Areas of regional assistance and areas for regional development



Legend: Map A: shaded areas are areas for regional assistance; Map B: agglomeration, central and peripheral areas shaded dark-grey, grey and light-grey, respectively.
Source: Map A: Bulgarian Investment Agency (http://www.iinbulgaria.com/incentives.htm); Map B: MRDPW (2005).

Despite these significant improvements, however, some of the main deficiencies identified in the first NRDP remain present today. On the one hand, the framework for regional development remains rather complex, with too many institutions sharing responsibility for design and implementation and too many documents setting up the policy objectives and priorities. Perhaps two are the most striking examples of this. First, as has been noted, two of the main policy documents effectively disagree on the fundamental principle of regional policy (defined as the 'elimination of regional discrepancies' by CM, 2005, but as the achievement of 'balanced and sustainable development' by NSRF, 2007). Second, area designation falls within the responsibility of two different ministries (Ministry of Finance for regional incentives; MRDPW for regional development) and naturally produces two rather distinct maps for regional interventions in the country – as is depicted in the two maps of Figure 2. To add to this complexity, under the 2007/13 Financial Perspective the whole territory of Bulgaria, including the Capital Sofia, is eligible for EU funds

and thus there is no element there of positive discrimination to favour the least developed (and, by implication, least absorptive) regions in the county. On the other hand, problems remain with the limited know-how and institutional capacity of the municipalities (NUTS-4) as well as with the weak administrative powers of the intermediate (NUTS-2) regional tier – this effectively maintains the mixed top-down / bottom-up approach to regional policy[38] introduced more than a decade ago that arguably constrains the establishment of partnerships and the development of integrated programmes within an inter-regional perspective. Finally, despite the significant increase in the level of EU support in the 2007/13 period,[39] the continuing adherence to the EU (fiscal) decentralisation 'model' (subsidiarity, co-financing), combined with the inherent problems of clientelism and corruption and the low absorptive capacity of the least developed areas, raises serious questions with regards to the ability of the most needy of them to benefit the most from the new domestic and European regional policy architectures, especially in a context where absorption of EU funds is expected to diminish.[40] These features can become to represent very real constraints on the effectiveness and the redistributive capacity of Bulgaria's emerging regional policy and thus ultimately on the narrowing of spatial disparities in the country.

[38] Minkova (2004) calls this a model of 'de-concentration than decentralisation' (p.22).

[39] Bulgaria's allocation of Cohesion and Structural Funds for the 2007/13 period are estimated to around 4% of its GDP per annum (Andronova-Vincelette and Vassileva, 2005). They are expected to generate by 2013 additional GDP, productivity and employment of 12%, 7% and 5%, respectively (EC, 2006).

[40] Evidence from the CEECs suggests that absorption of PHARE funds is significantly greater than for funds from the Cohesion and Structural Funds (Mrak and Rant, 2006; Marinov et al, 2006). Note also that less developed municipalities face a disproportionate burden in following developments in Brussels (e.g. due to sparsely populated relevant Offices – see footnote 22) and are of course helped less by fiscal decentralisation, as they have a limited tax base from which to raise funds for co-financing.

6. Concluding remarks

Emerging out of a phase of sub-optimal central planning, huge external debts, and strong dependence on the collapsing Soviet economy, Bulgaria faced quickly a range of regional problems and challenges that were diverse and multi-faceted: limited economic and functional connectivity between its regional economies, negligible diffusion/spillover dynamics, substantial intra-regional and very localised disparities and spatial heterogeneity, and combined problems of industrial decline, rural/mountainous underdevelopment, and brain-drain emigration. Initially, the interventions of the IMF and other international organisations placed emphasis on macro-economic stabilisation and market liberalisation, thus undermining the key priorities of (any) regional and cohesion policy. Despite some developments through 'institution building' (1991 Local Self-Government Act), owing to political (as well as ethnic and power) considerations an implicit decision was taken by the central administration to favour 'balanced growth' over 'regional convergence' and relative centralisation by weakening the regional tier. In this period, public investment was low and regionally identifiable expenditure was for all practical purposes non-existent (apart from the poorly financed municipal budgets), while the EU had assumed only a subordinate role through the allotting of its PHARE funds. Bulgaria's own internal limitations explain, at least partly, the significant delay, initially, in the design and implementation of regional policies. Elements of path-dependence that hinder further regional development still exist, mainly in the weak authority of the regional tier and the primacy of the objective of 'balanced growth' over regional convergence.

On the other hand, after a slow start, in the period following the financial crisis of 1997 the external factor has been catalytic in mobilising and initiating integrated regional development plans, policies and structures. With the more active involvement of the EU (through its conditionality and the accession negotiations under Chapter 21) and the UN (Human Development Reports) and the economic and political stabilisation, some more promising elements of a regional policy were put in place, leading to the first Regional Operational Programme in 2000. But financing was limited, the administrative and institutional structures were too complex, the policy objectives were often not well-linked, and priority was mainly given to border regions, rural areas and capacity-building, thus not necessarily matching the on-the-ground priorities and true regional economic needs. The role of the EU was catalytic in the development of regional policy in Bulgaria and in Europeanising its administrative-territorial system, although this has not always been in the direction that the nature of the regional problems of the country would dictate. Although the 'external pressure' of the EU, as a manager of Bulgaria's accession aspirations, gave an impetus for regional policy that was lacking internally (and further strengthened the cooperation networks and structures by necessitating the participation in the design of regional policy of various local and regional stakeholders and NGOs and the establishment of Regional Development Agencies), it did in fact have a number of adverse and perhaps long-lasting implications. These include the inconsistency between the domestic economic geography and the externally inspired NUTS-2 geography; the character of the administrative structures that, in the context of a developing transition economy, is conducive to antagonisms and competition; the limited absorptive capacity and developing culture of aid-dependency of the local

economies and administrations; and, above all, the complete dominance of the European orientation of regional policy. This orientation largely conditioned the development of an effective, complementary but independent (in line with the additionality principle), national regional economic policy.

This last observation should be emphasised further. It has been noted in the literature that, in the process of transition, post-communist countries were faced with a 'dual transition' challenge for regional policy (Brusis, 1999, p.19): firstly, a transformation from centralised administrative structures to a more participatory and decentralised framework for regional policy; and secondly, a process of modernisation, with a shift in the objectives of regional policy from traditional redistribution and equalibration to a more contemporary approach that focuses on strengthening local capacities for indigenous development. In the case of Bulgaria, where national regional policy was particularly thin even in the 1980s, the need for transformation and modernisation was perhaps even more important.[41] In this context, Bulgaria's adherence to the EU regional policy framework, which has clearly been designed to *complement* rather than to *replace* national regional policies (and as such it cannot totally fill a country's vacuum in national regional policy by itself), raises important questions about the effectiveness and suitability of current and future regional policy interventions in the country, as much as it does about the role of the EU in shaping regional policy in the new and prospective accession countries.

[41] It is of course debateable whether the relative void of national regional policy facilitates or hinders a speedier and less costly progress with regards to this 'dual transition'. In any case, this observation goes beyond the point made here, namely that the vacuum in national regional policy was filled with a not unproblematic adoption of a (European) framework that was designed to complement rather than to replace national regional policy.

There is a central question regarding this: has the EU, implicitly or explicitly, in Bulgaria and in other transition/accession countries, favoured a specific policy paradigm, that incidentally was less or more suitable for countries of different levels of development, different initial conditions and different transition speeds; or was it instead limited (and, in that sense, also limiting) to simply motivating policymakers to move swiftly towards developing some, any, type of regional policy, often with the implication that policies were less well-thought and/or well-designed? Drawing from the experience of Bulgaria, it seems that the answer is lying somewhere in the middle. The EU projected, with some delay and without particularly 'hard' conditionality (Hughes et al, 2001; Brusis, 2002), a specific policy paradigm of supra-national regional policy; in the absence of a strong tradition of national regional policy, and perhaps filtered through the specific internal constraints and limitations of the country (e.g., slow transition, low levels of development, low FDI, etc), Bulgaria adopted this paradigm rather literally, albeit with some mistakes initially and some positive policy learning more recently; but in the process of 'downloading' and 'learning', Bulgaria largely failed, at least until very recently, to find the appropriate geographical scale for its regional interventions and to develop an own national regional policy that would be compatible with, and add to, the EU leg of regional policy.

Nevertheless, Bulgaria enters its post-accession period with a regional policy framework that appears both reasonably well-designed and above all consistent with the EU acquis. Funding is increased and the inflow of much-needed resources should trigger the development of the main agglomeration / target areas and eventually the diffusion of growth to the periphery. But success of

regional and cohesion policies depends on absorptive capacity. With the transition from PHARE to CSF financing, the potential is there that efforts for regional development in the country may be further hindered, or at least partly compromised, in its post-accession future. As the role of the external factor has been dramatically transformed over the years, Bulgaria may have to look into its own domestic limitations and constraints to find the appropriate institutional and socio-political configurations that will facilitate the harmonious development of the national component of regional policy and the efficient operation of the chosen regional interventions, so as to effectively tackle the continuing problems of polarisation, backwardness and unconnectedness that characterise the Bulgarian sub-national economic space.

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