

The EU Cohesion Policy's Impact on Regional Economic Development: The Case of Bulgaria

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Abstract: *The EU cohesion policy has been a major driver of change in the Member States, leading to positive effects as growth in employment, economic development and modern infrastructure. Since its EU accession in 2007, Bulgaria has been benefiting from the Union's investment and structural funds at an increasing speed. Research shows that not only these funds contribute significantly to the Bulgarian economy, but they seem to be its major driver. Without them, the country would have recorded a zero growth in the EU's financial framework 2007-2013, and could be dumped in an economic and social crisis. This paper explores the informational sources that assess the influence of the EU cohesion policy and its effects on Bulgaria. The goal of the paper is to make objective conclusions about the impact of the EU cohesion policy on the Bulgarian economy and how it has affected the level of economic and social cohesion between the country's regions and the most advanced EU regions. For that purpose, the method of comparative analysis is applied, as well as a historical analysis..*

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Introduction

Overview of the EU's Cohesion Policy

The cohesion policy of the European Union aims to support the job creation, business competitiveness, economic growth, sustainable development, and overall quality of life in the European regions and cities. It is implemented through three main funds: the European Regional Development Fund, the Cohesion Fund and the European Social Fund. Together with the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund, they make up the European Structural and investment funds. These funds invest in different areas with the common objective to reduce the economic and social disparities among the EU Member States. The cohesion policy complements the other EU policies dealing with education, employment, energy, research and innovation, the environment, the single market and the like.

The budget of the Cohesion Policy for 2014-2020 is 351.8 billion euros - one third of the EU's total budget, which puts it on the second place after the Union's Common Agricultural Policy.

The EU's regions (on NUTS2 level¹) are classified as "less developed" (in which the GDP per capita is less than 75 percent of the EU average), "in transition" (in which the GDP per capita is 75-90 percent of the EU average) and "more developed" (in which the GDP per capita exceeds 90 percent of the EU average). The European Union can provide 50-85 percent of the total financing of a project, with the poorest regions getting the highest co-financing rates. The potential beneficiaries of the funds include public institutions, companies, universities and nongovernmental organizations.

For 2014-2020 the largest portion of the funds - 182 billion euros - will be used for the "less developed" regions, which represent 27% of the population in the EU. These include the bigger part of Poland, the Baltic States, the Czech Republic, Slovakia, Hungary, Romania, Croatia, Slovenia, Bulgaria, Portugal, as well as southern Italy and northern Greece. For many of these countries, the cohesion instruments are a key part of their economies (especially Poland, Romania, the Czech Republic, Slovakia and Hungary).

The EU's cohesion policy is very important because it is the investment framework needed to meet the goals of the Europe 2020.

Strategy for smart, sustainable and inclusive growth in the Union. It is the EU's major investment tool for creating growth and jobs, tackling climate change and energy dependence, and for reducing poverty and social exclusion.

This policy underpins the European solidarity, because the bigger part of its funding is concentrated on less developed countries and regions to help them catch up and its goal is to reduce the economic, social and territorial disparities in the Union. In addition to that, the EU's cohesion policy cushioned Member States from the worst effects of the economic and financial crisis. It also was of critical importance at a time of sustained fiscal consolidation and according to estimates, without it the much-needed public investment in the less developed Member States would have collapsed by an additional 45% during the crisis (European Commission, 2014a). The EU's cohesion policy is also considered as a catalyst for further public and private funding, because it obliges Member States to co-finance the projects with funds from their national budgets, and also provokes investors' confidence.

The EU's cohesion policy is also criticized. The main argument for its existence is that the funding it provides would eventually raise the different regions in the EU to the same level of economic development. But it seems like after decades of integration and billions of euros' worth of EU investment, a very modest level of economic cohesion in Europe is achieved.

The reasons for the limited positive impact of the EU's cohesion funds on the economic and social coherence of the Union are different. A major problem in numerous of the Member States is the high level of corruption, which prevent cohesion funds from being exploited exactly where they would be most useful. Besides that, Member States in many countries, particularly those in Southern and Eastern Europe, still experience difficulties in absorbing these funds. In some cases, the national and local authorities lack the know-how and institutional framework to successfully apply for these funds, while in others the countries lack the capacity to co-finance the projects supported by the European Union.

Some experts think that the EU's cohesion policy is too complex and lacks clear goals, and that the monitoring of the absorption of these funds has been controversial, because a full control of the use of the money is impossible (Stratfor, 2015). There are often cases of corruption, where state officials in Member States are bribed to award EU-financed contracts. In other cases, firms report inflated costs. There are also cases when infrastructure projects are undertaken just because money is available, and they are consequently abandoned for lack of use.

The future development of the EU's cohesion is unknown, as due to the expected Brexit, the estimated budget of the Union is going to be decreased significantly, and the discussions between the Member States are likely to lead to a decision towards cutting particularly the cohesion policy's budget. Taking other conditions as equal, the biggest challenge would be to ensure that its resources are used in the most efficient way, helping the Member States to emerge from the continuing crisis and the least developed countries to catch up faster with the others. With a budget of over €450 billion (including national co-financing) for 2014 - 2020, the European cohesion policy is expected to continue to be the main investment tool of the Union and to make the largest contribution for supporting the SMEs, R&D and innovation, education, low carbon economy, the environment, the fight against unemployment and social exclusion, the infrastructure and Europe 2020 Strategy's objectives for smart, sustainable and inclusive growth.

Several sources provide information on the European cohesion policy's effects and the extent to which it is successful in achieving these objectives. Firstly, there is quantitative information on the direct outcomes of the projects and measures monitored by the Managing Authorities responsible for the programs. These indicators are in the form either of the output produced (f.e. number of new businesses supported to start up) or the results which they brought to (f.e. the time/travel costs saved as a result of a new road opened). Secondly, there are evaluations of particular programs, which assess the effectiveness of the funding provided in achieving both the immediate objective of the measure and the wider aim of strengthening the development potential of the places concerned. Thirdly, there is an empirical evidence from the macroeconomic models that simulate how the economies function to estimate the effect of the Cohesion Policy, mainly in terms of main economic indicators, f.e. GDP, employment and trade. This they do by simulating the way the economy would have developed in the absence of the Cohesion Policy. There is also research (mainly econometric models) of independent organizations.

Key Effects of the EU Cohesion Policy in the Period 2007 - 2013

The European Commission has analyzed the effects of the EU cohesion policy for the programming period 2007 - 2013 and concluded that it has substantially contributed to the investments in growth and employment in the Member States, especially when they cut spending in order to balance their budgets in times of crisis.

The Commission's estimates show that without the EU Cohesion policy the investments in the most-affected by the economic crisis Member States would have

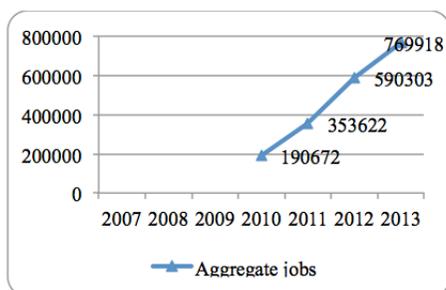
fallen by additional 50%, particularly in the Member States, which count significantly on the EU financing. In some of them the cohesion funding represents more than 60% of their public investment budget – Slovakia (over 90%), Hungary (less than 90%), Bulgaria (over 80%), followed by Lithuania, Estonia, Malta, Latvia, Poland and Portugal (European Commission, 2014b). Therefore in 2013, the Commission acted on the crisis by redirecting some of the cohesion funds - more than EUR 45 billion, to support measures against unemployment and social exclusion and in favor of research, business support, sustainable energy, social and education infrastructure.

The empiric evidence suggests that the Cohesion policy funds have had a significant positive impact on the economic and social development of the EU Member States and brought to numerous positive effects in the programming period 2007-2013.

In the first place, the cohesion policy of the EU has led to the creation of jobs and economic growth. The income has increased in the poorest EU regions with GDP per capita growing in these areas from 60.5 % in 2007 to 62.7 % of the EU average in 2010 (European Commission, 2016a).

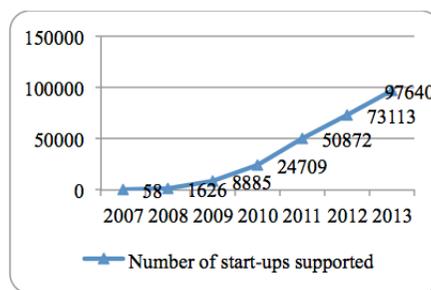
As a direct result of the cohesion policy, 769,900 new jobs were created in 2007-2013 (Figure 1), and 2.4 million participants in ESF actions supporting access to employment found a job within 6 months in 2007-2010 (European Commission, 2014b). In addition to that 225,560 small and medium-sized enterprises received direct investment aid and more than 274,000 jobs were created in SMEs. 97,640 start-ups were supported (Figure 2).

Figure 1: Number of EU Aggregate Jobs Created by the Cohesion policy



Source: European Commission, Regional Policy, http://ec.europa.eu/regional_policy/en/policy/what/key-achievements/

Figure 2: Number of Start-Ups Supported by the Cohesion policy

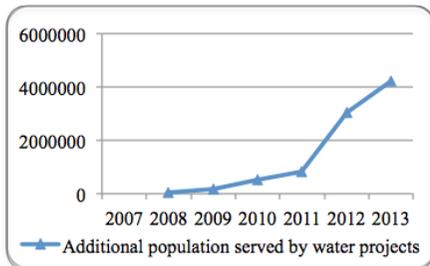


Source: European Commission, Regional Policy, <https://cohesiondata.ec.europa.eu/en/dataset/Core-Indicators-2007-2013-EU-Start-ups-supported-C/cik5-x94n>

Positive effects were also created by the 72,920 research projects that were supported, and the 35,125 new long-term research jobs that were created. 27,800 co-operation projects were financed, and 5 million more EU citizens were covered by broadband connectivity. Concerning the environment, 11,050 projects connected with the cities' sustainability were financed. Water supply systems were modernised, benefiting 4.2 million citizens (Figure 3).

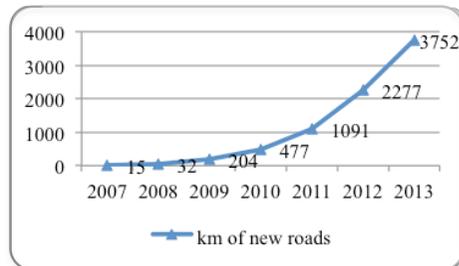
In terms of transport infrastructure, 3,752 km new roads were built (Figure 4) and 20,104 km were reconstructed. Also 335 km of railways were built and 3,128 km were reconstructed. In addition to that, more than 5.5 million citizens were served by waste water projects.

Figure 3: Number of People Served by Water Projects Financed by the Cohesion Policy



Source: European Commission, Regional Policy, <https://cohesiondata.ec.europa.eu/en/dataset/Core-Indicators-2007-2013-EU-Water-projects-Chart/vziv-5wz2>

Figure 4: Km of New Roads Built by the Cohesion Policy



Source: European Commission, Regional Policy, <https://cohesiondata.ec.europa.eu/en/dataset/Core-Indicators-2007-2013-EU-new-roads-Chart/kb97-pmsd>

Monfort, Piculescu, Rillaers, Stryczynski, and Varga (2017), cited by the latest European Commission's paper assessing the EU cohesion and rural development policies during the period 2007 - 2013 and their impact on the European economyⁱⁱ, provide further evidence that the cohesion and structural funds brought significant gains and contributed to the achievement of a more balanced structure of the Member States' economies. The effects have resulted in increased GDP, which was on average 4.1% higher in the countries that joined the EU after 2004. The highest impact was found in Hungary (+ 5.3%), Latvia (+ 5.1%) and Poland (+4.3%)ⁱⁱⁱ. Other positive effects in the long-term are associated with a significant positive impact on the factors' productivity, as a result of the direct investments in technology but also because of the improved business conditions encouraging investment in tangible and intangible assets.

Economic and Social Cohesion of the Bulgarian Regions

Even though the EU's cohesion policy is contributing to the growth goals of the Europe 2020 Strategy by creating jobs and reducing disparities across Europe, it is far from reaching its goals and the case of Bulgaria is an example that illustrates this policy's low efficiency.

Even though the legislative framework of Bulgaria's regional policy is harmonized with the Europe's ten years after the country became an EU member, it hasn't shown a big progress in reaching even the EU average levels. The comparison covers both – the economic development in terms of GDP and the social development measured by the Social Progress Index (SPI).

The comparison of the Bulgaria's six NUTS 2 regions to the EU28 average in terms of generated GDP as purchasing power per inhabitant shows that the poorest region in Bulgaria (and in the whole EU), Severozapaden region (Northwest region), is under one third of the EU average, and almost 7 times less than the richest one – the region of Hamburg, Germany (Table 1).

Table 1: GDP by Selected NUTS 2 Regions in the EU in 2014

Country	Code	Gross domestic product at current market prices (Purchasing Power Standard per inhabitant, Euro)	Gross domestic product at current market prices (Purchasing Power Standards per inhabitant in percentage of the EU average)
Severozapaden	BG31	8,200	30
Yuzhen tsentralen	BG42	8,700	32
Severen tsentralen	BG32	9,300	34
Severoiztochen	BG33	10,800	39
Yugoiztochen	BG34	10,800	39
Yugozapaden	BG41	20,600	75
European Union (28 countries)	EU28	27,500	100
Wien	AT13	43,500	158
Noord-Holland	NL32	44,300	161
Praha	CZ01	47,500	173
Île de France	FR10	49,000	178
Hamburg	DE60	56,600	206

Source: Eurostat, 2016

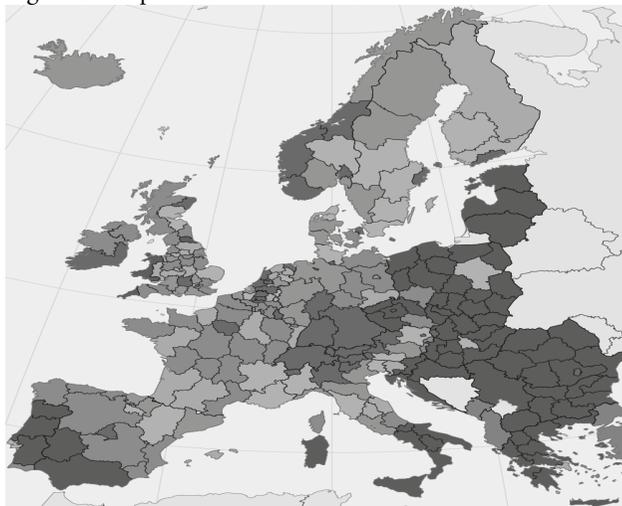
At the same time, the draft version of the regional Social Progress Index^{iv} shows significant variations within and between EU Member States in terms of access to

health care, quality and affordability of housing, personal safety, access to higher education, environmental pollution, etc.

The SPI is an aggregate index of 50 social and environmental indicators that capture three dimensions of social progress: Basic Human Needs, Foundations of Wellbeing, and Opportunity. The index framework is identical to the one of the global SPI. It includes all 272 European regions and scores absolute performance on a 0-100 scale for each of the indicators included to measure the twelve social and environmental (not economic) indicators^v.

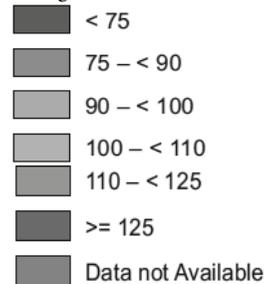
The Southeasteuropean states, among which the Bulgarian ones are, are among the most undeveloped in social terms (Figure 5).

Figure 5: Map of the SPI in the EU in 2016



Gross domestic product (GDP) per inhabitant, in purchasing power standard (PPS)

Gross domestic product (GDP) per inhabitant, in purchasing power standard (PPS), by NUTS level 2 region, 2013 (% of the EU-28 average, EU-28 = 100) (!)



Source: European Commission, 2016b.

The SPI is the lowest in Bulgaria and Romania. The Bulgarian Southeast region has the lowest SPI value (38,7), less than half of the highest value of 81,3 in Övre Norrland, Sweden (Table 2).

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Table 2: Social Progress Index in selected EU regions (NUTS2) in 2016

Region's ID	Region's name	Basic	Foundation	Opportunity	EU SPI
BG34	Yugoiztochen	42.5	45.8	28.8	38.7
BG31	Severozapaden	44.7	47.0	28.0	39.4
RO31	Sud - Muntenia	43.9	43.3	35.8	40.9
RO22	Sud-Est	43.3	45.5	37.2	41.9
RO21	Nord-Est	43.4	42.3	41.8	42.5
BG42	Yuzhen tsentralen	47.9	49.7	32.7	43.1
BG33	Severoiztochen	46.3	46.7	40.4	44.4
BG32	Severen tsentralen	47.3	49.3	38.7	45.0
RO41	Sud-Vest Oltenia	47.9	45.9	42.2	45.3
RO11	Nord-Vest	49.1	47.9	45.6	47.5
RO12	Centru	51.2	50.1	44.0	48.4
ITF3	Campania	62.0	48.1	37.3	48.6
RO42	Vest	51.9	49.4	45.5	48.9
ITG1	Sicilia	62.0	49.6	37.1	49.1
BG41	Yugozapaden	52.7	54.8	41.3	49.4
.....					
FI20	Åland	88.6	72.8	79.8	80.3
DK04	Midtjylland	87.6	73.2	80.3	80.3
FI1B	Helsinki-Uusimaa	84.6	74.0	82.6	80.4
DK01	Hovedstaden	86.6	71.9	84.6	80.9
SE33	Övre Norrland	89.4	73.9	81.0	81.3

Source: European Commission, 2016b

It is also evident that all six Bulgarian regions are among the 15 least developed regions in the EU in terms of social progress. This is an indisputable empirical proof that the EU's cohesion policy goals are far from achieved. On the other hand, its role as a major factor for regional development should not be exaggerated. The initial low level of economic and social progress and still ongoing transition to modern economy in Bulgaria is another reason why the positive progress of the country towards EU average levels remains almost invisible.

Estimated Effects of EU's Cohesion Policy in Bulgaria

There are several different sources providing information about the effects of the European cohesion policy on Bulgaria. Even though the analyses made by different official institutions and organizations show overall dominating positive impact of the EU funds on the Bulgarian economy, it cannot be claimed with certainty that the EU's cohesion policy has achieved its main goal aim in Bulgaria – to support the country in overcoming the enormous economic and social underdevelopment that differentiates the Bulgarian regions from the other European regions.

The allocation from the Cohesion Policy funding for Bulgaria in the 2007 - 2013 period was €6.9 billion. According to the European Commission, it has helped the country to: create more than 1,300 jobs; serve over 280,000 more people by waste water projects; enable more than 137,000 persons to acquire or upgrade their vocational qualification and over 178,000 persons to acquire key competencies; implement many transport infrastructure projects (incl. Sofia metro extension, Sofia Airport); improve urban transport for 1,289,744 citizens, mainly in the 6 biggest cities (Sofia, Plovdiv, Varna, Burgas, Pleven, Stara Zagora); improve educational infrastructure for over 30,000 students; enable more than 398,000 m² of renovated parks, pedestrian areas, bicycle lanes, playgrounds; provide scholarships to 172,000 students; provide social services in a family environment for more than 51,000 persons; modernise 20 cultural facilities; invest in energy saving measures in public buildings and schools (European Commission, 2015).

A trustworthy model to estimate the effects of EU's cohesion policy in Bulgaria is the macroeconomic model SIBILA - a SIMulation model of the Bulgaria's Investment in Long-term Advance^{vi} ("long-term" because it evaluates the effects of the investment in human capital, ICT, R&D, infrastructure and physical capital, which are factors for long-term economic growth). It is based on the EU approaches to modeling of the impact of structural instruments, as well as on modern macroeconomic theory and it is adapted to the Bulgarian specifics. It consists of 170 equations, including econometric estimates, macroeconomic identities and calibrated dependencies (based on historical links and applying existing knowledge (ECORYS – CPM – NEW i", 2011).

The main objective of the model is to assess the net effects of the Structural and Cohesion Funds (SCF) on the Bulgarian economy (key macroeconomic indicators), as well as to support the decision-making process concerning the allocation of funds in the next programming period. It examines the economic development in two scenarios: baseline scenario in which there is no SCF, and an alternative scenario that

considers the SCF funding. The difference between the results of these two scenarios in terms of economic indicators' performance measures the net impact of SCF.

In 2017, the Ministry of Finance of Bulgaria presented a report with detailed calculations of the SIBILA model, encompassing the period of Bulgarian membership in the EU from 1 January 2007 till the end of 2016. It showed that the overall effect of the EU investments on the added value of the Bulgarian economy is highly positive:

- A cumulative increase of 11.5% of GDP by the end of 2016 in comparison to the baseline scenario with no EU funds (mainly through the positive effects of government spending on the production, and hence on the induced changes in private consumption and investments);
- A cumulative increase in the volume of private investment by 22.3% by the end of 2016 compared to a scenario without EU funds (a large part of the measures under the operational programs are intended for investment; they also lead to additional investments by the business);
- Reducing unemployment and boosting employment (as a result of the absorption of the EU funds by the end of 2016 the unemployment rate in the country was 6.5 percentage points lower than it would have been without the inflow of these funds.) At the same time, the number of employees in the economy increased by 15.2% towards the end of 2016 compared to the scenario in the absence of EU funds (almost 390 thousand employed people more);
- Higher wage levels in the country - by the end of 2016 the cumulative increase in average wages compared to the scenario without EU funds was expected to reach 14.9%;
- Increased export potential of the Bulgarian enterprises (By the end of 2016, Bulgaria's exports would be by 1.7% higher compared to the scenario without EU funds. The growth of the export potential is a long-term effect and is related to the improvement of the quantity and quality of the production factors, which in turn leads to an increase of the economic growth of the country);
- A positive impact on the state of public finances (increased tax revenues outweigh the spending related to the absorption of EU funds, such as providing co-financing for some of the projects). By the end of 2016, the cumulative positive effect on the budget balance was 2.1 percentage points of GDP. The positive impact is expected to be sustained in the longer term as the increased production potential, higher employment and higher income imply higher values of the tax base, and hence higher tax revenues).

The positive impact of the EU funds on the the country's economic development has been highlighted by eminent NGOs working in the economic field in Bulgaria. They stress on the fact that in the period between the start of the EU's membership talks in 1999 and the country's accession to the EU in 2007, the GDP per capita in terms of purchasing power has increased from 27% to 40.8% of the EU average, and in 2016 it reached 48.1%. The EU's cohesion policy has also helped to minimize the weight of the global crisis and has kept the unemployment rate in Bulgaria low, while labor productivity continued to increase. Positive effects are also identified in terms of improvements in various aspects of the business and civil infrastructure in the country constructed with the support of EU funding. In general, for the 10-year period of membership, the average annual net transfer from the EU to Bulgaria is about 4% of the country's GDP and this influx of funds is assessed to be of great macroeconomic importance given the unfavorable conditions of the global environment (Center for Liberal Strategies, 2017).

However, the effects from the EU Cohesion policy on the Bulgarian economy and budget are also criticized by economists, arguing that the European funds in the country are widely considered as a gift or free money, which is not the case (Ganev, 2016). The data from recent years show that the European projects swallow an increasing share of the national resource and actually worsen the fiscal position of the country. The costs of the European programs in the country have been increasing steadily - in 2008 they were less than 1 billion BGN, in 2010 - 2 billion BGN, in 2014 they reached 4.5 billion BGN and in 2015 they boomed to 6.3 billion BGN. These costs are not funded only by the EU, as annually the state makes transfers from the national budget to the European programs. This is in practice the participation of the taxpayers in the European funding.

In 2011 and 2015 the national transfers to the EU funds increased markedly and reached about 40% of the costs of the European programs. From almost 6.3bn BGN spent on EU programs in 2015, 2.5 billion BGN were paid by the Bulgarian taxpayer. And the share of national financing in the EU aid has been increasing at a high speed. This is a real cost, and when, in some cases, useless projects are implemented, or projects' costs are inflated only to increase the absorption rate, this inevitably leads to a wastage of national resources (Ganev, 2016).

Other deficiencies stemming from the EU funds' absorption process also led to the lower efficiency of the EU's cohesion policy in Bulgaria. The absorption of financial resources of the SCF in Bulgaria in the first for the country programming period 2007-2013 was accompanied by numerous problems. The absorption rate of Bulgaria in comparison to the other Member States was low and a major reason for

that was the lack of administrative capacity and experience in the procedures of the operational programs' project management. Even though the pre-accession programs included education and training of the employees in national administration, the administrative capacity was not satisfactory. One of the causes for the initial strong inefficiency of the Bulgarian administration, responsible for the EU funds absorption, is associated with its structure that is ineffectively organized into numerous operational programmes, which leads to the management of the same types of programmes in a different way and with varying effectiveness. The result is that many functions are duplicated and there is an increase in the budget costs (Nozharov, 2016).

Another important factor was the comparatively small competence of the staff in the Bulgarian body managing the EU funds' absorption. At least one third of the staff in the public administration responsible for this activity is appointed without a competition, and a big part of them is not highly-qualified, which leads to additional government costs for employees' re-qualification and support of their work through outsourcing. In addition to that, there are considerable variations in the wages of staff responsible for the management of EU funds and the other staff with the same qualifications and fulfilling the same tasks (the former receiving five times more than the latter), which leads to a lack of motivation and ineffectiveness of the financial processes at the public administration (Nozharov, 2014).

The unpreparedness of the Bulgarian state administration in the EU funds' absorption process is acknowledged in the latest report of the Bulgarian Academy of Sciences (BAS), which blames the Bulgarian institutions for the lower-than-expected results achieved by the country's membership in the EU. The public administration was not ready and was unable to learn for a long time to apply the modern management style of the European Commission. It turned to be inadequately trained professionally, insufficiently expeditious and unable to defend its independence from other state institutions and corporate interests, a part of which was due to the low remuneration of its employees that made them susceptible to corruption (Economic Research Institute of the Bulgarian Academy of Sciences, 2017). BAS has also criticized the European institutions for their policies and requirements to the Bulgarian authorities that have not always been tailored to the specific characteristics and traditions of the country, as well as to its citizens' preferences. Namely the Institute has criticized the international institutions and European Commission for the full opening the single European market to Bulgaria, which at that moment has been an unsustainable and low-competitive economy. The result of that is a total decline in a number of economic sectors, including a collapse of production, exports, employment, income, consumption, as well as other

negative trends as emigration, social polarization, decline in budget revenues and others. However, this part of the analysis has not been supported by any econometric model or other mathematical or statistical tool that correlate the above-mentioned negative trends in the Bulgarian economy after 2007 with the country's EU membership, which makes the report's conclusions unreliable. After all, even the author of this part confesses that it is difficult to define exactly which of the Bulgarian economy's weaknesses are a result of the EU membership or represent the deteriorating consequences from the country's unsuccessful transition to market economy after 1989^{vii}.

Kaneva (2015) identifies four different groups of problems that hinder the EU funds' absorption process on the Bulgarian side – problems of the beneficiaries, a human capital problem, organizational problems, and specific for the respective Operational program problems. Her analysis proves that there are unsolved issues for both - the beneficiaries and the state administration. Many of the problems discussed are not reserved to Bulgaria only and could be addressed successfully by researching and applying other Member States' best practices.

Another serious problem was that the absorption process in Bulgaria was implemented in contrary to the main principle of the European cohesion policy, because instead of supporting the country's underdeveloped regions, it concentrated on the richest Bulgarian region. During 2007-2013, the EU allocated more than 81.56% of the its budget to the less favored regions, while in Bulgaria 40% of the available resources were invested in the most developed one – the Southwest region (incl. the capital Sofia), and only 7.5% in the least developed (Galabinova, 2015).

The Bulgarian Operational Programs in the 2014 - 2020 period follow the same logic – the country did not choose to create regional Operational Programs, which could support the underdeveloped regions, but seven national programs^{viii}. There is a risk that the investment funds continue to be concentrated primarily in the Southwest region, which, instead of convergence of the level of development of the six NUTS 2 regions, will lead to even bigger regional disparities. The city of Sofia could be differentiated as a separate planning region, while the remaining of the current Southwest region could merge with the South-Central region. In order for greater socio-economic effect to be achieved, an analytical unit to assess the socio-economic impact in terms of defined goals, not in terms of the funds utilized and activities implemented, could be established (Hadjinikolov, 2015).

Besides that, some sectors of the Bulgarian economy still have not been restructured and even when the absorption of the EU funding followed the common policies, it

was not efficient. The SMEs' low awareness of the operational programs in the country was also a hinder and made it necessary to promote further the European funds' opportunities (Nikolova, 2014).

Conclusion

Econometric research has showed that the EU Cohesion Policy funding has been an important driver for the reforms and economic development of Bulgaria since its accession to the EU. It will continue to play this role, and for the programming period 2014 - 2020 Bulgaria has been allocated around €7.6 billion in Cohesion policy funding. The investment priorities have been set out in a Partnership Agreement with the European Commission and include the raising of the competitiveness of the economy, research and innovation, transport infrastructure, urban development, improved water and waste management, employment, raising the share of persons with higher education, strengthening the capacity of public administration and the judiciary and promoting good governance (European Commission, 2015).

However, in general the EU Cohesion policy has failed to achieve or still has not achieved its main goal: creating a more homogeneous Europe in economic and social terms. A proof of that are the vast economic gaps between Southern and Northern, and between Eastern and Western Europe. The record high unemployment levels, especially among the youth, the vast emigration from Eastern to Western Europe and the rise of political parties that criticize the European Union and propose to reverse the process of European integration, is another symptom of the lack of cohesion (Stratfor, 2015). However, analyses show that this unsuccessful story is tightly connected with the poorest Member States' initial economic situation, which is the case with Bulgaria, and their inability to make most of these development funds on a later stage.

The result of the analysis shows that the scientifically-proved (through econometric model) positive effects of the EU cohesion policy on the Bulgarian economy prevail over the negative, which remain quite hypothethic. The EU cohesion funds are a very important source of financing for the Bulgarian economy, the possibilities of which should be used to the fullest to support the economic growth and employment in the country. For their absorption rate and efficiency to be enhanced, however, further steps are necessary towards state administration's strengthening, project management's improvement, fight against corruption and others.

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ⁱ See Nomenclature of territorial units for statistics (NUTS).

ⁱⁱ Based on a set of simulations conducted with QUEST, a dynamic stochastic general equilibrium model with endogenous growth and human capital accumulation.

ⁱⁱⁱ In the EU-15, the impact is more modest but it remains substantial for some Member States like Greece (+2.2%), Portugal (+1.8%) and Spain (+0.7%) which benefited from support of the Cohesion Fund.

^{iv} The index is the result of cooperation among the Directorate-General for Regional and Urban Policy of the European Commission, the Social Progress Imperative and Orkestra-Basque Institute of Competitiveness. It follows the overall framework of the global Social Progress Index, customised for the EU using indicators primarily drawn from Eurostat data. It isn't created for the purpose of funding allocation and doesn't bind the European Commission.

^v There are three dimensions of the SPI: 1) Basic Human needs incl: nutrition and basic medical care; water and sanitation; shelter; personal safety; 2) Foundations of Wellbeing, incl: access to basic knowledge; access to Information and Communications; Health and Wellness; Ecosystem Sustainability; 3) Opportunity, incl: Personal rights; Personal Freedom and Choice; Tolerance and Inclusion; Access to Advanced Education.

^{vi} The development of the econometric model for impact assessment of the Structural and Cohesion Funds of the EU called SIBILA is implemented under project № 0018-ЦИО-3.2 „Development of a model for impact assessment of SCF”, financed by Operational Programme Technical Assistance.

^{vii} The authors of the Bulgarian Academy of Sciences' report have also reached the conclusion that “Bulgaria's membership in the EU has no other alternative”.

^{viii} “Good Governance”, “Transport and Transport Infrastructure”, “Regions in Growth”, “Human Resources Development”, “Innovation and Competitiveness”, “Environment”, “Science and Education for Intelligent Growth”.