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Multiannual Financial Framework (2014-2020) of the European Union: Analysis and Potential Effects on Bulgaria

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Vasil Nikolov
Nikolay Valkanov
Desislava Nikolova

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Contents

Abbreviations

CAP – Common Agricultural Policy
CP – Cohesion Policy
CF – Cohesion Fund
CEF – Connecting Europe Facility
DCI – Development Cooperation Instrument
EC – European Commission
ENI – European Neighborhood Instrument
EP – European Parliament
ERTMS – European Rail Traffic Management System
ETS – Emissions Trading System
EU – European Union
FTT – Financial Transaction Tax
GDP –Gross Domestic Product
GNP – Gross National Product
IATA – International Air Transport Association
ITS – Intelligent Transport System
MFF – Multiannual Financial Framework
NSI – National Statistical Institute
RIS – River Information System
SCF – Structural and Cohesion Funds
VAT – Value Added Tax

Summary

The analysis discusses the changes that the EU is planning to implement in the upcoming MFF, explores the reasons behind them and makes conclusions about their effect on the Bulgarian economy. The main points of interest include the basic structure of the MFF, the proposed reforms of the Common Agricultural Policy, the heading for Smart and Inclusive Growth and the way the budget is financed.

Although containing reasonable proposals, aimed at addressing current deficiencies in the European economies, the new MFF also poses a multitude of dangers, with its bloated expenditures and the EC's desire for greater independence and centralization. The analysis concludes that the Bulgarian government should defend its positions on certain issues more ardently, while making a complete revision of its standing on other points.

In view of the raging European financial and debt crisis, the EU's commitments to reducing the weight the EU budget poses on the national ones have not been attained to a sufficient level. Although decreasing as a percentage of GNP, in real terms, expenses increase, as currently existing opportunities for optimization have been missed or intentionally overlooked, especially in the administration sector and the Common Agricultural Policy. This, in turn, leads to forgone benefits, market distortions and unnecessary pressure on member states.

The review of the newly proposed financing methods of the MFF demonstrates that the EC's push for greater independence, in its current form, poses a danger on the EU and on Bulgaria in particular. Whereas the idea for simplification of the existing VAT resource can be seen as a step forward, albeit a small one, all other suggestions, including a new form of the VAT resource and its counterpart – synchronization of the tax base, as well as the introduction of a tax on financial transactions, can have negative effects on the Bulgarian economy. Furthermore, light is shed on Bulgaria's losses due to the British rebate and the possible ways of eliminating its causes and, eventually, completely removing it.

When discussing the CAP, the analysis focuses on the propositions, concerned with reforming the structure of the direct payments system, the introduction of a ceiling for subsidies and the lack of complete equalization of the direct payments between the different member states. The inference made is that the suggested reform of the CAP is not in the best interest of Bulgaria and will only aggravate the negative effects of the subsidies on the country's agricultural sector. The paper recommends that the Bulgarian government insist on the complete removal of direct payments or, at the very least, on their synchronization for all states at a new level, lower than the current one.

The commentary on the heading for Smart and Inclusive Growth concentrates on the planned creation of a Connecting Europe Facility (CEF) and the redistribution of funds, which will put a bigger emphasis on education and competitiveness, at the expense of regional convergence. The conclusion is that these changes would effectively promote the goals, set up in the Europe 2020 strategy, but doubt is cast on their necessity and relevance in the current economic context. Another point, which is stressed, is that

the projections of Bulgaria's Finance Ministry might prove to be overly optimistic and that the country's interests are all too likely to be harmed by the establishment of the CEF, the creation of a separate "transition regions" category and the introduction of capping rates for cohesion allocation.

Introduction

The Multiannual Financial Framework of the European Union represents the combined sum of all budgets of European institutions and programs for a predetermined amount of time. It is prepared by the European Commission (EC) on the basis of political commitments, made by the member states, and the projections of the organizations under the control of the EU, after which it is approved by the European Parliament and the Council of Ministers. The current budgetary period began at 2007 and will last until 2013, when it will be replaced by the currently discussed financial framework that will span 7 years (2014-2020).Although the final version of the European budget is expected in 2013, the proposals of the EC and the preliminary reports of experts envisage great changes in comparison to the current framework. To a great extent these changes are dictated by the strategy, adopted for development of the union – Europe 2020, and the ongoing financial and debt crisis, which seriously affected some member states. Taking these factors into consideration the priorities of the EC are not only aimed at increasing the competitiveness of the EU, encouraging innovations, improving the qualification of the workforce, but also at optimizing the structures and decreasing the expenditures of the union, with the purpose of minimizing the financial burden of the troubled governments.[1]

Other key factors, which have had a considerable impact on the outlook of the proposed MFF, are the recommendations, taken from the researches of the EC, EP and independent experts. The most important amongst them are connected with the need for a stronger link between the distribution of resources and the accomplishments of concrete results, a higher degree of control of the allocation and expenditure of funds, simplification and standardization of application procedures and a wider involvement of private investors.[2] In addition to these, a bigger focus is put on the particular necessities of the individual member states and regions and on the achievement of better integration and equality within the union.

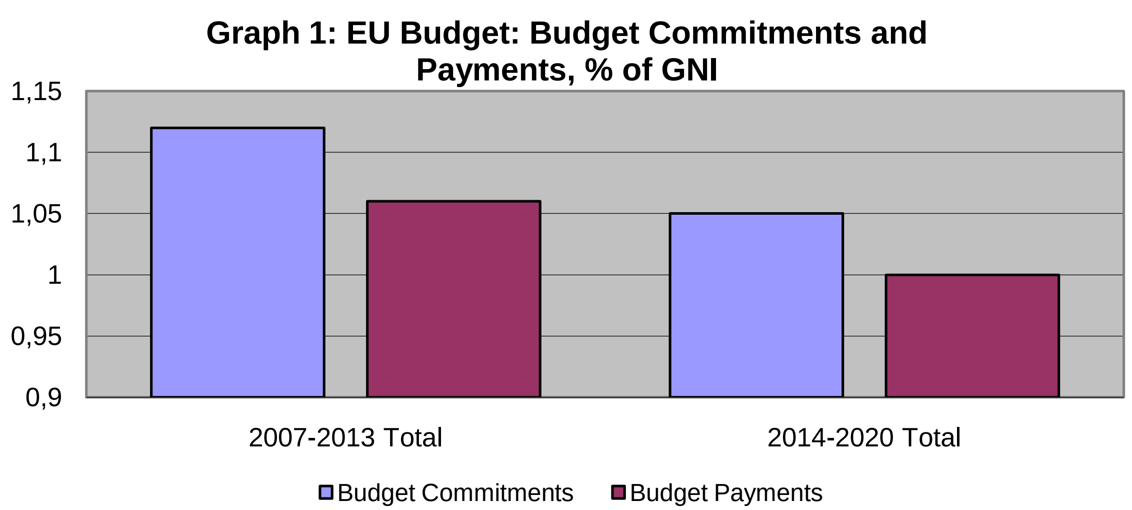
To accomplish these goals, the EC envisages a substantial decrease in the size of the budget as a percentage of the EU Gross National Product, the redistribution of resources towards areas, which have acquired a priority status, and amendments to existing practices. To modernize the MFF, the EC plans to reform mainly the:

1) The way the budget is financed
2) The heading for Smart and Inclusive Growth
3) The Common Agricultural Policy

[1] European Commission, "COM(2011) 500 final", Brussels, 29.06.2011
[2] Directorate-General for Internal Policies, "Overview of financial instruments used in the EU multiannual financial framework period 2007-2013 and the Commission's proposals for 2014-2020", 15.03.2012

Overview of the Main Parameters

Before reaching the more detailed analysis of the individual headings of the budget, a general overview of all new MFF parameters and their respective changes from 2007 to 2020 is required. In the current period (2007-2013) the budget amounts to 975.7 billion euro.[3] No less imposing is the projected sum for the next financial framework – 1,025 billion euro[4]. As can be seen from Graph 1, however, the total amount of the planned commitments and payments for the 2013-2020 period as a percentage of EU GNP is respectively 7 and 6 base points lower in comparison with the current period. This alteration is in response to the financial difficulties that some of the member states have been experiencing and is designed to reduce the pressure the EU budget puts on their domestic ones. At the same time, the rise of the budget in monetary terms cannot be contributed to inflation, as the amounts are calculated in 2011 prices, effectively eliminating this possibility, and therefore should be viewed as a real increase. In effect, although the size of the financial framework is decreasing as a percentage of GNI, the proceedings and respectively expenditures of the EU are rising, due to the expected expansion of the GNP base.



Source: EC

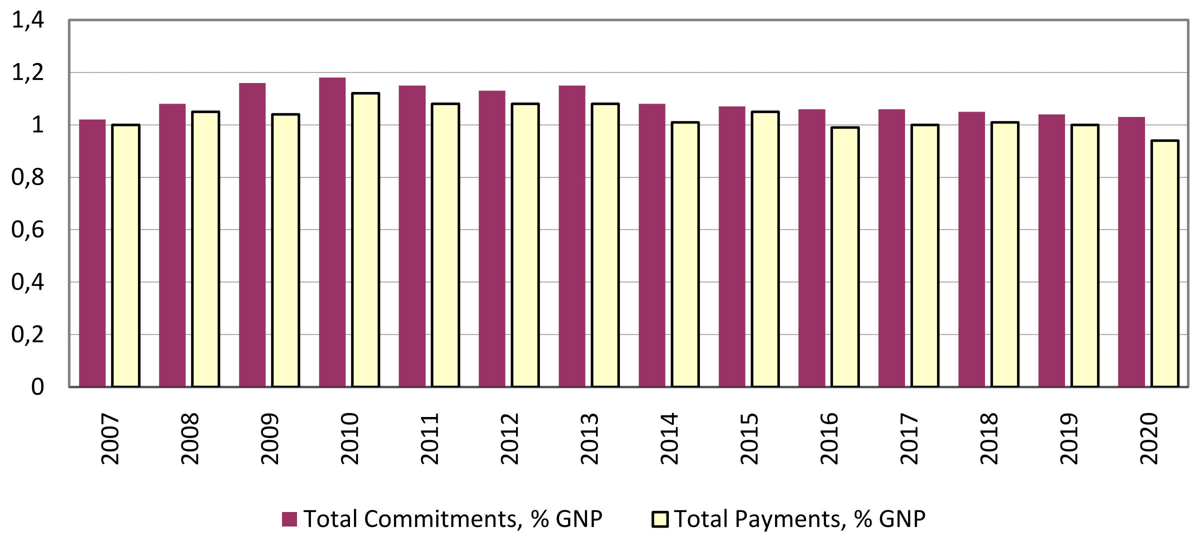
To begin with the commentary on the major parameters, some clarification is in order: substantial differences exist between 'budgetary commitments" and "budgetary payments". Commitments represent the total value of all contracts, which the EU can conclude in a given period. Payments stand for the resources, which the EU has to cover the costs of past treaties. To use the example of the

[3] EC data, current prices
[4] European Commission, "COM(2011) 500 final", Brussels, 29.06.2011

Commission: ”Commitments are tomorrow's payments, and payments are yesterday's commitments (…) In other words, if every year the increase in the commitments is much higher than that in payments you end up promising many partners to pay their future bills but find yourself unable to pay those bills when they arrive years later ”[5]. Knowing this we can now focus on the concrete figures.

After a closer look at the proposed funds (Graph 2), it is evident that the biggest changes occur in the first and last years of the new MFF – 2014 and 2020. The considerable drop in payments between 2013 and 2014 can be attributed to the accumulation of projects, whose deadline, and respectively – final payment date – coincides with the end of the current budgetary period. In the years between these two endpoints the payments figures fluctuate, recovering in 2015 from the initial decrease.

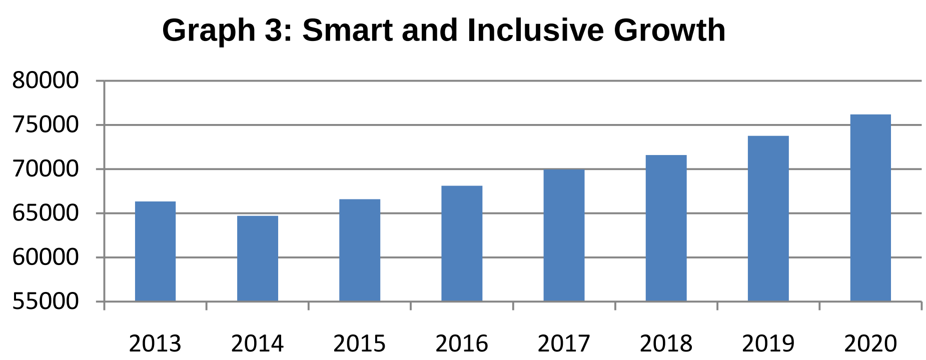
Graph 2: Budget Commitments and Payments, % GNP



Source: EC

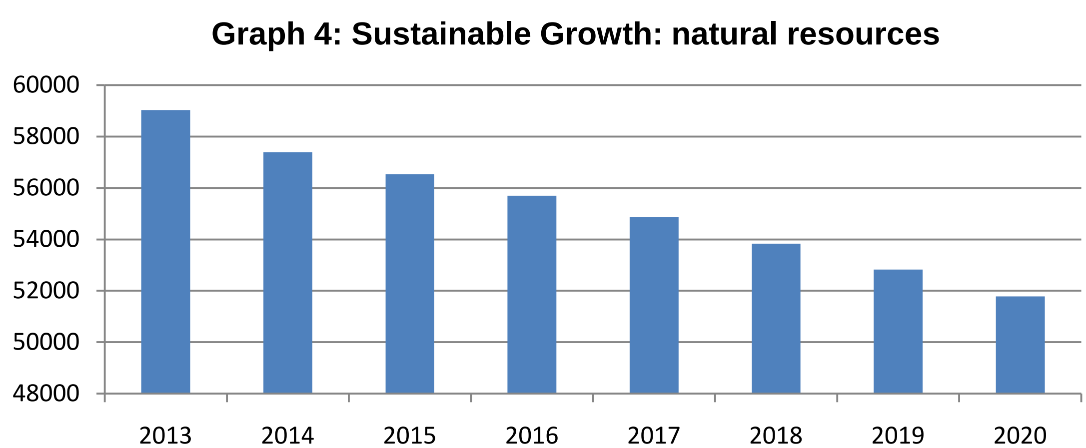
Studying the structure of the MFF, the most substantial component turns out to be the Heading for Smart and Inclusive Growth (Graph 3). With its 490.9 billion euro for the 2014-2020 period, it has the highest share of the budget (49%) and experiences the biggest annual increase. From 2013 to 2020 funds jump from 66.3 bln euro per year to 76.1 bln, amounting to a 15% rise. The initial reduction in funds in 2014 compared to 2013 is worth noting, as is the subsequent recovery that the department makes. This tendency is repeated across most headings.

[5] Europa.eu, “MEMO/12/278”, 25.04.2012



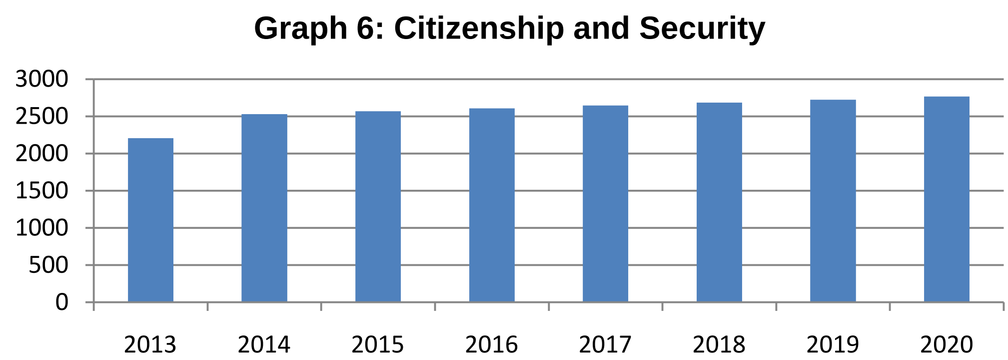
Source: EC

The only lasting decrease of resources occurs in the second budgetary heading - Sustainable Growth: Natural Resources, part of which is the Common Agricultural Policy (Graph 4). Funds here are cut by €7.3 billion for 2020, as opposed to 2013. This trend is the extension of processes within the EU, aimed at the gradual restriction of the considerable interference of the CAP in the free European market, which date back to the last century. Even though the €7.3 billion drop might seem impressive, it is hardly noticeable when looked at as a percentage of GNI – a mere 0.5%. The heading continuous to make up a substantial part of the MFF, having at its disposal €382,927 billion or 37.3% of the 2013-2020 budget.



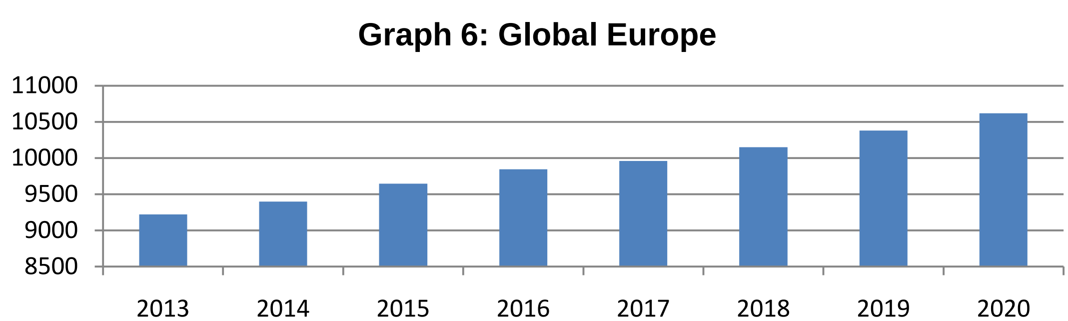
Source: EC

The heading of Security and Citizenship, which includes the Migration Management Fund, Internal security and Consumer Protection, also experiences a positive change – an increase of €550mln. for 2020, compared to 2013 (22% rise), and will now comprise 1.8% (€18.5bln.) of the budget for the entire period (Graph 5). The biggest share of its funds (€4.1bln.) will be spent for Internal Security, which, interestingly, suffers a dramatic drop of resources in 2014 and then slowly rebounds and even slightly overtakes its prior levels. Another fact worth noting is the abrupt introduction of a Food Safety section in the heading, which will control €330mln. in 2014 and a total of 2.1bln. for the whole period. A big increase in funds is also present in the Creative Europe program, whose task is to support the cultural and creative sectors in the union – from €181mln. in 2013 to 273mln in 2020.



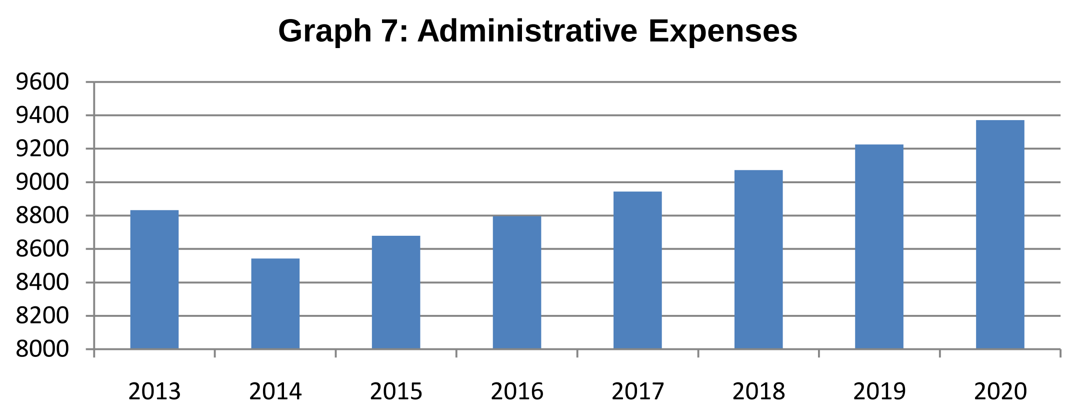
Source: EC

Heading 4, Global Europe, which finances the foreign policies of the union, is the next in line to see its resources expanded – from €9.22bln. in 2012 to €10.62bln. in 2020 (Graph 6). It includes the Instruments for Pre-Accession, humanitarian aid, the Development Cooperation Instrument (DCI) and the European Neighborhood Instrument (ENI). During the 7 years of the new MFF the heading will receive a total of €70bln., the biggest beneficiaries being the DCI and ENI with respectively €20.6bln and €16bln. The DCI is also the component, whose funds rise the most – almost €800mln. for 2020 compared with 2013.



Source: EC

Despite the promises for optimization of the administration and the planned cuts of personnel, such actions are not evident in the report of the EC on future administrative expenses (Graph 7). On the contrary, administrative expenses will be some €600mln. higher in 2020 than they were in 2013, even after taking into account the announced 5% decrease of EC staff. The only component in this heading which actually decreases is the Margin, the de facto buffer- 50% drop for 2020, compared to 2020, whereas the funds for the Administrative Expenditures of the Institutions (which holds the biggest share of the total funds) and the Pension Expenditures and European Schools steadily increase with €500mln. (6%) and €360mln (24%) respectively (2020 versus 2013).



Source: EC

On the basis of these observations it is crystal clear that, in spite of EC's commitment to reduce the burden of the MFF on the national budgets, in effect, it is increasing. Although the EC claims the MFF will demand a lower percent of GNP, these calculations have been made on preliminary estimation that might not materialize, especially in the context of the raging financial crisis and the ongoing economic uncertainty. At the same time, the actions of the EC with respect to the reform of the administration are illogical, since the funds for this heading are on the rise, even with expected staff cuts. The only conclusion that can be reached is that the salaries or benefits of the bureaucrats are on the increase, despite them already being among the best-paid employees in the EU. In addition, in face of the overwhelming evidence that the Heading for Sustainable Growth: natural resources brings little added value and is the cause of sever market distortions, the decrease of its funds is not nearly fast enough (more details in the CAP section).

Financing the Multiannual Financial Framework of the EU (2014-2020)

The onset of the new program period of the EU in 2014 will bring about a series of changes to the method the budget is financed. The European Commission is considering several possible ways to generate own resources, which will make it more independent from the whims member states. Unfortunately, this desire of the EC has pushed aside the concerns over the possible repercussion of the reforms on the European, and in particular- the Bulgarian economy.

Motives behind the revision of the financing methods

Up until now funds there were 3 main sources of funds for the budget:

1) Traditional own resources of the EC from custom duties on imports outside the EU and sugar levies (smallest source of revenue)

2) VAT resources from the member states

3) Direct payments of the member states, based on their GNI (biggest source of revenue).

According to the bureaucrats there are 2 problems with the current system. Firstly, it is overly complicated, which leads to excessive administrative expenses and a good deal of other inconveniences (such as unequal distribution of the burden between countries). Secondly, this regime undermines the idea of solidarity – people evaluate the budget only on the basis of how much they have contributed and received in exchange, omitting any indirect benefits they might have obtained through the investment of these resources in other member states. The purpose of the newly proposed system is to remove this “egoism” by decreasing he amount of funds, which come straight from the governments of the members, and replaces them with “own resources”, which are, by design, “common”. Obviously, the goal of the EC is to attain a greater level of independence and flexibility in its revenue streams. This way it will not fall victim to the whims of the member states and will be able to focus its attention on projects that might not otherwise enjoy wide support.

The overwhelming administrative burden, however, turns out to be the more serious of the two problems. VAT resources require a great deal of complex manipulations of data and figures through the use of unclear formulas. The calculations take into consideration the different countries’ VAT bases, levels of the tax, GNP and any alleviations (or more commonly – burdens) stemming from the British rebate. All of these lead to an unnecessarily expensive and ineffective administrative process, which favors some countries that pay less, because of ill conceived decisions, tempering with the calculations.

Principal changes in the financing methods

To tackle the aforementioned issues the EC has proposed several concrete solutions[6]:

1) The removal of the currently used VAT resource in 2014, the proceedings from which shall be replaced by the member states' GNI-based direct payments, at least until one of the other sources of revenue listed below is introduced. This move would not change considerably the payments of the member states, but will improve the efficiency and transparency of the whole process, removing deadweight of the stifling administrative complexity.

2) The introduction of a new, improved form of the already discussed VAT resource. Most likely the new system will require member states' administrations to transfer an EU-wide fixed percentage of their VAT income to the common budget. Unlike the present case, the tax base would not be purely theoretical, but will be based on the actual tax receipts of the governments. If the EU-wide rate is set at 1%, this resource would bring between 20.9bln and 50.4bln euro per year[7].

3) The introduction of a Financial Transaction Tax, the proceedings form which will flow straight into the EU budget. This will lead to a decrease of the member states' budget contributions to the EU. One of the leading arguments, though unofficial, for this tax is to force financial institutions to take responsibility for the crisis. There are two main approaches to the way the tax will function: through the use of a "broad base", which will affect the transactions of shares, bonds, currencies and derivative instruments, and a "narrow base", which will only deal with the trade of shares and bonds. Preliminary forecasts show that the "narrow base", along with a tax on derivatives, would generate 30bln in revenues per year (with a tax rate of 0.1% for shares/bonds and 0.01% for derivatives).

Main repercussions for Europe

The first measure – the removal of the present VAT resource, would diminish some existing excessive administrative expenses by somewhat simplifying the system for calculations of funds that are to be transferred to the EU. Just as importantly, this change would shed light on the exact amount of the British rebate, which will be deducted only from the country's direct payment, further simplifying the procedure. Even more audacious is the idea to use the financing reform in combination with the reform of the CAP as stepping stones, leading to the complete removal the British rebate. One of the two

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[6] European Commission, "SEC(2011) 876 final/2", Brussels, 27.10.2011

[7] Figures vary because of the differences in the member states' VAT bases. The first figure – 20.9bln euro – is based on the current system; the second figure – 50.4bln euro – is an estimate, based on a hypothetical uniform VAT base.

arguments for the introduction of the rebate, which came into force in 1984, was precisely the controversial VAT resource (the second one being the disproportionate payments towards some states under the CAP), which at that time constituted the biggest share of EU revenue, making the UK, with its broad tax base and dependence on this tax, vulnerable and more strongly affected than other members. In this sense, the suspension of this resource would eliminate the original causes for the existing injustices in the EU budget contributions and bring about greater equality.

Point 2 is where the controversies begin. Although the EC's desire for greater independence is somewhat understandable, the new VAT resource would not help achieve it – funds will once again be collected by national agencies and then transferred to the EU. In practice, this process is no different from the GNP based direct payments, which are a much better indicator for the means of a country. What is accomplished is the addition of more administrative burden, without any significant value being added. An even bigger problem is presented by the stark differences in the taxation systems between the member states – VAT rates vary between 15% (the EU minimum) and 25%[8], whereas the situation with the tax bases is even more complicated, due to the lack of any standardization. Most concerning, however, is the idea brought up by the EC to solve this problem – a common EU tax base. This would be gross interference into the domestic policies of all countries, which would harm the governments, whose sovereignty will be violated, and ultimately – their citizens, whose power to control their lives will be diminished proportionally to decrease in the power of the government. There are ample arguments against such a harmonization- from the varying structures and development of economies within the EU to depriving some countries from their competitive advantages and many others[9]. The possible effects on Bulgaria are discussed in the next section of the report.

The third measure- the Financial Transaction Tax (FTT) – is probably the most hotly debated of the three. Starting from the completely misguided motivation and lack of sound logic for the introduction of such a tax, to the strong negative economic effects it would bring about in the EU, the problems with this proposal abound. First off, the notion that the banks should bear additional responsibility for the financial crisis is wrong. The main culprits were not the financial institutions, but the monetary authorities of the USA and Western Europe, who for years on end maintained low refinancing rates, providing banks and other organizations with a cheap supply of funds. In turn, these institutions, just as any normal economic agent, created to generate profits, took advantage of the situation and lent these resources to more or less everyone in need of a loan – gradually putting aside any considerations about the risk profiles and solvency of their clients.

In a working market economy, such as that of EU, the penalty for imprudent banks should stem from their clients, who would simply suspend their relations with the institutions. This can already be seen in the banking crisis in Spain and the outflow of funds from Greek financial institutions, the dimensions of which are enormous. It is doubtful whether further increasing the burden on the financial agents is a

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[8] Васил Николов, „Данъчните тенденции в Европейския съюз", Институт за пазарна икономика, 23.05.2012
[9] Светла Костадинова, „Аргументи против данъчната хармонизация – от нас за правителството", ИПИ, 01.06.2006

prudent solution to the problems of the sector, especially now – with the additional supervision of the ECB imposed on them. What is more, all the weight of all these new requirements will be shifted to the clients – virtually all ordinary citizens. Even more bizarre is the notion of the EC that this tax would discourage the practice of taking on excessive risks. On the contrary – increasing the costs of transactions would increase the desired rate of return, which will now also have to compensate for the higher prices, making investments in riskier assets almost a necessity.

The most acute problem of the proposal is the disadvantaged position, in which EU financial institutions will be put. In spite of the appeals of many world leaders, chances for the adoption of this measure on a global scale are slim. This means that businesses across the continent will have to bear the full force of the additional tax alone, which would make them less competitive than enterprises outside the EU. Who would trade on the European markets, knowing that it would cost them more than it would otherwise? The result of a FTT would be an outflow of capital from the union (felt most strongly in the major financial centers) and impediment of growth, especially in areas, in which this sector is less developed. It is only logical to expect that investors will redirect their interests outside the borders of the common market, transforming Europe into an unattractive destination for investments. Instead of giving the economy a desperately needed push and turning the financial sector into a more secure and stable field, the FTT will achieve the exact opposite.

Repercussions on Bulgaria

From the point of accession of Bulgaria to the EU in 2007 to August 2012, the country has contributed 2,033.4mln euro to the common budget. Data for the past five-and-a-half years conclusively shows the share of the different components in the overall payments to the EU remains more or less constant and that the biggest proportion is held by the GNP-based direct payments. Using the information about the country's GNI[10], gathered by the National Statistical Institute (NSI), it becomes clear that Bulgaria's contribution to the MFF varies between 1.07% and 1.11% of GNI for the years 2007-2010. The differences can be attributed both to the fluctuating size of the MFF in those years and to the difference between expected and actual GNP of the country. It has to be noted, however, that according to EC[11] data, Bulgaria bore a bigger share of the common burden than the EU average in 2007 and 2008, compensated for in the two following years. Due to the lack of preliminary data on the projected payments of the country for the next MFF, it is difficult to determine exactly how much our membership in the EU will cost. Nevertheless, after taking into consideration the commitments taken by the EC for a decrease of the EU budgets' share of GNP, it is reasonable to expect that the sum, as a percentage of GNP, will not differ drastically form the current one.

Bulgarian Contribution to the EU Budget, millions euro

	2007	2008	2009	2010	2011	January -	Total

[10] Национален статистически институт, „Брутен национален доход (БНД) – национално ниво"
[11] EC data on the 2007-2013 MFF, current prices

						Audugst, 2012 г.	
Contribution to the EU Budget	304,32	368,18	381,53	342,41	398,40	238,56	2033,4
% GNI	1,07	1,09	1,11	0,98			
GNI-based Payment	176,55	200,74	232,64	234,69	277,12	170,15	
VAT-based Payment	46,22	52,15	50,98	46,02	51,18	33,28	
United Kingdom Rebate Payment	20,76	28,66	25,16	16,36	18,35	11,55	120,84

ource: MF[12], NSI

From Bulgaria's point of view it would be best, if the VAT portion of the payment were removed and then compensated by an increase in the GNP-based direct payment. This will prevent the country from bearing any disproportionate burden that is due to its tax base, which is broader than those of its partners (Bulgaria's VAT income for 2010 is 17.2% of its total tax revenues; for comparison – in Belgium and Spain it was 16.17% and 16.9%, respectively).[13]

Furthermore, Bulgaria should also challenge the British rebate, which, as can be seen in the table, has cost millions to the taxpayers in the EU's poorest country. In addition to the 120mln euro for the rebate, found in the table, the country also has had to pay for the rebates of certain members states from the British rebate.

As far as the new VAT resource is concerned, logic suggests that Bulgaria should firmly reject this proposal. Apart from the already mentioned issues plaguing such a measure, extreme caution should be taken when dealing with any attempts to synchronize the tax systems in the EU. Bulgaria is in a position, in which its taxation policies are one of its main tools for attracting investments and generating economic growth. The possible equalization of the country's tax system with those of other European countries would mean an end to Bulgaria's competitive advantage in the common market. In view of this, all measures that lead to less government independence in its taxation policies would be harmful to Bulgaria's business and would need to be opposed.

The third proposal – the FTT- should also be rejected by Bulgaria. The market for financial services in the country is less developed than those in the rest of the EU, which might suggest that it will not be affected as much by a FTT. If this is true, then it seems Bulgaria will be comparatively better off after the introduction of the tax. Unfortunately, this is not the case. Levying taxes on infant sectors would prevent them from reaching their full potential. Obviously, European bureaucrats have deemed banks a lucrative source of revenue, since they will not only have to bear the weight of the FTT, but also- the costs of the additional supervision of their activities, which the ECB will perform in the countries of the eurozone and other voluntary members. According to the proposals made by the EC, the new supervisory function of

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[12] Министерство на финансите, "Доклади на изпълнението на държавния бюджет на Република България" от 2007-2010г.

[13] Information used from the EC database "Taxes in Europe" (http://ec.europa.eu/taxation_customs/tedb/taxSearch.html)

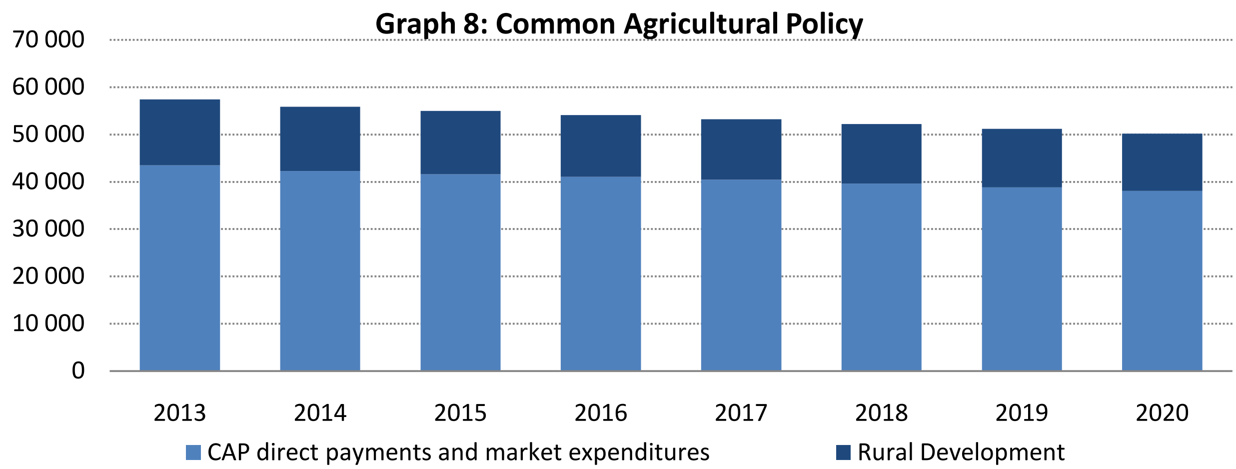
the ECB will be financed outside of the MFF through a tax on the institutions in question. Apart from the direct financial implications of the FTT and the ECB tax, banks will also have to incur additional costs to meet the new stricter rules and regulations, communicate relevant information to the authorities and prepare reports.

Common Agricultural Policy – Suggestions for Reform and Development

The Common Agricultural Policy was the single biggest beneficiary of EU funds for the 2007-2013 period, constituting 42.2% of the MFF. The long struggle to decrease the expenditures on agriculture has been reflected in the proposals for the new budgetary period – the funds of the Heading of Sustainable Growth: natural resources have been cut to 382.9bln euro or 37.3% of the framework. The CAP has been a highly contested battleground both between different member states (net beneficiaries versus net donors) and the institutions of the EU (the Commission, Parliament and the Council of Ministers). Its reforms have been influenced considerably by talks and treaties with the World Trade Organizations. Internal pressure for cardinal changes, however, has been relatively weak, due to the interests of the big beneficiaries of agricultural subsidies. Nonetheless, such a change seems to be ever more exigent, with the constantly increasing number of researches and analyses that contest the benefits of the CAP and enumerate the negative effects stemming from it, effects, connected with the long-term competitiveness of European agriculture, the efficiency of the expenditures, their influence on consumer prices, etc.

The funds for agriculture for the new program period are experiencing a steady annual decline, as can be seen on Graph 8. The first pillar (direct payments) continues to be the dominant force in the CAP-engulfing 281.8bln euro or 74.5% of all resources, whereas the program for Rural Development (the second pillar) only has 89bln. In addition to these, another 17.4bln euro are expected to flow into the sector – 5.1bln for agricultural research and innovation, 2.45bln for food safety, 2.8bln for most deprived persons, 3.9bln for a reserve for agricultural crisis and up to 2.8bln from the European Globalization Fund (EGF)[14].

[14] European Commission, “COM(2011) 625 final/2”, Brussels, 19.10.2011



Source: EC

* The graph does not include the 17.1 bln euro mentioned in the text, which are attained outside of the Heading on Sustainable Development: natural resources, part of which is the CAP.

The main changes in the CAP can be summarized as follows:

1) Direct payments will be divided into components, spearheaded by the introduction of a "greening" element, responsible for 30% of the funds under pillar one.

2) Differences between direct payments in different EU countries will be reduced.

3) Direct subsidies will be capped.

4) The concept of the "active farmer" will be introduced.

5) Higher flexibility between the First and Second pillars is envisaged.

Direct Payments

The following distribution of funds for each member state is suggested:

- 40% base payments
- 30% for producers employing practices beneficial for the climate and environment
- Up to 10% for the Small Farmer Scheme (10 hectares maximum)
- 5-10% for Voluntary Coupled Support
- Up to 5% for the Payment for areas with Natural Constraints
- Up to 2% for the Payment for young farmers (under 40 years of age)

In addition to these, a 300,000 euro ceiling on direct payments is proposed. It will be supplemented by a progressive decrease of payments between 150,000 and 300,000 euro by 20%, 40% and 70% in brackets of 50,000 euro.

As a whole, the philosophy of the new proposals is aimed at a achieving more equal distribution of the direct payments between agricultural producers and stimulating certain practices, which guarantee the sustainable exploitation of agricultural lands. However, in their current forms, the measures would be very difficult and expensive to administer, also allowing for the emanation of additional negative effects, such as the artificial partition of large agricultural properties, aimed at avoiding the payment ceiling.

Assessments made by the Bulgarian Institute for Agricultural Economics and the EC show that the biggest Bulgarian grain producers would lose between 53.8 and 61.8mln euro if the payments ceiling for the 2014-2020 period is accepted in its present form.

In the "Statement of the National Assembly on the Reform of the CAP for the 2014-2020 Period" it is explicitly stated that the country endorses the introduction of a ceiling on payments, but the threshold of 150,000 should be revised (increased) – a position, supported by the Association of Grain Producers. These positions, however, do not take into consideration the fact that the direct payments do not serve one of their main purposes – to support the incomes of agricultural producers, since nearly 90% of all subsidies go to 5-10% of producers (a phenomenon observed across the EU). In other words, these payments benefit the big agricultural owners, who can easily do without them, because of their sufficiently large economies of scale. At the same time small farmers, who are arguably in greater need of "social protection", are excluded from the subsidizing scheme or, at the least – disadvantaged. What is more, the structure of the direct payments favors some certain fields of agriculture at the expense of others, who at best receive only symbolic support (such is the case of the vegetable sub-branch). This, in the case of Bulgaria, thwarts the specialization of the agricultural sector into fields, in which it enjoys a comparative advantage, by diverting funding into the production of predominantly grain crops. In addition to these, other negative effects, relevant for Bulgaria, can be listed. Direct payments artificially raise the prices of land and its rent, whose share in the total expenses of farmers has increased considerably from the time of Bulgaria's accession to the EU, and which is on its way to completely diminish the net effects of the subsidies. On top of everything said, no evidence exists that these subsidies either contribute to the level of investment in the sector, or increase the revenue of entrepreneurs.[15]

Taking all the arguments into account, the Bulgarian position should favor the removal of the EU direct payments. Since the acceptance of such a proposal would be difficult, the country should at least demand that subsidies across all member states be equalized at a new rate, lower than the current one. Such a reform would stand a better chance of being endorsed and would bring the negative effects of the subsidies on Bulgaria's agricultural sector to a minimum. Another benefit of this suggestion is that it would remove the differences in the direct payments, which currently exist between the member states and will not be dealt with in the new MFF in its present form. This way, farmers in the individual countries of the Union will compete on an equal footing, ultimately stimulating them to develop their comparative advantages.

[15] „Противоречивите ефекти от земеделските субсидии в България", Николай Вълканов, Преглед на стопанската политика, бр. 569, ИПИ

CAP 2013 Direct Payments for 2013

Member state	Average amount of direct subsidy under CAP Pillar 1 (euro/hectare)
Greece	544
Malta	494
Netherlands	469
Belgium	447
Denmark	394
Cyprus	366
Germany	346
Italy	343
Ireland	324
EU 15	**321**
Hungary	312
France	310
Slovenia	295
Luxemburg	283
EU 27	**280**
Czech Republic	258
Finland	249
Sweden	247
United Kingdom	247
Austria	236
EU 12	**228**
Spain	206
Slovakia	200
Poland	197
Bulgaria	190
Portugal	174
Lithuania	143
Estonia	112
Romania	92
Latvia	83

Source: E. Erjavec, F. Chantreuil, K. Hanrahan, T. Donnellan, G. Salputra, M. Kožar, M. van Leeuwen, M. "*Policy assessment of an EU wide flat area CAP payments system*", Economic Modelling. 2011, 28 (4) : 1550-1558
*The subsidies listed for Bulgaria and Romania will be relevant from 2016, when the harmonization process will end.

According to research[16] done by the European Center for International Political Economy, Bulgaria would benefit most from the transfer of more resources to the Structural and Cohesion funds. Unlike resources in the CAP, which can only be channeled into the agricultural sector, the aforementioned funds are more flexible and can be used for purposes of greater usefulness to

[16] Valentin Zahrnt, "Financing the Common Agricultural policy: Which member states pay for the waste of public money?", European Center for International Political Economy

the country - infrastructure, education and competitiveness. It is worth noting that additional benefits exist for Bulgaria from the increase in the structure and cohesion funds. Once again referring to the research of ECIPE, the country's returns from the funds are two times as big as those from the CAP (Table 3).

Contributions and receipts, CAP direct income support

Country	Net Balance		CAP Return Ratio		% share in CAP direct income support	% share in cohesion funds
	2010	2013	2010	2013	2013	
Austria	-227	-293	0,77	0,72		
Belgium	-688	-781	0,47	0,44		
Denmark	111	61	1,12	1,06		
Finland	-126	-172	0,82	0,77		
France	868	409	1,11	1,05		
Germany	-2444	-2973	0,70	0,66		
Greece	1264	1199	2,33	2,18		
Ireland	813	774	2,54	2,36		
Italy	-1612	-1881	0,72	0,70		
Luxembourg	-75	-83	0,34	0,31		
Netherlands	-832	-912	0,51	0,50		
Portugal	-17	-45	0,97	0,93		
Spain	1065	814	1,26	1,19		
Sweden	-151	-211	0,83	0,79		
United Kingdom	-392	-704	0,91	0,85		
EU 15	**-2443**	**-4800**		**0,88**	**81,50**	**43,53**
Bulgaria	202	436	2,51	4,04	1,29	2,32
Cyprus	-30	-21	0,56	0,74	0,12	0,09
Czech Republic	154	372	1,31	1,69	2,02	8,10
Estonia	19	45	1,37	1,80	0,22	1,16
Hungary	622	970	2,92	3,78	2,93	7,74
Latvia	37	73	1,54	2,00	0,33	1,52
Lithuania	168	269	2,63	3,43	0,84	2,24
Malta	-18	-19	0,19	0,21	0,01	0,24
Poland	1071	1840	1,96	2,53	6,76	21,03
Romania	239	737	1,49	2,40	2,81	7,07
Slovakia	16	104	1,06	1,37	0,86	3,77
Slovania	-38	-8	0,73	0,95	0,32	1,19
EU12	**2442**	**4800**		**2,36**	**18,50**	**56,47**

Source: ***ECIPE***

Smart and Inclusive Growth

In the new budget period the Structural and Cohesion funds will experience changes not only in its available resources, but also in the way they are distributed. The EC is planning both a gradual increase in the funds for research and development, competitiveness and education and training, and a decrease in the Cohesion fund, which is, in a way, compensating for the increase in the other components. A new category of regions is added to the existing framework, as is a completely new instrument- the Connecting Europe Facility.

Connecting Europe Facility

As was already described in the introduction of the paper, the resources of the biggest heading in the MFF increase by 9.8bln euro (around 15%) for 2020, compared to 2013. The bigger part of these funds can be attributed to the creation of the Connecting Europe Facility, whose sole purpose is to sponsor infrastructure projects across the continent. In 2020 the EU will be spending 7.5bln for this instrument and 40bln euro for the entire budget period (the sum in 2020 is 5.93bln (377%) higher than in 2013). In addition to these resources, another 10bln euro from the Cohesion fund have been marked for infrastructure endeavors. The CEF has 3 main headings – energy infrastructure, transport infrastructure and information and communication technologies, each of which will receive respectively 9.1bln, 21.7bln and 9.2bln euro between 2014 and 2020.

Why is such an instrument necessary?

According to EC data[17] "freight transport is expected to grow by 80% by 2050. And passenger transport by more than 50%", suggesting that transport links will be fundamental for future economic growth. The first stage of modernization and extension of existing infrastructure will require 250bln euro until 2020, and some 1.5 trillion euro until 2030[18]. In view of this, the CEF will only provide a starting point,from which the member states can build on. This notion is also evident from the proposed EU co-financing rates – up to 50% for research and up to 20% for construction. In certain cases this ceiling can be increased – up to 40% for cross-border projects and up to 30% for rail and inland waterways, aimed at removing "bottlenecks"**.** A 50% capping rate is also proposed for projects for transport management systems and services, such as the ERTMS. Up to 75% will be given to support the technical aspects of the programs. All of the above-mentioned capping rates have the option of being increased by another 10%, if their execution brings additional benefits to the EU, such as cross-sector synergies, environmental protection and a decrease of greenhouse gas emissions[19]. This information shows that the bigger share

[17] Europa.eu, „MEMO/11/706", 10.10.2011
[18] European Commission, "TEN-T/ Transport infrastructure", Mobility and Transport, 29.04.2011
[19] European Commission, "COM(2011) 665/3", Brussels, XXX

of the burden of these endeavors for connecting Europe will fall on the individual member states, while the EU funds will only serve as a stimulus to encourage the projects to begin.

The main part of the CEF resources will be concentrated in three "horizontal projects" and for the creation of a "Core network projects" of transport corridors in the EU. In the new MFF three projects have been listed horizontal priorities, which deal with the synchronization of the management and control standards of the transport network- the SESAR system, part of the Single European Sky initiative; the systems ITS, ERTS and RIS – respectively for control of the road, railroad and water transport; a core system of airports and ports. The core network includes 10 corridors, which have to be built in the years leading to 2020, the biggest of which are: Mediterranean Corridor (preliminary reports indicate that it will cost 37.6bln euro), Helsinki – Valetta (31.9bln euro), Strasburg - Danube Corridor (17.1bln euro). There also exists a section with smaller scale projects, which are also part of the core network (27.5bln euro in total).[20]

Source: EK[21]

The energy section of the priorities includes the introduction of intelligent network across the EU, the creation of electric highways and cross-border networks for CO2 exchange. The projects envisage the construction of 8 energy corridors, the biggest amongst which are: NSI West Electricity (spanning 11 countries), NSI West Gas (11 countries), NSI East Electricity (11 countries), NSI East Gas (11 countries) and the Southern Gas Corridor (13 countries). These endeavors aim at achieving greater energy independence and security of the continent, as well as promoting and supporting the introduction of

[20] European Commission, "COM(2011) 665/3", Bussels, XXX
[21] Trans-European network Executive Agency, 'TEN-T Projects by Country"

environmentally clean energy. The ideas in the telecommunication department encompass the whole EU, as the priorities are related to meeting the criteria, set out in the Digital Agenda 2020, the creation of a common high-speed network, which will connect all public administrations, the provision of e-government services and the improvement of digital security.

Education, Innovations and Small and Medium-Sized Enterprises

Other departments, which play a significant role in the increase in funds for Heading 1, are those of Education, training, youth and sport (increase of 1.6bln euro or 123% for 2020 vs. 2013), New competitiveness/SME (increase of 268bln euro (151%) for 2020 vs. 2013) and Research and development (increase of 3bln euro (30%) for 2020 vs. 2013). In total, the three departments will cost the new budget (2014-2020) 97.5bln euro and are responsible for 4.87bln of the whole increase for 2020 vs. 2013. This data corresponds to the priorities, set out by the EC in the Europe 2020 strategy. The main goal is to remove the differences between the EU and its major competitors – the USA and Japan – in the ability to develop products with a high added value, thus securing the dominant position of the union as a political and economic leader. This will be achieved both through promotion of innovations and their effective exploitation and improvement of human capital.

The Europe 2020 strategy sets out seven priorities, each of which is of great importance to the future of the continent, according to the EC. They will be financed by the both the EU and national budgets. These priorities are the emanations of the targets, towards which the above mentioned departments are striving: the share of employed persons between the age of 20-64, investment in innovation as a percent of GDP, the share of early school leavers and of those aged 30-34 with tertiary education.[22] The first target's set goal is 75% (for a comparison, in 2011 the EU average was 68.6% and its highest recorded value of the past 14 years – 70.3% in 2008)[23]. The second indicator's goal is 3% and according to Eurostat in 2010 it was 2%, while its highest recorded value for the past 12 years was 2.01% in 2009.[24] The third target is set at 10% for early school leavers (13.5% for 2011, the lowest recorded level so far)[25] and 40% for people with tertiary education, aged 30-34 (44.6% for 2011, also the highest recorded level until now)[26].

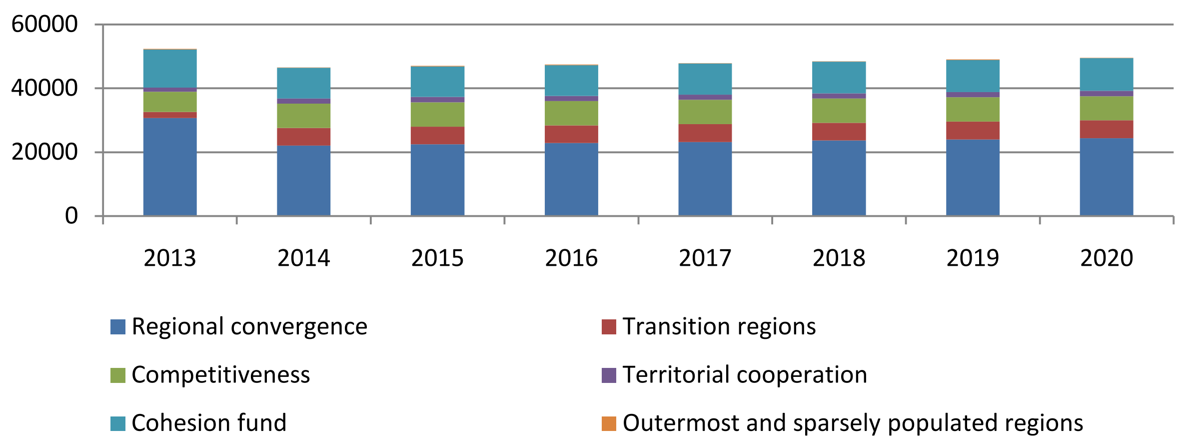
Cohesion Policy

Whereas up until now we spoke about sectors that benefit from an increase in their resources, it is time to look at those who have had no such luck. The negative side of the table is headed by the Cohesion

[22] Eurostat, "Europe 2020 Headline indicators", 25.07.2012
[23] Eurostat, "Employment rate by sex, age group 20-64"
[24] Eurostat, "Gross domestic expenditure on R&D"
[25] Eurostat, "Early leavers from education and training by sex"
[26] Eurostat, "Tertiary Educational Attainment by sex, age group 30-34"

policy. The drop in funds here can be attributed mainly to the introduction of the Connecting Europe Facility and the redistribution of funds towards other departments for the achievement of the Europe 2020 goals. The decrease is also facilitated by the considerable structural changes, aimed at optimizing the use of resources.

Graph 9: Cohesion Policy



Source: EC

The Cohesion Policy (CP) experiences some of the most drastic changes with the creation of a completely new category - "Transition Regions", which brings together regions with a GDP per capita between 75-90% of EU average. The reform includes the introduction of a capping rate on the amount of funds a particular country can receive for cohesion of 2.5% of its GNI. Just as importantly, the CP's resources are the victim of a massive decrease with the onset of the new budget period, dropping by 5.9bln euro (11%) in 2014 vs. 2013. This drop is not compensated for during the rest of the new MFF. The EC also proposes a tighter connection between the allocation of funds and the completion of the Europe 2020 priorities and stricter supervision of projects. Unlike previous years, however, countries will receive funds based not only on the quality of their projects, but also depending on the fiscal policy of the government.[27]

The first question that demands immediate attention concerns the purpose of the "transition regions" category's expected effects. According to the EC the current system did not allow for the effective use of funds to tackle existing problems, which harmed those closest to jumping into the richest category of regions the most (75-90% of EU average). The new category will have the additional effect of cushioning the up-to-now dramatic drop of funds after the transition of a region past the 90th percentile.

The new category can also be explained with the expectations for a higher level of economic prosperity and the gradual leveling of welfare across the member states, which will cause a surge of regions into the transition and competitiveness[28] categories. Unfortunately, Eurostat data shows that the trend of

[27] European Commission, "COM(2011) 500 final", Brussels, 29.06.2011
[28] Competitiveness regions include regions with a GDP per capita greater than 90% of the EU average.

the past several years is quite the opposite – countries not only fail to climb up the ladder into a higher category, but some of them actually move in a downward direction.[29] At the same time, as can be seen by the proposed budget figures, the separation of the "transition regions" has a pronounced negative effect on the funds, allocated to the poorest regions.

The EC's desire for stricter control over the execution of projects, financed with EU money, and for binding the allocation of funds with government commitments for sensible financial policy also deserves serious attention. Before granting any money whatsoever, projects and their host countries will have to meet preset conditions. These conditions concern the coherence between the projects and the goals of Europe 2020 and their conformity with country-specific recommendation prepared by the EC. In this context, more developed regions will be presented with a smaller range of priorities to choose from, mainly innovations and preservation of the environment, while poorer regions will benefit from greater flexibility in their decision. The level of significance, which the EC puts on the sound management of government finance, is also evident in the setting aside of 5% of the cohesion budget and making them contingent on the results of a mid-term review, which will look at the results accomplished by the member states. Combined with the possibility for withdrawal of funds in cases of bad results, these measures would encourage those who stick to the rules and punish those, who conduct unreasonable policies.

Effects on Bulgaria

Connecting Europe Facility

Where is Bulgaria's place in the CEF? The government has long perceived infrastructure projects as the mainstay of its policy. The creation on a European level of a completely new instrument, whose sole purpose is to support the construction of transport, electric and gas connections, surely must be jubilantly accepted the country's administration. Unfortunately, the situation is far more complex than it seems and there are several reasons for this- the small share of Bulgarian participation, the low EU co-financing levels, the high requirements for approval of funds and the very real possibility of the country ending up as a net loser from the mechanism and the transfer of 10bln euro from the Cohesion fund to it.

As the map with the planned EU transport links above clearly indicates, only a tiny part of all the projects will pass through Bulgaria. To be more precise, only one project in the 2014-2020 Core infrastructure program involves the participation of Bulgaria- Hamburg-Rostok-Burgas/Turkish border-Pireos-Lefkozia. The sections passing through our country are the railroad segments Vidin-Sofia-Burgas/Turkish border and Sofia-Thessaloniki-Athens/Pireos. At this moment the Sofia-Thessaloniki project is still at the stage of geological prospecting, while the Sofia-Burgas is at a phase of improvement of existing infrastructure. In addition to these, there are two other transport links with Bulgarian participation – the railroad segments Sofia - FYROM and Sofia - Serbia, who are at a research phase.[30]

[29] Eurostat, "Volume indices per capita, 2008-2011 (EU=27)"
[30] European Commission, "COM(2011) 665/3", Brussels, XXX

These CEF projects can be viewed in tandem with two other ones, part of the TEN-T program[31]- "Priority Project 7", involving a highway connecting Sofia, Athens and Budapest[32], and "Priority Project 22", which envisages a railroad connection between Athens, Sofia, Budapest, Vienna, Prague and Dresden[33]. At the end of 2011 6.5mln euro had been allocated for the second project, which is 50% of all expenses incurred so far. The schedule shows that all work has to be done by December 2015.

The situation for Bulgaria cannot be any more different in the energy department of the CEF. Bulgaria is included in three out of the eight core corridors – South Gas Corridor (SGC), NSI East Electricity and NSI East Gas. NSI East Electricity will allow the connection of Bulgaria's electric network with those of Central European countries. This would result in greater opportunities for electricity trade, a product Bulgaria actively exports. Another boon is that in cases of emergency, the country would be able to import electricity, improving its overall energy security. The SGC and NSI East Gas are designed to allow the diversification of gas suppliers for Southern and Central Europe through the creation of a gas link with the Caspian basin, the Middle East, Central Asia and the eastern part of the Mediterranean. These projects will ensure a higher degree of protection against sudden halts in supply (such was the with the 2009 gas crisis, caused by a conflict between Russia and Ukraine). This is all good news for Bulgaria, since the country is practically fully dependent on only one supplier – Russia. The expansion of the list of suppliers would also lead to more vigorous competition in the energy market, which should mean a decrease in gas prices. The funds acquired through gas transit taxes should also be included as a welcomed effect of the projects.

When it comes to the development of the information and communication technologies in Bulgaria, a lot can be desired. This is why the country could achieve much by taking advantage of the resources provided for the department. NSI data for 2011 shows that the share of households with access to broadband internet was a mere 39.8%[34], far below the established EU goal of 50% access to high-speed (over 100 Mbs) in 2020. What is more important, however, is the opportunity for the development of the electronic government (e-government) services and improvement of the quality of the public administration. The completion of such projects could significantly decrease the burden and sluggishness of bureaucratic procedures, thus improving services and with them – the business climate. An administration, more tightly integrated with the internet, would be less susceptible to corruption- a factor, which also influences the decisions of investors. Due to the very low level of development of these projects, European funds would contribute greatly to their future realization.

After the commentary on the different sides of the CEF, it is evident that Bulgaria will be presented with a lot of opportunities, but not nearly as many as there should have been. Setting aside the country's

[31] Trans-European Transport Network, financed by the CF, the European Fund for Regional Development and the European Investment Bank

[32] TEN-T EA, "Studies for the development of the motorway project of PP7 (Igoumenitsa/Patras-Athens-Sofia-Budapest Motorway Axis)

[33] TEN-T EA, "Studies for the development of the Railway Priority Project 22"

[34] Национален статистически институт, „Домакинства с широколентов достъп до интернет"

relatively negligent share in planned transport infrastructure, the more worrisome aspects turn out to be the requirements for receiving funding and the low co-financing rates offered. Funds will be allocated on a “first-come, first-served”[35] basis, which means that the Bulgarian administration, infamous for its sluggish performance and host of inconsistencies, will be forced to compete against far more effective, motivated and experienced structures, in order to get even the slightest scrap of the European pie. In this context, the desire of the EC to transfer 10bln euro form the Cohesion fund to the CEF poses an even greater danger. Whereas the funds in the CF are allotted for particular states and can be used only by them (after meeting certain criteria, of course), once they are in the CEF they will be “up for grabs”, competition for them will skyrocket and there will be no guarantees that Bulgaria will receive its fair share.

On the other hand, even if Bulgaria somehow does manage to attract funding for its projects, the funds received will be relatively minor and will not assist the national budget significantly. With co-financing rates of 20% for the most expensive part of a project – construction – the poorest state in the EU will have to set aside considerable financial resources to manage it. Using EC calculations, the creation of the Hamburg-Burgas-Lefkozia transport corridor will cost 8bln euro, only 1bln of which will come from the CEF[36]. In this situation, the transfer of funds from the CF would have negative consequences, since it co-finances 80-85% of costs. This is why infrastructural projects with the support of the CF would be cheaper and more beneficial to the state budget.

Education, Innovation and SMEs

In spite of the obvious increase in funding for the improvement of these indicators, it is still uncertain what part of them will be received by Bulgaria. To determine what effect they would have, better understanding of the specific data on the current standing of the country in the Europe 2020 strategy, and from there- the goals set for Bulgaria, are is required. Looking into the country-specific figures of the strategy indicators, which were discussed earlier in the paper, it is easy to see that in many places Bulgaria is lagging behind the EU average – a fact, which has been reflected in the proposed targets. By 2020 the country should have achieved a 76% employment level of those aged 20-64, far above the maximum of 70.7% in 2008 and 2011’s 63.9%. When it comes to the share of school drop-outs, Bulgaria currently fares better than the EU average, but, at the same time, the goal set for it is lower than that in Europe 2020 – 11% for 2020 (compared to 12.8% in 2011, the lowest recorded to date). The country performs worse in the share of people aged 30-34 with higher education – 27.3% for 2011 and a 36% goal for 2020 (the maximum was 27.9% in 2009). The most worrisome incongruence, however, is in the innovation investment department – while the rest of Europe strives to achieve a 3% ratio between

[35] Администрация на Министерски съвет, „Рамкова позиция относно Предложение за Регламент на Европейския Парламент и на Съвета относно създаването на Инструмент за свързване на Европа”, 2011/0302 (COD)

[36] The estimation was made on the basis of the projected CEF funds for infrastructure (21 bln euro) and the projected sum, allocated for the completion of the Core projects (a total of 237 bln euro). The ration is 1:12.

investments and GDP, Bulgaria's target is only 1.5%. Figures show that for 2010 this share was a meager 0.6% of GDP, or almost 4 times less than the 2.39% peak in 1990.

In view of these gross inconsistencies between the performance and goals of Bulgaria and those of the rest of the EU, it is easy to conclude that the country is in dire need of investment in these sectors, if it is to close the existing gap. As emphasized in the "Statement of the National Assembly on the Europe 2020 strategy", EU calculations, based on Bulgaria's results between 2000 and 2009, show that the country's proportion of investments as a percentage of GDP in 2020 would amount only to 0.55%[37]. Using European funds, aimed directly at increasing innovations, is probably the easiest, if not only, way to reach the set targets. Improving these indicators would have a significant role on the economic development of the country – higher value added will lead to faster growth and greater prosperity. Also, improving the skills and qualification of the workforce, together with the creation, introduction and use of new technologies, have the potential of making Bulgaria an attractive destination for investments and would rapidly improve the standard of living.

There is one fact, however, which must not be overlooked – at the moment Bulgaria's economy widely differs from that of its European partners. It has to be noted that the goals, set by bureaucrats who live in a completely different environment than the one present in the country, might prove to be inconsistent or unfeasible in these particular conditions, which would have a serious effect on results. An additional factor, which might be considered worrisome, is the plan of the EC to further solidify the importance of the Europe 2020 goals by binding funds to desired outcomes. This element is discussed in the next section.

Cohesion Policy

Being the poorest member of the EU, Bulgaria is severely affected by each and every change in the Cohesion fund. Regional convergence resources, received by the country, and the conditions, under which they are to be used, are of momentous importance to the state. In spite of the projected drastic decrease of the regional convergence funds and the stricter control over their use, the Bulgaria's leaders believe that the country will be one of the "winners" of the reform[38]. According to preliminary data of the Ministry of Finance, the Structural and Cohesion funds resources allotted to Bulgaria for the next period will increase considerably, compared to this one. It is also thought, rather optimistically, that the government's sound fiscal policy in the last few years would not only prevent Bulgaria from being penalized, but, in fact, allow it to be rewarded for its efforts.

During the current budget period 6.673bln euro from the Structural and Cohesion Funds, divided into 7 operative programs, were allotted to Bulgaria. Combined with national co-financing (1.345bln euro or

[37] Министерство на финансите, „ Позиция на Република България относно Определяне на национални цели по стратегията „Европа 2020"

[38] Ралица Ковачева, „България 2020: транспорт, малки и средни предприятия, иновации и образование", 15.02.2012

16.7% of the whole sum) this amount increases to 8.019bln euro.[39] Although the next MFF still has a long way to go, preliminary projections of Bulgaria's MF for the 2014-2020 period suggest that 8.718bln euro will be accessible to the country from the SCF – a 30% increase. The key factor in determining the funds is the capping rate of 2.5% of GDP. "In accordance with the proposed requirements for the distribution of the funds, a minimum of 30% of the whole sum would be allotted to the Cohesion Fund (2.906bln euro) and a minimum of 25% of the Structural Funds (ESF, EFRD) are to be allotted to the ESF (1.453bln euro)"[40]. Since the MFF is not yet finalized and all data is subject to revision, it is impossible to say how much money each operating program will receive. This makes it difficult to calculate the entire sum that will be available to Bulgaria's citizens after accounting for national co-financing, because of the different rates for the individual programs. Nonetheless, judging by the present figure of 16.7% of national co-financing, we can come up with a crude estimate of the resources of the programs – 10.5bln euro (1.747bln from the state budget).

I spite of all the uncertainties connected with the amount of funding Bulgaria will receive in the next budget period, one thing that can be said for sure is that the capping rate of resources for a given year of 2.5% of GDP is against the national interest. Its goal is to prevent the practice of states receiving huge amounts of resources, without having the capacity to effectively use them. In this respect, it might be said that the capping rates are a response to inefficiencies in the new member states. At first glance Bulgaria is the ideal example of such a country – by Sept 30th 2012, 6.05bln euro (90.6% of the whole available sum for the operative programs) had been negotiated for use, whereas a meager 1.83bln (27.5%) euro had been actually paid – a fact, which puts us at the bottom of the table for absorption.[41] It is more than evident that if the optimistic forecasts of torrents of funds for innovations, investment, infrastructure etc. are to come true, great effort will have to be made for the optimization and improvement of administrative structures. However, what is not so clear from the data, and is often overlooked or outright ignored, is that Bulgaria's absorption of MFF funds started much later than it did for other states. The reason for this is that in the year after the country's accession to the EU pre-accession programs (ISPA, SAPARD) were running side by side with the operational ones. What this means is that Bulgaria had a lot less time for preparation, prequalification and reorientation of the administration and business sector, and that the absorption figures are artificially low, because they do not include the funds received from the pre-accession programs for the same period. Data shows in just one year – from 30.06.2012 to 30.06.2012 – almost 30% of the entire amount of funds available were negotiated and 10.8% were actually paid.[42] In other words, in the last year nearly as much work was done as in all the preceding 4.5 years combined. Therefore, it can be concluded that Bulgaria's business and administration have roused, adapted and learned from their mistakes, all of which gives a solid reason and opportunity for the government to demand an abrogation of the proposed capping rates.

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[39] „Изпълнение на оперативните програми до 30.06.2012", Структурни фондове на ЕС,

[40] Добринка Кръстева, директор на Дирекция „Програмиране на средствата от ЕС" в администрацията на МС, в отговор на запитване относно очакваните средства от евро фондовете.

[41] „Изпълнение на оперативните програми до 30.06.2012", Структурни фондове на ЕС, http://www.eufunds.bg/

[42] Изпълнение на оперативните програми до 30.06.2011", Структурни фондове на ЕС

The good news is the EC's commitment to make EU resources conditional on the results of member states' fiscal policies and the attainment of the Europe 2020 goals. EU funds will serve as a good stimulus for maintaining fiscal discipline. It will not only allow for violators of established norms to be punished, but will also reward those who oblige by the rules, opening new possibilities to Bulgaria.

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