



*Faculty of Economics, University of Niš, 18 October 2013*

**International Scientific Conference  
THE GLOBAL ECONOMIC CRISIS AND  
THE FUTURE OF EUROPEAN INTEGRATION**

---

**OPERATIONAL PROGRAMME COMPETITIVENESS –  
OPPORTUNITIES AND CHALLENGES  
FOR THE BULGARIAN BUSINESS**

**Velina Savcheva\***

***Abstract:** Main objective of the present report is to analyze in details the progress of Operational Programme “Development of the competitiveness of the Bulgarian economy” in Bulgaria for the ending period 2007-2013. That is the main programme in Bulgaria supporting the business in terms of European funds. Main advantages and disadvantages have been stated in the report and therefore, recommendations have been suggested for the development of the programme during the next programming period 2014-2020.*

***Keywords:** competitiveness, innovation, European funds, small and medium-sized enterprises.*

### **1. Introduction**

One of the most discussed operational programmes in Bulgaria for the ending programming period 2007-2013 is Operational Programme “Development of the competitiveness of the Bulgarian economy” (OP Competitiveness). Moreover, that is the only programme which grants funds directly to the beneficiaries (companies) in order to modernize and enlarge their businesses. During the last years the Programme faces serious problems related to the degree of assimilation of funds, administration and execution of the concluded grant contracts. Substantial part of the Bulgarian companies sent serious negative comments related to the structuring and administration of the Programme. Therefore, a detailed analysis of the development of OP Competitiveness is necessary. It should contain identification of main advantages and disadvantages as well as key moments related to its re-structuring during the years. Such an analysis will outline the main arguments for the development of the programme during the next programming period, namely 2014-2020.

---

\* PhD Student, D.A. Tsenov Academy of Economics Svishtov, Bulgaria;  
velinasavcheva@gmail.com  
UDC 330.341.1(497.2)

## **2. Operational Programme Competitiveness – Opportunities and Challenges for the Bulgarian Business**

### **2.1. Absorption Capacity of Bulgaria Regarding EU Funds**

The problem with the absorption capacity of Bulgaria is sufficient. Absorption capacity is the extent to which a Member State is able to fully spend in an effective and efficient way the allocated financial resources from the structural funds (SFs) (Boat at. al 2001, in Wostner, 2008, 6). In relation to the EU's SFs the concept can be summarized around three specific definitions of absorption capacity: 1. **Macroeconomic absorption capacity**, which can be defined and measured in terms of GDP levels to SFs allocated (NEI 2002, 4). During the 2007 – 2013 medium-term financial perspective of the EU, the upper limit for EU cohesion purposes has been set at 3.6 per cent of the GDP of the respective country (Mrak, Tilev 2008, 30). 2. **Financial absorption capacity**, which means the *ability to co-finance* EU-supported programs and projects, to plan and guarantee these national contributions in multi-annual budgets, and to collect these contributions from several partners (public and private), interested in a program or project (NEI 2002, 4). 3. **Administrative absorption capacity**, which can be defined as the *ability and skills* of central, regional and local authorities to prepare acceptable plans, programs, and projects in due time, to decide on programs and projects, to arrange co-ordination among the principal partners, to cope with the vast amount of administrative and reporting work required by the Commission, and to finance and supervise implementation properly, avoiding fraud as far as possible.

It could be implied that Bulgaria is still not covering these aspects of absorption capacity which leads to insufficient absorption of EU funds. Moreover, absorption of EU funds during the last years is often a precondition for frauds and corruption at all levels in the country – local, regional and national.

### **2.2. Structure of OP Competitiveness**

#### **2.2.1. Structure Related to the Administration of the Programme**

The progress of Operational Programme "Development of the competitiveness of the Bulgarian economy" 2007-2013 is controlled by Monitoring Committee. It is created after agreement with the Managing Authority which is the Ministry of Economy and Energy in Bulgaria.

In 2012 serious changes occurred regarding the structure of OP Competitiveness. Till then the Programme was managed by Managing Authority (Ministry of Economy and Energy) and there was also Intermediate Body which was the Bulgarian small and medium enterprises promotion agency. The Intermediate Body had 10 regional sectors in different parts of the country. In 2012 was taken a decision for removing the Intermediate body from the management of the Programme and the whole administration was transferred to the Managing Authority in order to be achieved the following improvements: facilitation of the beneficiaries, shortening the time for verification of the documents and therefore faster payment of grants. The effect from that change was subtle. On one hand that was due to the fact that the re-structuring in the administration was not planned well which led to bad organization, confusion for the businesses and delays in the administration of their projects

## **Operational Programme Competitiveness – Opportunities and Challenges For The Bulgarian Business**

---

for several months. The delay in the projects led to delays in payment of the subsidy, which is crucial for companies, given that most of them co-finance their projects with bank loans, where meeting deadlines is essential.

The roots of the other major problem associated with the restructuring of the administration of the program lie in its previous structure. At the time that there was an intermediate unit, one of the main problems and risks for companies was at the implementation stage where projects were reviewed and approved by the Bulgarian small and medium enterprises promotion agency, but on the final reporting stage the final word goes to the Managing Authority. Divergence of opinion between the two institutions in most cases ended in a financial correction for the beneficiary (the company). This largely discouraged many companies to reapply for grant under the programme, since on one hand in the process of implementing all their documentation is checked at every stage by the IB, but on the other hand, it was no guarantee that they will receive the full amount of their grant.

After the restructuring of the bodies administering the program, this problem continues to exist, but viewed in the light of differences between the central administration and regional sectors. In this sense, the central unit of the program encourages beneficiaries to appeal to regional sectors in case of questions related to the implementation of their projects. In addition, regional sectors are the places where all documents related to the implementation of the projects are reviewed and approved. That leads to the pre-existing restructuring program problems - namely, the experts at the regional level have views which are often in contradiction to the views of experts from other regional sectors and those of experts from the Central Unit, which again leads to negative consequences for the beneficiaries of the program, namely their sanctioning by applying financial corrections. The reason for these extreme measures lies in the fact that the control performance is led by experts at regional level and the verification of the final report or the overall project implementation, in most cases, is assigned to the experts from the Central Unit, which has so far not been involved in monitoring of the implementation of the project and views on various issues is radically different.

These problems and their overcoming are serious challenge to the Bulgarian government for the next programming period, as the lack of centralized managerial approach could be a factor for negative attitude of the Bulgarian business to the programme. Measures to overcome this problem could be:

- Organize regular training for officials from the Central Administration (CA) and regional sectors in order to achieve a unified approach to the implementation of operating procedures under OP Competitiveness and exchange of experience;
- Preparation of official document (instructions) which will be regularly updated in order to be found out systematic errors, inaccuracies and ambiguities made by the experts at different levels. Instructions and summary comments should be distributed at both central and regional level. They should be also published on the website of the programme in order to be accessible to beneficiaries and consultants. That measure will unify and harmonize the requirements to be complied with by experts in the verification process and aims at reducing the rate of re-admission of the same mistakes;

### **2.2.2. Structure Related to the Funded by the Programme Activities**

The program is structured around four thematic priority areas of action. Within each one of them there is a system of related specific activities which assure the implementation of the priorities. Priority areas of OP "Competitiveness of the Bulgarian Economy 2007-2013", and the main activities involved in them are:

#### **Priority Axis 1: "Development of economy based on knowledge and innovation"**

- Support for start-ups;
- Increasing the innovative potential of enterprises;
- Improvement of pro-innovative infrastructure to support the business.

#### **Priority Axis 2: "Increasing efficiency of enterprises and promoting supportive business environment"**

- Support for investment projects of SMEs for technological development and modernization;
- Support for the introduction of energy saving technologies and renewable energy sources;
- Establishment of a consulting network of organizations to support business;
- Support for business cooperation.

#### **Priority Axis 3: "Financial resources for development of enterprises"**

- Support for guarantee funds;
- Support for private equity (venture capital);
- Support for funds for micro-credit.

#### **Priority axis 4: "Strengthening the international market positions of Bulgarian economy"**

- Support for investment;
- Support to promote and increase exports;
- Support the development of national quality infrastructure.

At present, the greatest interest among Bulgarian business are the measures associated with technological innovation of enterprises, as well as those related to the introduction of standards for quality management systems and business management (ERP systems). Unquestionable merit of the MA is that so far it manages to bring European priorities to the needs of Bulgarian companies and to structure the various schemes in a way that best meets their needs.

### **2.3. Degree of Implementation of OP Competitiveness**

The total resource allocation under the Programme is €1.2 billion. Contracted funds under OP Competitiveness up to 31.12.2012 are given in Table 1 and Table 2 contains information about the payments made up to 31.05.2013.

**Operational Programme Competitiveness – Opportunities and Challenges  
For The Bulgarian Business**

**Table 1. Contracted funds under OP Competitiveness till 31.12.2012**

Priority axis	Total Budget MEUR	Contracted funds for 2012		Remaining funds for assimilation till 31.12.2013	
		MEUR	%	MEUR	%
1. Development of economy based on knowledge and innovation	211	147	70%	64	30%
2. Increasing efficiency of enterprises and promoting supportive business environment	529	417	79%	112	21%
3. Financial resources for development of enterprises	350	349	99%	1	1%
4. Strengthening the international market positions of Bulgarian economy	37	35	95%	2	5%
5. Technical support	35	35	100%	0	0%
<b>Total:</b>	<b>1 162</b>	<b>983</b>	<b>85%</b>	<b>179</b>	<b>15%</b>

*Source:* Ministry of Economy and Energy, Managing Authority; Twelfth Meeting of the Monitoring Committee of Operational Programme “Development of the competitiveness of the Bulgarian economy” 2007-2013

**Table 2: Payments made up to 31.05.2013**

Priority Axis	Payments made up to 31.05.2013				
	Total Budget MEUR	Contracted funds MEUR	MEUR	% of total budget	% of contracted funds
1. Development of economy based on knowledge and innovation	211	147	13	6%	9%
2. Increasing efficiency of enterprises and promoting supportive business environment	529	417	160	30%	38%
3. Financial resources for development of enterprises	350	349	349	99%	100%
4. Strengthening the international market positions of Bulgarian economy	37	35	12	32%	34%
5. Technical support	35	35	11	31%	31%
<b>Total:</b>	<b>1 162</b>	<b>983</b>	<b>545</b>	<b>47%</b>	<b>55%</b>

*Source:* Ministry of Economy and Energy, Managing Authority; Twelfth Meeting of the Monitoring Committee of Operational Programme “Development of the competitiveness of the Bulgarian economy” 2007-2013

The following conclusions could be drawn from the presented data:

- The extent of absorption of funds under the programme is still low. It is noteworthy that the percentage of agreement was highest in areas where beneficiaries are institutions tasked to receive and distribute the funds.
- funds utilized in the field of innovation and promotion of activities developing an economy based on knowledge and innovation, represent the lowest percentage of agreement, compared to the other priority areas.

Inefficient absorption of funds related to support of innovation is not entirely dependent on the lack of interest in these schemes. The reasons are complex, but they could be sought in the way of structuring of such schemes and their late start as well as the lack of popularity. All of the abovementioned reasons required the transfer of 150 million euros from the funds designated for innovation to financial instruments for business support, namely the JEREMIE initiative, so that these funds cannot be irretrievably lost. But the fact is that the smallest amount of funds absorbed within the programming period is for innovation despite of the fact that innovation is among the highest priorities of the European Union and is envisaged as a key factor in the next programming period. Therefore, Bulgaria should do more to promote the proper structuring and timely launch of schemes in the period 2014-2020.

One of the ways which could improve the absorption of funds for innovation is not only the development of innovations from Bulgarian companies, but the introduction of foreign innovations in production and non-production processes in the country, which is of interest for Bulgarian companies. Until now, such a scenario has been discussed by the Monitoring Committee of the program but have not yet taken concrete action in this regard. In addition, the availability of funds to strengthen the innovative capacity of our country by supporting both existing companies and start-ups, is a major prerequisite for attracting foreign direct investment and establishment of companies in Bulgaria from different sectors (information technology, medicine and etc..) that otherwise would not have made the decision to carry out investment activities in the country.

The main achievements of the program till now are the following:

- 261 businesses supported for technological modernization;
- 577 companies received support for the implementation of internationally recognized standards;
- Support of 21 innovative start-ups;
- 14 enterprises supported for commercialization of innovative products, processes and provision of innovative services.

#### **2.4. Major Problems for Bulgarian Companies During the Project Application and Implementation Process**

The main problems that Bulgarian companies face regarding OP Competitiveness, could be divided into issues that business meet at application stage and problems that exist in the implementation phase of the projects. In both cases, one of the main problems is the huge volume of documents that businesses should prepare and maintain, which sometimes proved so laborious that shifts the focus from competitiveness to administrative work.

## **Operational Programme Competitiveness – Opportunities and Challenges For The Bulgarian Business**

---

Survey among members of the Confederation of Employers and Industrialists in Bulgaria in October 2011 highlighted the main problems faced by firms in the stage of applying for EU funding (ceibg.bg, 20.10.2011):

- Long terms and delays in review and approval of projects - 85.7%
- Complicated and long application process - 71.4%
- Documentation related to the application - 42.9%
- Lack of timely and clear answers to questions sent to the Managing Authority - 39.3%
- Need for co-financing in some of the programs - 25%
- program priorities - inconsistent with company needs - 17.9%
- Lack of information about opportunities and application procedures - 17.9%
- Receipt of vague and imprecise instructions for preparation and type of supporting documents - 17.9%
- None of the above or negligible - 7.1%
- Lack of capacity to develop projects - 3.6%
- Other - 17.9%

The main difficulties for businesses involved in the management of their approved projects are:

- Long periods of reimbursement - 71.4%
- Delaying payments to beneficiaries - 60.7%
- Heavy reporting procedures of the project - 53.6%
- Delays in the administration - 46.4%
- Ineffective use of advance payments due to the requirement of a bank guarantee - 39.3%
- Severe tender procedures for selection of contractor - 35.7%
- ambiguities in the instructions given by the administration for implementation activities set out in the proposal - 35.7%
- The need to provide their own financial contribution to the project - 35.7%
- None of the above or insignificant - 0%
- Other - 0%

28.6% of companies believe that a more lucrative option for their business is to obtain low-interest loan at favorable terms compared to projects under EU programs. 53.6% prefer the grant to be provided by the current rules of the European programs.

Companies participating in the survey have the following preferences for the type of projects that they would like to perform:

- Projects related to the purchase of new machinery and equipment - 50%
- Projects related to human resources development - 35.7%
- Projects related to the development of innovation - 32.1%
- Other - 17.9%

53.6% think that the administration of the programmes financed by the EU is not implementing properly their duties. 10.7% disagree and 35.7 percent have no opinion.

32.1% of the surveyed companies have suffered financial corrections on their approved projects, while 60.7% did not have this problem.

The average value of the amount of financial corrections to all enterprises that responded positively was 19.8% and the amount of the corrections varies from 0.4% to nearly 40%.

## **2.5. Recommendations for the Implementation of OP Competitiveness for the Period 2014-2020**

Small and medium enterprises (SMEs) are the backbone of the European industry, which form 58% of the total value created by companies in the EU and provide two-thirds of all jobs in the private sector of the Bulgarian economy where in 2010 employed in SMEs represent 68.90% of the total employees in Bulgaria and just over 92% of private sector employees. Therefore, it is crucial to improve the environment in which these businesses operate and therefore, to improve the conditions under which these companies receive grants.

Main focus in the spending of EU funds in the next programming period will be on the following priorities:

- To be used all opportunities of the current programming period for the preparation of the next in order to prevent the late start of the operational programs in the next programming period due to insufficient readiness. Succession in program management saves time and effort in building the institutional framework and operating system implementation from the beginning of the programming period, based on the upgrade of already established good practices.
- Strategic planning is essential for the management of EU funds, and must be closely linked to performance. This is particularly important for the 2014-2020 program cycle, where the resources are limited but needs are large and focus on an integrated and territorial approach and synergy will be required. Achievement of objectives depends very much on good strategic planning and search of synergy between projects under the different thematic objectives.
- To focus on linking needs analysis / territorial analysis with strategic planning. Number of identified as important and problematic issues in the analysis in the OP does not find place in the implemented schemes and measures. Therefore, less important needs receive funding, which in turn is not used because of lack of interest of the beneficiaries.
- Planning of funds has to be related to the planning of resources for pre-funding and / or providing such funds by the beneficiaries as well as to seize the opportunities of financial engineering. Many grant applications were withdrawn and many contracts - terminated due to lack of sufficient funds for the pre-funding and co-financing the implementation of projects by the beneficiaries. It is desirable to use a rational and timely support from all possible complementary funding instruments to ensure maximum benefit from the support of the Funds.
- simplification, acceleration and automation of procedures should continue. The maximum possible computerization of the processes for the selection and monitoring of the implementation of the projects will not only facilitate the work of the administration responsible for the implementation of the programs, but will



## **Operational Programme Competitiveness – Opportunities and Challenges For The Bulgarian Business**

---

facilitate the work of the beneficiaries regarding submission and consideration of projects and will save natural resources.

- It is necessary to constantly monitor the correspondence between the needs of the beneficiaries to planned and open calls as well to have a clear focus and strategic planning for the succession of open procedures and measures. It should be noted that the lack of interest of the beneficiaries in specific measures threaten both their performance and the level of absorption of European funds. Moreover, this fact arise the question about the quality of the planning and the process of collecting and analyzing data needs.

To a large extent these priorities laid down in the philosophy of state control of EU funds for the next programming period are consistent with the needs of the beneficiaries.

The analysis shows that certain actions are necessary for the implementation of specific measures aimed at improving the operation of the OP Competitiveness for the period 2014-2020, namely:

- Removal of bank guarantee required by the beneficiaries in case they wish to receive up to 65% advance payment for the implementation of project activities;
- A comprehensive and in-depth training for the beneficiaries of the program;
- Shorter terms for payments;
- Focus on training of personnel skills - initiative and entrepreneurship, social and civic competences;
- Extension of activity codes that are eligible for application;
- Centralize management programs;
- Inclusion of banks in the process of evaluation of the project proposal in order to avoid the difficulties of providing guarantees and operating funds for project implementation;
- Consideration of the effectiveness of the use of "external experts" in the evaluation of proposals;
- More schemes aimed at large enterprises;
- Availability of schemes which are not only targeting production companies, but also trading companies;
- More efficient system to inform potential beneficiaries about upcoming campaigns;
- Ability to modify technical indicators on activities planned but obsolete at the time of their execution;
- Possibility of evaluation of project proposals by external institutions;
- Greater emphasis on financial engineering instruments - guarantees preferential rates that will facilitate access to financing;

### **3. Conclusion**

The draft partnership agreement for the next programming period underlies strategic philosophy regarding needs of enterprises, according to which priority for funding will be helping SMEs to improve the productivity and efficiency of their operations, and create real competitive advantage on local and foreign markets.

Moreover, funds will be used to improve cooperation between SMEs through clusters and other organizations of business activities, including business incubators, in order to benefit from synergies and economies of scale. This means that in addition, assistance will be provided to diversify economic activities, products and services to businesses and farms in response to changing needs / market demand, especially in rural, distant and lagging regions so that long-term sustainability will be ensured.

Moreover, traditional local economic activities related to entrepreneurship and new products and services will be supported as a proven factor for growth. Activities addressing the structural imbalance in the livestock and food production, including investments in the modernization of farms, fleet, shortening the path of production to the end user, etc. will be also supported by funding. Special attention will be paid to the transfer of new technologies, the development of e-business, incl. e-commerce and e-services, internationalization of SMEs and their access to advanced business services in the area of leading organizations in the field of R&D. Implementation of successful measures for the following of that strategy will play a key role in the development of the Bulgarian economy in the coming years.

### References

1. Bael, I.V. and F. Bellis (2010), *International Trade Law and Practice of the European Community*, Bichester, 2nd Edition,.
2. Berg, H. and F. Schmidt (1995) *Industriepolitik*, in Klemmer P. (Hrgs.). *Kompandium der europaischen Wirtschaftspolitik*, Muenchen, 1995.
3. Mrak, M./Tilev, D. (2008): *ABSORPTION FOR EU PRE-ACCESSION FUNDS: CONCEPT AND IMPLICATIONS FOR KOSOVO*, Civil Society Organizations in Support of Kosovo“ s European and Regional Integration;
4. NEI (2002a); *Key indicators for Candidate Countries to Effectively Manage the Structure Funds*; Principal Report, Final Report, prepared by the NEI Regional and Urban Development for the EC DG REGIO/DG ENLARGEMENT, Rotterdam;
5. Official website of OP Competitiveness in Bulgaria: [www.opcompetitiveness.bg](http://www.opcompetitiveness.bg) (25.07.2013);
6. Ministry of Economy and Energy of Republic of Bulgaria: [www.mi.government.bg](http://www.mi.government.bg) (15.7.2013);
7. Confederation of employers and industrialists in Bulgaria: [www.ceibg.bg](http://www.ceibg.bg) (20.10.2011);
8. European Commission: [http://ec.europa.eu/trade/issues/global/gsp/index\\_en.htm](http://ec.europa.eu/trade/issues/global/gsp/index_en.htm) (01.08.2013);

### KONKURENTNOST OPERACIONOG PROGRAMA ZA BUGARSKU PRIVREDU

**Rezime:** Osnovni cilj ovog rada je analiza detalja napretka Operacionog programa “Razvoj konkurentnosti bugarske privrede” u Bugarskoj za period 2007-2013. To je osnovni program u Bugarskoj koji podržava poslovanje u smislu evropskih fondova. Naglašene su osnovne prednosti i nedostaci, i date su preporuke programa za naredni programski period 2014-2020. godine.

**Ključne reči:** konkurentnost, inovacije, evropski fondovi, mala i srednja preduzeća.