



Regional Development Department  
National and Regional Security Department

Collection of Papers

# GLOBALISM, REGIONALISM, SECURITY

from International Scientific Conference  
24 – 26 September 2020, Ravda, Bulgaria



PUBLISHING COMPLEX – UNWE





UNIVERSITY OF NATIONAL AND WORLD ECONOMY

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Sofia, 2021

The current book is a 1st edition and contains a collection of papers from the International Scientific Conference „Globalism, regionalism, security“ organized in Bulgaria, Ravda between 24 – 26 September 2020. Partner of the event was the Serbian Chamber of Commerce, with its Pirot section. The book gathers scholars and researchers in a related field.

All volume authors are from areas of the social sciences particularly related to regional studies. The papers are focused geographically on southeast Europe and include comparative and national-based research topics.

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## COMPARING THE FISCAL GOVERNANCE FRAMEWORKS OF THE USA AND THE EU

Aleksandrina Aleksandrova<sup>1</sup>, Taner Ismailov<sup>2</sup>

### ***Abstract:***

*This paper examines the fiscal governance of the USA and the EU. Although there are many differences in the fiscal governance frameworks of the EU and the USA, the authors of this study believe that comparing them at some point is „mission possible“ having in mind that the economic growth of the Union and the United States depends on factors such as common economic space, common currency, common fiscal rules, etc. The main body of the article focuses on the comparative analysis of selected comparative criteria regarding fiscal governance such as institutional governance structure; the ability to impose taxes; common currency; fiscal frames: debt; deficit; sovereign default; budget; (collective) fiscal discipline and the „no-bailout“ principle. In the Discussion section, the authors suggest a table visualizing the summarized system of these criteria and the accents of the research conducted at the main body of the article. The paper also focuses on the issues of fiscal centralization or the decentralized fiscal discipline, widely ignored within the EU. The conclusion summarizes the most important findings of the article.*

*Keywords: fiscal policy, European Union, USA, fiscal framework, fiscal governance, fiscal discipline*

### **Introduction**

The fiscal frameworks of the United States of America (USA) and the European Union (EU) originated and have evolved in substantially different historical and political contexts, the result of which is their heterogeneity. This difference in governance structures also has a significant impact on the design of the US and EU fiscal governance frameworks, especially in regard to the division of competencies in fiscal matters between supranational and national levels: The United States has extensive federal structures operating in conjunction with the administrations of sovereign states –

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the Tenth Amendment to the US Constitution reserves all powers „that are not delegated to the United States by the Constitution, nor prohibited by it to the States“ to „the States or the people“. (The National Constitution Center, 2020), whereas in the European Union there are relatively limited supranational structures, combined with sovereign Member States. According to the principle of conferral, „the Union shall act only within the limits of the competences conferred upon it by the Member States in the Treaties to attain the objectives set out therein. Competences not conferred upon the Union in the Treaties remain with the Member States. Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at a regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level“. (Official Journal of the European Union, 2020).

Another fundamental difference between the US and the EU is in their institutional governance structures – while in the US it is a federal constitutional republic (federation), the EU is an international organization – a political and economic union between sovereign Member States (European Union, 2020), (Official website of the European Union | European Union, 2020). Although these differences, we could say that the USA and the EU could be categorized as international unions because „the international union as a group of countries deciding to centralize the provision of public goods, or policies, that generate externalities across union members“ (Alberto, Angeloni, & Etro, 2005).

The economic and legal literature confirms the understanding that the European Union is not a tax union, which means the EU itself is not an independent fiscal entity and does not own the power to impose taxes. Within a tax union, uniform tax legislation and identical tax systems are established, which are components of the consolidated tax system of the union (Haase, 2009). On the other hand, the US federal government is the central government of the United States, and is an independent fiscal entity with its own democratically elected institutions and associated direct own power to tax.

Fiscal rules are among the cornerstones of macroeconomic policies in the European Union, both on the national and the supranational level (Žaja, Kordić, & Kedžo, 2019). Given the continuing concern with large government budget deficits and debt in many developed and developing countries, policymakers and researchers have turned their attention to how modified budget procedures might promote greater fiscal responsibility (Aaskoven, 2018). A great number of studies deal with the issue of fiscal discipline, authors like Ayuso-i-Casals, Debrun, Kumar, Moulin, and Turrini (Ayuso-i-Casals, Debrun, S. Kumar, Moulin, & Turrini, 2007), (Ayuso-i-Casals, Deroose, Flores, & Moulin, 2006), Hallerberg and von Hagen (Hallerberg, Strauch, & Hagen, 2007) are dealing with effects of fiscal rules and budgetary procedures design on fiscal outcome in EU countries.

The main objective of this study is to conduct a comparative analysis of selected criteria regarding fiscal governance in the USA and the EU such as institutional governance structure; the ability to impose taxes; common currency; fiscal frames: debt; deficit; sovereign default; budget; (collective) fiscal discipline and the „no-bailout“ principle. Furthermore, this research paper will try to lift the curtains on the issues of fiscal centralization or the decentralized fiscal discipline, widely ignored within the EU. The body is built following the comparative criteria. The conclusion summarizes the most important findings of the article.

### **Methodology**

Based on an in-depth study of the EU and US fiscal governance frameworks and the currently applied practice in the field of fiscal governance in both unions, the authors outlined the following comparative criteria: Institutional governance structure; Imposing taxes (the power to impose and collect taxes); Fiscal frames: debt; deficit; sovereign default; Budget; (Collective) fiscal discipline; The „no-bailout principle“. When outlining these criteria, this article focuses solely on the fiscal aspects of the two unions, inevitably leading to the exclusion of other closely related topics. These criteria provide the opportunity to examine, compare and contrast the fiscal governance frameworks of the US and the EU, but do not, for example, discuss the optimal currency area; nor take into account economic and business cycles in the EU and the USA. This comparative study will help authors to define some specific characteristics of the US and the EU fiscal governance, as well as will give the differential points between them.

### **Problem-solving**

#### **Institutional governance structure**

In the United States, fiscal activity is carried out at three separate levels: federal (central), state (50 ‘sovereign’ states plus the District of Columbia federal territory), and local (over 90,000 local government structures). The US federal government is the central government and is an independent fiscal entity with its own democratically elected institutions, hence its power regarding the imposing of taxes and the direct taxation of taxable entities.

An important highlight on the differences between the institutional governance structures of the USA and the European Union can be found in the 1989 Delors Report, according to which even after achieving the goal of establishing an economic and monetary union, the European Community will continue to consist of individual nations with specific economic, political, social and cultural characteristics. The existence and preservation of this plurality require the establishment of a degree of autonomy in making economic decisions by the individual Member States, which is to mediate the achievement of a balance between national and Community competen-



cies. „For this reason, it would not be possible simply to follow the example of the existing federal States; it would be necessary to develop an innovative and unique approach“. (Committee, 2020). These very different institutional and political conditions naturally presume that economic governance systems are very different from each other.

### **Imposing taxes**

Comparing the fiscal governance frameworks of the European Parliament and the US Congress inevitably goes through the possibility of imposing taxes and levying them on taxable entities. „The Congress shall have the power to lay and collect Taxes, Duties, Imposts, and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts, and Excises shall be uniform throughout the United States“ (U.S. Constitution, 2020). Congress, according to the US Constitution, also has the right to determine the revenues and expenditures of the federal government, although it often delegates specific implementing rights to the executive power or, in particular, powers to implement government administration structures related to collecting taxes and implementing the fiscal policy of the central government.

Since in the sense of European tax legislation<sup>3</sup> and tax practice, the EU is not such a union, it cannot impose taxes, nor can it directly influence the collection of such taxes and the setting of tax rates. The amount of taxes is determined by the government of each Member State of the Union. „The EU’s role is to oversee national tax rules to ensure that they are in line with certain EU policies“ (European Union policies, 2020). In cases when the European Union has to decide on various tax issues, the unanimous consent of all Member States is required. This ensures that the interests of each of them will be respected and, at the same time, that their sovereignty over tax policy will not be violated. Taxation is one of the most complicated and controversial problems of the economic policy of the Union, as taxes are the main source of budget revenues and the irvaluelargely depends on the budget and social policies of the specific Member State, as well as the Community (Alexandrova, 2016). On the other hand, as a major source of budget revenue for both the national and the European fiscal systems the Value added tax and the implementation of tax harmonization policy in the area of indirect taxation is so important for the Union.

### **Fiscal frames – debt, deficit, and sovereign default**

Federal government expenditures have been a critical component of the American economy since the founding of the United States in the late 18th century. However,

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<sup>3</sup> The legal basis and legal framework for the European Union's tax policy are set out in Articles 110-115 of the Treaty on the Functioning of the European Union (TFEU).

the current relatively large size of these expenditures is a function of the growth of the modern state of the 20th century. It was not until after World War I and World War II that the US federal defense spending began to skyrocket. In the last decades, as a result of the huge US federal government deficits generated, the total outstanding government debt has grown rapidly (from 54.2% of GDP in 1990 to 91.2% in 2010 to 106.9% in 2019). (United States Gross Federal Debt t GDP | 1940-2019 Data | 2020-2022 Forecast, 2020) (Economics, 2020).

In practice, over time, there arises a need to repeatedly raise the „ceiling’ of the federal debt in order for the US government to avoid budget defaults. An example of such an increase in recent US history is the Budget Control Act of 2011, a change made by President Obama’s administration according to which a decision was made to increase the federal debt and, respectively, lower the federal government’s credit rating by Standard & Poor’s, which led to No Budget, No Pay Act of 2013, which temporarily ‘froze’ the possibility of issuing a new debt until 19 May 2013. This ban caused a new record increase in debt after 19.05.2013 to 16.9 trillion dollars needed to repay the loans taken out during the ban period. The phenomenon described above is not a historical anomaly. Since 1960, the US Congress has initiated a procedure to permanently increase, reschedule or revise the definition of the debt limit 78 times (Kirkegaard, 2015).

The states’ governments in the USA are generally free to borrow without federal intervention. In reality, however, almost all states have a kind of constitutional or other legal requirements to establish a balanced budget, unlike the federal government.

As far as the legal framework of the ‘sovereign’ default<sup>4</sup> is concerned, the situation differs significantly at the state and local levels. Local authorities are legally treated as corporations and in some circumstances may apply for federal protection in default. The situation is quite different for the states’ governments, which have sovereign and generally unlimited by the Constitution tax powers and do not have the legal and/or constitutional ability to obtain such protection. As a result, when faced with difficulties in making their debt payments, individual states have no other choice but to reach agreements with their creditors risking losing access to financial markets.

EU fiscal governance is characterized by a set of regulations and decisions on the fiscal policy pursued, generally agreed at supranational level and taken from the sovereign Member States within the agreed legal framework of the Union. This so-called rule-based system is one of the building blocks of the Economic and Monetary Union (EMU), which binds the participating Member States by means of a single monetary policy, while preserving their autonomy as regards decisions on imposing taxes, generating budget revenues and implementing expenditures (Lilova, Radulova, & Alexandrova, 2017). After 2008, the entire EU fiscal governance framework, based

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<sup>4</sup> Sovereign default is the inability, failure or refusal of the government of a sovereign state to service all/part of its debt obligations. Cessation of due payments may be accompanied by a formal government declaration of not to pay (or only partially pay) its obligations.

on a set of specific rules, tried to improve the quality of public finances and to control the entire activity performed at a political and economic level, by striking a balance between the conflicting needs of political stakes and sustainable goals (Onofrei, et al., 2020). In response to the sovereign debt crisis the European Union (EU) took a number of measures to refine its fiscal governance. The main features include fostering fiscal discipline and strengthening the Stability and Growth Pact (SGP), enacted through the Fiscal compact and Six-Pack respectively (Masten & Gnip, 2016). Today, fiscal governance in the European Union is carried out through the implementation of the following principles and economic/political instruments:

- implementation of a single monetary policy in the euro area developed and applied by the European Central Bank based on the European legal framework; A greater role for fiscal, structural, and prudential policy would contribute more effectively to the sustainable growth of the European economy (Khesin, 2020).
- common rules on national fiscal policies (including the establishment of independent control bodies) agreed at the supranational level: the implementation of the Stability and Growth Pact<sup>5</sup> (Pact, 2020), the Maastricht criteria, and the so-called ‘Fiscal Compact’ (balanced budget rule) ratified and implemented mainly at Member State level. According to Art. 104c of the Maastricht Treaty, Member States must avoid excessive budget deficits, which must not exceed 3% of each country’s GDP, and the government debt-to-GDP ratio must not exceed 60%. Once adopted, the criteria become a cornerstone of the budgetary policies of all countries in the European Union, (EU, 2020).
- Member States’ responsibility for their fiscal policies in compliance with the ‘no bail-out’ and ‘no monetary financing’ principles of the Treaty on the Functioning of the EU. Art. 123 of the TFEU 1. Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as ‘national central banks’) in favor of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments. (EU, 2020).
- Multilateral surveillance of national fiscal and economic policies, including macroeconomic imbalances, at EU level on the basis of EU arrangements and within the ‘European Semester’ framework for the coordination of the Union’s economic policy.

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<sup>5</sup> It is a set of rules aimed at ensuring that EU countries maintains public finances and coordinate their fiscal policies. The main goals of the pact are focused on two areas: the first one – to prevent the direction of fiscal policies to potentially problematic areas and the second one – to correct excessive budget deficits or excessive public debt.

- Enhanced supervisory mechanisms and the ability to provide financial assistance to the Member States under strict conditions to ensure the stability of the euro, based on intergovernmental agreements, EU treaties, and their specifications in national law.

In order for the Member States to deal with symmetric and asymmetric shocks in adverse economic environments, the EU fiscal governance framework relies heavily on the capacity of national budgetary and other response policies, or on the Union's automatic stabilizers significantly limited in their operation. In particular, a number of detailed fiscal rules (regarding public deficit and public debt constraints) have been introduced at the EU level to regulate unsustainable public finances, thus enabling the Member States to pursue countercyclical fiscal policies during economic cycles. These common rules are designed to mediate the achievement of certain EU objectives, namely the prevention and correction of unsustainable economic policies and, on a more global scale, the positive impact of providing sustainable growth and creating more jobs in the EU Member States. „The Eurozone crisis has revealed certain shortcomings of the EMU, such as its vulnerability to asymmetric shocks and its inability to act as predicted by the theory of optimum currency areas“(Kalinowska, 2018), which showed us that those fiscal rules do not work properly and the EU fiscal policy needs some adjustment.

### **Budget**

Comparing the EU and US budgets is an endeavor, extremely interesting and in many respects impossible. The main reason for this statement of the authors lies in the purpose of these budgets. The budget of the European Union is significantly more limited in terms of both size and the principles according to which it is compiled and the goals it fulfills, compared to that of the United States. The EU's annual budget is equivalent to around 1% of the Union's national wealth, which is about EUR 244 per EU citizen. Besides, unlike the US federal budget, the EU budget must remain balanced. The European Commission currently borrows by issuing bonds for some specific purposes (using the EU budget as a guarantee). The EU and US budgets also differ significantly in the revenue and expenditure categories they cover.

The question of how the European Union budget should be spent has been a subject of an active discussions in the early years of the establishment of the European Communities (Boiar, 2019). At this point, the EU budget finances actions and projects in policy domains where all EU countries have agreed to act at the Union level. The European Union has its 'own resources to finance its expenditure. Legally, these resources belong to the Union. Member States collect them on behalf of the EU and transfer them to the EU budget (European Commission, 2020). The main categories of EU budget expenditures focus on:

1. Intelligent and inclusive growth

a. Competitiveness for growth and jobs: includes research and innovation; education and training; trans-European networks in energy, transport, and telecommunications; social policy; enterprise development, etc.

b. economic, social, and territorial cohesion: covers regional policy, which aims to help the least developed countries and regions of the EU to catch up with the others, increasing the competitiveness of all regions and developing interregional cooperation.

2. Sustainable growth: natural resources: includes the common agricultural policy, the common fisheries policy, rural development, and environmental measures.

3. Security and citizenship: includes justice and home affairs, border protection, immigration, and asylum policy, public health, consumer protection, culture, youth, information, and dialogue with citizens.

4. Global Europe: covers all external actions ('foreign policy') by the EU, such as development aid or humanitarian aid.

5. Administration: covers the administrative costs of all European institutions, pensions and European schools.

Under the Tenth Amendment to the US Constitution, the 50 states have jurisdiction over all entities that are not explicitly delegated to the federal government. The Constitution gives the federal government control over many critical areas of politics and the economy. Over time, the 50 state governments and about 90,000 local governmental and administrative structures report a growing share of their fiscal activity. They have a variety of sources of income, including various types of tax revenues and capital transfers, revenues from state-participation enterprises, other assets, social security contributions, and are also largely free to make their tax decisions dependent only on some restrictions imposed by the federal constitution. In terms of costs, most of the main functions are divided between state and local government, with important exceptions being national security, social security (pensions), and health insurance for the elderly and disadvantaged.

### **(Collective) fiscal discipline**

The critical need to observe fiscal discipline at the state level is specific to the European Union, to a large extent the establishment of such is the subject of the fiscal policy of the United States of America, too. Most states operate from the position of members of a monetary union, and federal states combine central government and sub-central governments at the regional and city levels. Fiscal discipline at every level of governance aims to avoid the risk that a government will try to 'blackmail' the others by demanding funding in the event of default. The request for additional financing can also be directed to the central bank, especially when the accumulated debt is large. However, deficit financing and debt monetization are the surest precursors to a significant increase in inflation.

The urgency and need at EU level to establish fiscal discipline within the Community is strongly argued and justified in the 1989 Delors Report, and the conclusions of the report subsequently became an integral part of the Maastricht Treaty. Unfortunately, the excessive deficit procedure in the Treaty, which led to the Stability and Growth Pact, took the wrong approach to fiscal discipline, as evidenced by: the EU debt crisis, the problem of excessive debt and deficit levels in countries such as Greece, Italy, Ireland, etc. The deepening of these problems and the growing scope of the debt crisis in the EU over the last decade are a strong argument of many authors, such as Wildasin, E. (Wildasin, 1997) in proving the failure of the SGP.

As noted above, fiscal discipline at EU Member States level is subordinate to the provisions of the Stability and Growth Pact and its unique construction, combining horizontal and vertical aspects at national and supranational levels of governance. In fact, the European Commission implements the Pact, but the key decisions are taken collectively, by all Member States, although the Six-Pack Act<sup>6</sup> adopted in 2014 strengthens the vertical dimension at the expense of the horizontal, i.e. it represents a step towards centralization. The question raised by this act is whether the adaptation of a centralized model is the best approach in the case of the EU or should the responsibility for the formal definition and implementation of fiscal discipline be taken by the EC at central or sub-central level? And, if the presumption that decentralized fiscal discipline established between the various levels of federal, state, and local levels in the United States works, then is it possible and appropriate to adopt such a model in the EU?

### **The ‘no-bailout principle’**

The other issue of scientific interest and numerous studies in the field is why fiscal policy decentralization is more effective in achieving discipline. In their works, authors such as Rodden, Oates, etc. (Oates, 2006) emphasize the key importance of the central government’s refusal to bail out (no-bailout principle) sub-central governments after the example of the United States. When the principle is firmly established, the incentives of the sub-central authorities change. Since fiscal indiscipline has ultimately proved to be unsustainable, the established no-bailout rule implies that the burden of debt must ultimately be borne at the sub-central level. However, the disparity in time remains and may encourage current governments to shift the burden of debt onto future governments. The establishment of strict compliance of the no-bailout rule by the central government naturally leads to a situation in which the sub-

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<sup>6</sup> In 2012 and in 2014 a set of new laws regulating the implementation of the Stability and Growth Pact, called the six-pack act and the two-packact, was adopted step-by-step, the main aim of which was to strengthen economic coordination between Member States and to introduce new monitoring tools.

central authorities undertake the necessary steps to avoid an unfavorable situation necessitating such aid.

The most significant weakness of the euro is the high interdependence between euro area banks and nation-states. The bad practice with countries such as Ireland and Spain shows that banks and countries can bring each other to a collapse, so the most significant shortcoming in the creation of the euro is that the financial system is not adapted to the monetary union. If within a monetary union (euro area) individual Member States fall into insolvency, debt relief becomes inevitable in the context of preserving the integrity of the union. Since banks in the USA are not dependent on the individual states and the savings of the American citizens are invested in American and not state banks, then in the US, the threat of a chain reaction is insignificant.

The recent debt crisis in Europe highlighted the importance of institutional design and, in particular, bail-out clauses in determining States' risk premia in fiscal or quasi-fiscal federations (Sola & Palomba, 2016). In the euro area, any crisis outbreak (the potential deepening of the crisis in each Member State) could have a 'domino effect' throughout the monetary union. On the other hand, when sub-national governments depend on high transfers from the central government (i.e., when there is some form of implicit guarantee from the center), markets are less responsive to sub-national governments' fiscal fundamentals (Sola & Palomba, 2016).

This in turn leads to the conclusion that individual Member States have virtually minimal responsibility for their own fiscal policy, relying on the fact that if they fall into insolvency, the other Member States will bail them out.

Inevitably, in this context, there must be an emphasis on the importance and functions of the European Central Bank. According to Art. 1 of the Statute of the European Central Bank and of the European System of Central Banks: „In accordance with Article 282(1) of the Treaty on the Functioning of the European Union, the European Central Bank (ECB) and the national central banks shall constitute the European System of Central Banks (ESCB). The ECB and the national central banks of those Member States whose currency is the euro shall constitute the Eurosystem“. (Union, Official website of the European Union, 2020). Subject to the principle of maintaining price stability and conducting an appropriate monetary policy, the ECB is obliged to pursue the Community's economic policy in the context of achieving the strategic objectives of the European Union. However, the most significant difference between the ECB and the US Federal Reserve is that the ECB is not able to make independent decisions on the euro quickly and adequately enough. This is the last, perhaps the most significant distinction between the dollar and the euro. The ECB is essentially a federal institution – made up of the central issuing banks of the 19 euro area countries. It is not an independently operating issuing bank and therefore cannot guarantee the sustainability of the Euro like the Federal Reserve guarantees that of the US dollar.

## Results and Discussion

Based on the criteria analyzed above, the authors suggest summarizing some of the most important findings in the following table:

№	Criteria	USA	EU
1	<b>Institutional governance structure</b>	Federal constitutional republic (federation);	International organization – political and economic union between sovereign Member States
2	<b>Imposing taxes</b>	Possibility to impose taxes, set tax rates and levy them on taxable entities	The EU is not a tax union, it cannot impose taxes, nor can it directly influence the collection of taxes and the setting of tax rates. Efficient tax harmonization in the area of indirect taxation.
3	<b>Budget (2018)</b>	Total revenue \$3.330 trillion 16.5% of GDP Total expenditures \$4.109 trillion 20.3% of GDP <sup>7</sup> There is no legal determination regarding the US budget being balanced.	Unlike national budgets, which are mainly used to provide public services and fund social security systems, the EU budget is primarily used for investment. The EU's annual budget is equivalent to around 1% of the Union's national wealth (2%) of the combined national budgets of all 28 EU countries. EU budget must be balanced.
4	<b>Fiscal frames: debt; deficit; sovereign default</b>	There is no legal determination regarding the debt and deficit of the USA. The United States recorded a government debt equivalent to 105.5% of the country's Gross Domestic Product in 2018 <sup>8</sup> . The United States deficit in 2018 was -3.8% of GDP	According to Art. 104c of the Maastricht Treaty the Member States must avoid an excessive budget deficit, which must not exceed 3 % of the GDP of each country and the state debt-GDP ratio must not be more than 60 %. 80.4% average European debt level Euro area government deficit at 0.5% and EU28 at 0.6% of GDP <sup>9</sup>
5	<b>(Collective) fiscal discipline</b>	The United States combines central government and sub-central governments at the regional and city levels. Decentralized fiscal discipline is established between the federal, state, and local levels.	Horizontal and vertical aspects of national and supranational levels of governance Maastricht Treaty Stability and Growth Pact Six-Pack Act
6	<b>The „no-bailout principle“</b>	Explicitly stated the 'no-bailout principle' in the US Constitution. The sub-central authorities undertake the necessary measures to ensure that they do not default. The Federal Reserve is able to make independent decisions about the US monetary policy.	The euro area's financial system is not adapted to the monetary union. The ECB is not an independently operating issuing bank. It is built on the foundation of the central issuing banks of the 19 euro area countries.

<sup>7</sup> <https://www.govinfo.gov/content/pkg/BUDGET-2020-TAB/pdf/BUDGET-2020-TAB.pdf> 2020 Budget Tables“ (PDF). Government Publishing Office. Retrieved April 25, 2020.

<sup>8</sup> United States Gross Federal Debt to GDP 1940-2019 Data | 2020-2022 Forecast, <https://tradingeconomics.com/united-states/government-debt-to-gdp>

<sup>9</sup> Eurostat, News release, Eurostat Press Office  
<https://ec.europa.eu/eurostat/documents/2995521/9731224/2-23042019-AP-EN/bb78015c-c547-4b7d-b2f7-4fffe7bcdfad>



## Conclusion

This study focuses on several key issues (criteria) related to the adequacy of the performed fiscal governance in the EU and the USA in order to establish stability and economic growth. As far as the fiscal governance, within the EU it is a set of universal rules and decisions on Community fiscal policy implemented at the supranational level, adopted by sovereign Member States within a coherent EU legal framework. In the United States, fiscal activity is carried out within a three-tier hierarchical structure at the federal (central), state, and local levels, with clearly defined in the U.S. Constitution managerial and administrative powers distributed within that hierarchical structure.

There are many differences and similarities, both in the fiscal governance frameworks and in the budgets of the EU and the USA. The most significant difference is the opportunity to impose taxes. Having in mind that the EU is not a tax union, it is extremely important for its' future development to continue its strict policy in the area of tax harmonization. Despite these differences, the pursuit of fiscal discipline, combined with a balanced distribution of commitments and responsibilities for compliance between central and sub-central governments/governmental structures, is a key element of fiscal activity in both the EU and the USA.

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## SUCCESS AND FAILURE OF REGIONAL POLICY IN THE REPUBLIC OF BULGARIA

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### ***Abstract:***

*This report aims to analyze what has been achieved so far in state policies and strategies for regional development. The report presents the main problems of the last ten years and examines the unattainable regional policies. The authors identify the main unresolved issues and recommend overcoming them. The reasons for the slow socio-economic development of the regions and the cyclical imbalance are considered. The survey in this part is based on actual data in a dynamic environment from Eurostat. The research outlines the processes of regionalization at the EU level and reciprocally to the planning regions. The authors performed a synthesized analysis of the unsolved problems and the factors influencing the national space. The research team considers the structure of the central units for management of the regions and suggests recommendations for successfully implementing the regional strategies for developing the Republic of Bulgaria.*

*Keywords: Regional development, regional growth, regional inequalities*

### **Exposition**

The successes and failures of the regional policy in recent years in our country can be judged by the currently implemented projects for the development of space and the results of the various types of implemented infrastructure projects. Other information can be found in the national statistics data and the conclusions from the current national, regional policy analysis. The conclusions focus on two main areas: interregional inequalities and intra-regional differences.

These two key elements are also supported by the following more specific non-achieved functionalities, such as the low efficiency of the implemented measures, the complex control of the strategic documents, and the state policies in regional development. Another crucial point is the problem with the excessive number of operational,

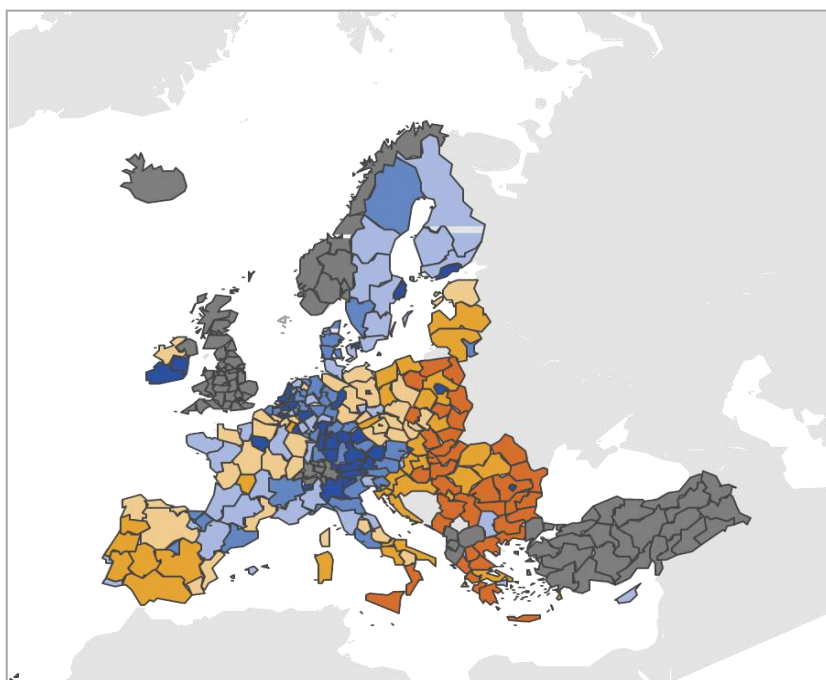
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strategic documents, also a matter of EU scope. In this regard, the European Commission publishes a list of exactly 80 (eighty) documents aimed at reducing administrative burdens, regulations, harmonization of the procedures for the different Member States merging the strategy papers. The opportunity here is for rational use of the collected information for the needs of regional development. At the moment, a detailed socio-economic analysis is not possible from the data collected by the NSI. An additional unit for systematization of regional data should be established, and the profile of regional competitiveness should be reached with the help of a functional matrix for regional analysis.

There is a systematic deepening of regional disparities and lagging behind four of the planning regions in Bulgaria, and the more critical socio-economic indicators, which measure the well-being of the population. After Brexit, the structure of the EU planning regions has changed. According to their competitiveness and GDP are as follows:



**Figure 1.** GDP per inhabitant in PPS (% of EU-27 avg.)

Southwestern region (BG41) *Bulgaria*<sup>3</sup>

Population, 2019	2 102 205 inhabitants
Life expectancy at birth, 2018	75.9 years
Employment rate (ages of 20-64), 2019	80.4 %
Unemployment rate (15 years or over), 2019	8.7 %
Tertiary educational attainment (ages of 30-34), 2019	47.3 %
➤GDP per inhabitant in PPS (% of EU-27 avg.), 2019	89 %
Gross domestic expenditure on R&D, 2018	1.14 % of GDP
Nights spent in tourist accommodation, 2019	2 408 886 nights
Passenger cars, 2018	448 per 1 000 inhabitants
Fatal road accidents, 2018	59 per million inhabitants

The presented figure shows that out of 245 (two hundred and forty-five) planning regions in the EU, the most economically developed Bulgarian region is the Southwestern, ranking 116th. It is followed by Northeast Region 237th, Southeastern Region 239th, South Central Region 240th, North Central Region 241st, and Northwestern Planning Region 242nd. The disparities in our six regions are evident here.

In the last ten years, there has been slow economic growth with a slow pace of development. This phenomenon determines the need to take measures for legislative changes to stimulate a new, modern and practical approach to forming regional policies with the direct participation of citizens and businesses. We recommend using the model adopted by the EC called Quadra pool helix-covering interaction between academia, administration, industry, non-governmental sector, civil society organizations, and the media. In this way, we could obtain the much-needed comprehensiveness by reaching out and paying attention to all stakeholders to reduce differences and appeals.

All strategic documents at the regional level can be much more successful. The governance of the regions lacks an intermediate unit to be elected directly by the citizens. This deficit hinders the development of the regions and inhibits regional economic growth.

Currently, the Council of Ministers appoints the District Governor. Our opinion is that this should be changed, and a more appropriate option is the direct election by the

<sup>3</sup> Administrative boundaries: © EuroGeographics © UN-FAO © Turkstat, Cartography: Eurostat – GISCO, 2017. This tool includes data on regions from the EU, EFTA and EU candidate countries. The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the European Union concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. Kosovo\*: This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

citizens. In this way, citizens will be directly involved in the decision-making of local and regional importance.

Another critical issue directly related to this problem is the new EU regulation setting quotas for members of the Committee of the Regions. According to him, members elected on a quota basis concerning the Member State's population may be represented by directly elected representatives, i.e., mayors and municipal councilors. This automatically excludes the participation of a regional governor in the Committee of the Regions.

Another unsolved problem is the structure of the planning regions. According to an EU regulation, if the population of a planning region decreases by 200,000, new zoning must be proposed. In our country, such a decrease appeared in the North-West planning region. The Ministry of Regional Development and Public Works launched consultations and many public discussions and conferences. Stakeholders came up with various proposals for the number and structure of planning regions, but the political situation did not allow this to happen, and a letter had to be sent to Eurostat requesting a postponement of this process. This did not solve the problem but remained one of the unresolved issues in regional policy. Differences between districts and municipalities continue to widen.

The demographic problem with low birth rates and high mortality also aggravates. The mechanisms created so far are not effective, and we need to look for working good practices to change the negative trend without reassuring ourselves that the demographic indicators are similar in most European countries. The problem of slow progress in education, health, and social care is also severe.

The current conditions of digitalization of the economy and society and the context of the new industrial revolution 4.0 require adequate and flexible state policies and development strategies. Technological renewal and implementation of more and more modern ICT is needed. It is essential to introduce an e-government that is more comprehensive and that citizens and businesses trust it to share data and upgrade it. Such an approach will ensure transparency in the allocation of public resources. It is necessary to build administrative capacity that fully handles new technologies and overcomes the interaction with paper (Krasteva, 2018).

In these new realities, we must be cautious about developing human resources, as some of the traditional professions will disappear and will be replaced by new ones. The education role is to anticipate them and start training personnel with specific knowledge in the digital economy and transition from traditional to digital management (Botseva, 2020).

We should not overlook issues related to ecology, the environment, climate change, water, and air. The concentration of a growing population in our big cities is hampering balanced urban development, and we must prepare now to meet these challenges. We will try to present the factors influencing the growth of space and innovative development of the territory. They are mainly systematized into several groups:

- Geopolitically
- Economically

- Urban
- Social
- Ecological

What are the main directions for the development of European regions in the next programming period?

They are clearly outlined in the strategic documents of the EC. These are the recommendations for polycentric balanced development; integrated development in both urban and rural areas (around 70% of the EU's territory); improving regional competitiveness by bringing out the competitive advantages of the regions; improving territorial connectivity and better managing the ecological, landscape and cultural values that we consider to be still untapped potential. All this can outline the future development of Bulgaria through the next programming period.

Focusing on three priority axes can lead to effective economic and social growth. These are, first of all, technological transformations, including resource efficiency, increasing the costs of research and development, and creating conditions for improving regional competitiveness; Secondly, the creation of working mechanisms for demographic recovery and thirdly, the reduction of socio-economic inequalities in the regions.

Other positive steps and a thriving regional policy are concerning regional development councils. They are structured in a new way, with representatives of business and academia with the right to an advisory vote. Of course, they are an advisory body, and their work should be supported and organized by experts and specialists in regional development, graduates in the field of Administration and Management, specialty „Regional Development“ (Tsolov, 2018).

The contents for their activity outline the definition that they will carry out actions for the benefit of society in the territory of the respective region. Their new functionality will refine the number of strategic documents, synchronization, control, monitoring, and evaluation of strategic documents for regional development and other sectoral documents and the vertical and horizontal of regional governance. We find it appropriate and recommend creating a digital information system for the needs of regional development. The failures are realized. The state policies and strategies for regional development clearly outline the priority axes for overcoming them (Tanakov, 2018). Forming a new type of regional policy will create conditions for balanced and sustainable development of regions and municipalities through socio-economic and innovative products on the territory, creating conditions for economic growth, building connectivity and integration of peripheral and cross-border areas (Vasileva, 2019), adapting to climate change, and controlling the risk of disasters and accidents.

### **Conclusion**

The report's primary goal is to present the successes and failures of regional policy in our country from a different perspective over the past ten years. An analysis was



made of the regional strategic documents' effectiveness, the state policies and strategies, and the normative base. We outlined the problem areas and presented possible solutions to some of the problems. The drive to create the conditions for rapid economic growth depends on many circumstances that need to be precisely synchronized. We presented data on the ranking of our six regions for planning on the indicators of GDP and competitiveness to show the sizeable interregional imbalance (Lyubomirova, 2018). We have consistently identified unresolved regional problems and made recommendations for overcoming them. We have considered the factors directly influencing the innovative development of the territory. We highlighted the model of EU development in the next programming period and the integration of our state policies and development strategies in this process. We analyzed the activity of the regional development councils and their usefulness in the process of realization of the regional strategy. We have outlined the main steps we need to take to improve the processes of regional development.

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## INNOVATION AND COMPETITIVENESS OF BULGARIAN SMEs

Yanica Dimitrova<sup>1</sup>

### **Abstract:**

*An essential condition for achieving and increasing the competitive advantage, in the states of Industry 4.0, are the innovations that the companies create, and the strategies that they apply to compete in the market. In this article, we consider the relationship between innovation and competitiveness in the context of Bulgarian small and medium enterprises. The current state of the theory is presented through an empirical study based on a sample of 300 companies operating in Bulgaria. The main activities associated with the innovations in which the respondents invest are offered, noting the increase in investment in internal R&D, external knowledge, external R&D, and the main strategies with which they compete – process modernization, modern equipment, new products and services, marketing and advertising. The study is dominated by companies that maintain partnerships with other organizations and clients.*

*Keywords: innovation, competitiveness, strategy, SME*

### **Introduction**

The essence of innovation is found in the renewal of the companies; the main goal is to maintain and increase the competitive advantage.

Innovation is associated with knowledge management (Димитрова, 2017). It is noted that the ability of companies to generate knowledge during the innovation process can be identified as a critical source of competitive advantage. The number of studies presenting the interactions between two or more organizations during the innovation process is growing (Gnyawali & Park, 2011). Independently, companies have limited resources to generate valuable knowledge. It is possible in interaction with other organizational actors or stakeholders to create knowledge.

In the context of the growing turbulence of the business environment, the concept of open innovation is becoming increasingly relevant. The reason for its implementation is the constant change and dynamics of the business environment, as well as the

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inability of companies to carry out internal research and development with the same success that they would have in the use of external knowledge.

Open innovation research, about small and medium-sized enterprises, is vital (Vanhaverbeke, 2017). The SMEs rely on external expertise to overcome size constraints (Pullen et. al., 2012).

Competitive performance is a multidimensional construct that encompasses the company's growth (Dobbs & Hamilton, 2006), survival, success, and competitiveness. The development and subsequent adoption of various strategies by companies are also crucial for their competitive performance.

SMEs are the engine of the economy; they have certain specifics that help them achieve competitiveness. The article examines the relationship between innovation and competitiveness of small and medium enterprises (SMEs) that operate in Bulgaria. It is based on theoretical and empirical analysis; we will present through what strategies Bulgarian SMEs compete in the market, what are the direct investments in innovations that they realize, whether they create innovative products and services, whether they maintain partnerships with other organizations.

### **Goals and tasks of the current study**

The present study aims to present the relationship that exists between innovation and the competitiveness of companies, specifically SMEs, in the context of its understanding of Bulgarian business.

The tasks that arise from the goal set in this way are:

We will outline a brief theoretical presentation of the concepts of innovation, competitiveness, open innovation.

The formulation of the characteristics that support SMEs in their innovative efforts, leading to increased competitive performance will be made.

Disclosure, based on empirical research, of competition strategies, of investments in innovations, the production, and supply of innovative products and services, of the implementation of partnerships by SMEs carrying out their business activities in Bulgaria is presented.

### **Methodology**

Based on a literature review focused on the relationship that exists between innovation and competitive performance and empirical research – a survey with closed questions, the conclusions about the relationship in the context of Bulgarian SMEs will be presented.

### **Hypothesis**

There is a real connection between innovation and the competitive performance of SMEs operating in Bulgaria, which is visualized through investments in activities as-

sociated with innovation and produced and offered goods and services, applied specific strategies and actions related to increasing competitiveness, supported strategic partnerships.

## **Literature Review**

### **Innovation**

The essence of innovation is found in the renewal of the activities of companies aimed at maintaining and increasing competitive advantage, as well as increasing the opportunities for value creation (Hax & Wilde, 2003).

Lack of innovation can lead to a loss of uniqueness of products and corporate brands, which is directly related to lower competitive performance. The most significant opportunity for innovation is found in the creation of a competitive advantage for the company and lasting positive performance (Kuratko, Hornsby, & Covin, 2014).

According to M. Porter (1990), innovation is the only way to maintain a competitive advantage.

The OECD's Oslo Manual (2005) mentions that innovation does not have to be something completely new; it may be an improved product, a method of market competition or a process that benefits competitiveness. In the context of what has been said, Dory (2005) defines that innovation can be seen as the practical application of new ideas, by using existing knowledge as a basis for creating new products and services or upgrading existing ones. From the perspective of resource-based theory, innovation is understood as most essential for value creation and sustainable competitive advantage (Baregheh et al., 2009).

The choice of innovation strategy by the organization is influenced by internal and external factors related to the characteristics of the organizational entity and the business environment in which it operates.

Innovation is also associated with knowledge management (Димитрова, 2017). The ability of companies to generate knowledge during the innovation process can be identified as a critical source of competitive advantage. The innovation process is the result of a variety of sources of knowledge realized through interactions between diverse stakeholder groups (Mahr et al., 2014). Companies must continuously scan the environment to find access to new knowledge through new sources inside and outside them.

The more substantial access a company has to sources of knowledge, the more innovative it is. The acquired knowledge should complement what exists in the organization (Nonaka, 1994).

### **Open Innovation**

Open innovation represents the ability of organizations to overcome their limitations and to adopt knowledge and technologies from their environment (Chesbrough, 2003; 2006). The reason for applying the concept of open innovation is the constant change and dynamics of the business environment and the inability of companies to

carry out internal research and development with the same success that they would have in the use of external knowledge. In the context of increasing globalization, organizations are increasingly relying on superficial expertise as a source of competitive advantage (Soto-Acosta et al., 2018).

Many researchers focus on justifying open innovation processes (Bogers et al., 2017), but at the moment, this research is mostly aimed at large companies. Open innovation research, about small and medium-sized enterprises (SMEs), is vital (Vanhaverbeke, 2017). The SMEs rely on external expertise to overcome size constraints (Pullen, et al., 2012).

The benefits of implementing open innovation, in the context of SMEs, are evident from studies indicating that companies engaged in open innovation have greater access to ideas, knowledge, technology in interactions with stakeholders in their ecosystem (Димитрова, 2017; Димитрова, 2019).

The smaller a company is, the more it depends on interactions, so it is essential to focus on all stakeholder groups in the process of implementing open innovation (Darnall et al. 2010).

The mechanisms supporting the innovation processes are strategic alliances, joint ventures, open-source platforms, participation in diverse, specialized professional communities. Open innovation is also associated with the implementation of an open strategy. The open strategy is related to the creation and implementation of various policies as a result of the interaction between internal and external expertise.

### **Competitive performance**

Competitive performance is a multidimensional construct that encompasses the company's growth (Dobbs & Hamilton, 2006), survival, success, and competitiveness. The development and subsequent adoption of various strategies by companies are also crucial for their competitive performance. Different companies create a variety of strategies to increase their competitive advantage, so strategy is one of the essential elements for successful competitive performance. It is a competitive performance that is perceived as the result of actions related to the process of strategic management, which consists of improving it (Wheelen & Hunger, 2010).

Competitive performance is influenced by external and internal factors for the organization. Competitiveness indicators are tangible – the company's financial indicators and intangible – corporate culture, corporate identities and images, brands, reputation (Димитрова, 2012).

Innovation is an essential condition for the survival and successful development of organizations in the long run, as well as for the generation of competitive advantages for those of them who implement and execute it. Companies create and sell innovative products and services precisely to support their competitiveness.

Innovation is at the heart of competitive performance: through how organizations anticipate and meet customer needs, and through how they utilize technology. Even if

a company has a high degree of innovation to be successful, it must use it as a result that helps it achieve better competitive performance (Neely, et al., 2001).

In general, maintaining a company's long-term competitive advantage depends on its ability to embrace and implement different types of innovation (Gopalakrishnan & Damanpour, 1997).

Several studies are proving the positive nature of the innovation-competitive relationship (Bobillo et al., 2006; Cainelli et. al., 2006; Cefis & Ciccarelli, 2005; Judd & McNeil, 2008; Siqueira & Cosh, 2008; Prajogo, 2006). The link between innovation and achieving a sustainable competitive advantage of the company has been proven in numerous empirical studies (Gunday, et al., 2011; Li et al., 2010; Prajogo, 2006; Neely et al., 2001; Salomo et al., 2008). Research has also been conducted that outlines the link between innovation and a company's financial performance, emphasizing it as a critical factor in achieving long-term successful competitive performance (Hult et al., 2004; Gonzalez-Loureiro & Pita-Castelo, 2012).

Therefore, companies that focus on innovation are much more successful than others in the market (Calantone et al., 2002), and show better financial performance.

### **SME Characteristics**

According to various studies, the size of a firm influences the innovations it implements (Schumpeter, 1934; Kotey & Folker, 2007). Large companies are associated with the advantages of having more resources than small ones, and this correlates with their more substantial ability to conduct research and discover new technologies, products, and services (Morrison et al. 2008; Audretsch et al., 2018).

To increase the competitiveness of SMEs in today's highly turbulent business environment, the European Strategy 2020 emphasizes the need for easier access to finance for SMEs and the opportunities to stimulate research and development, as well as to increase the effectiveness of the innovation processes that the Horizon 2020 program focuses on. The principles of the OECD (2010) emphasize the importance of increasing investment in innovation, which predetermines the increase of innovative productivity and the subsequent successful realization of the products and services created as a result.

It is important to emphasize that small firms are not scaled-down versions of large ones (Welsh & White, 1981) and their specific characteristics can be seen as advantages or as barriers to innovation.

Small and medium enterprises are an essential element of the economy in the modern world. They are defined as dynamic, flexible, innovative; their size allows flexibility, quick feedback, understanding, and providing a quick response to customer needs, which is an irreplaceable competitive advantage. Small companies are more innovative by applying other methods of innovation than large ones – for example in management – in small companies managers are more likely to have direct, face-to-face contact with employees and thus can encourage the so-called „dynamics of entrepreneurship“ (Davenport & Bibby, 1999). SMEs encourage adaptability to market

changes, customer needs, which is supported by their organizational structure, allowing rapid decision-making (Perez-Gomez et. al., 2018). The efficiency of research and its development, the immediate implementation of internal communication processes, increased opportunities for organizational learning, and adaptation of strategies and procedures.

Large companies are seen as more aggressive in innovating (Wakasugi & Koyata, 1997). They have more departments and employees who can focus on research and development, in developing marketing strategies and product/service innovations, etc. Markets are becoming more competitive, and this requires SMEs to create more products and services, apply original marketing and management methods, as well as to use the advantages of new technologies to compete. Mentioned again emphasizes the importance of innovation in increasing competitive advantage (Gonzales-Loureiro & Pita-Gonzales, 2012). Innovation in SMEs depends mostly on the specifics of the company, its market position, the ability to provide answers to changing market demands, as well as its organizational strategy and management.

The innovativeness of SMEs stems from their heterogeneity, but their innovative capacity is limited by financial resources and human capital. For SMEs to overcome these limitations, serious investment is needed in employee training related to innovation (Mavondo et al., 2005). The main advantage of SMEs is that they are much more flexible to the changes taking place in the industry in which they operate, as well as in the environment around them. The SMEs more quickly orient themselves to the opportunities for innovation, as opposed to large companies (Rosenbusch et al. 2013).

Previous research on innovation in SMEs is related to the challenges they face – globalization, the knowledge society, Industry 4.0, which require them to compete in global markets, to create know-how, flexibility and rapid adaptation to ever-changing requirements (Agostini & Filipini, 2019; Milozi, 2017). It is also essential in this process to have the opportunity to acquire new and useful external information (Cohen & Levinthal, 1990). The rapid adaptation of new technologies to support the generation of new business models (Hunter & William, 2006), which is also determined by quick decision-making and overcoming the limitations in the process of introducing new products and innovative approaches (Wozniak et al., 2019). It is clear that the role of innovation of any kind – product, process, marketing, organizational – to increase competitive advantage, is significant and it has a positive impact on the overall performance of SMEs (Wozniak et al., 2019). Exposito, Sanchis-Llopis (2019). For the above to be successful, it is necessary to implement processes related to organizational learning (Dodgson, M., 2017). The link between organizational learning – innovation and competitive performance is also found in market research and action to meet their requirements (Gomes & Wojahn, 2017; Kosgei & Maru, 2015). The mechanisms supporting this process are conducting experiments, risk-taking, interactions with the external environment, dialogues, and co-decision-making functions (Alegre & Chivaq, 2008) Therefore, increasing the competitive performance of companies re-

quires the implementation of long-term strategies related to organizational learning through the creation of networks of organizations (Prokop, D. et al., 2019)

It has been empirically proven that small companies are much less dependent on internal research and development than large ones and much more dependent on external knowledge acquired through alliances, partnerships, and other formations in which they participate (Ganotakis & Love, 2011). SMEs need to be able to strategically adapt to compete with large companies. Strategic alliances between large companies and SMEs are essential for the implementation of innovative projects for both types of companies (Димитрова, 2017; Димитрова, 2019). In the interaction between SMEs and other companies – especially with large ones – they gain access to relevant resources, and by sharing them, they get a real opportunity to create value that they would not achieve only with their limited resources.

### **Empirical Findings**

The sample is based on the number of companies that implement innovations in the Republic of Bulgaria. Data is according to NSI for 2018.

The profile of the surveyed companies is as follows: the number of respondents – 300 companies, the owners and/or managers of the companies were interviewed according to a pre-prepared survey with closed questions. The survey was conducted in the period March-April 2020<sup>2</sup>.

The size of the companies is determined according to the European classification – micro enterprises (up to 10 people) – 159 respondents, small (10-49 people) – 92, medium (50-249) – 32, large (over 250 employees) – 5; 12 of the respondents did not answer which group the company they belong. From the demographic profile, we see that the respondents in the survey are mainly representatives of SMEs (fig. 2.).

By field of activity: 23 of the respondents in the survey are employed in trade, 67 companies in manufacturing, 90 in the services sector, 15 companies in the light and processing industries, 14 in mechanical engineering, 7 in energy, 7 in science and education – 9. 27 participants in the survey represented the IT sector. Fourteen of the respondents are engaged in the field of construction, design, engineering. Thirty-four have applied for other economic activity (fig. 1.).

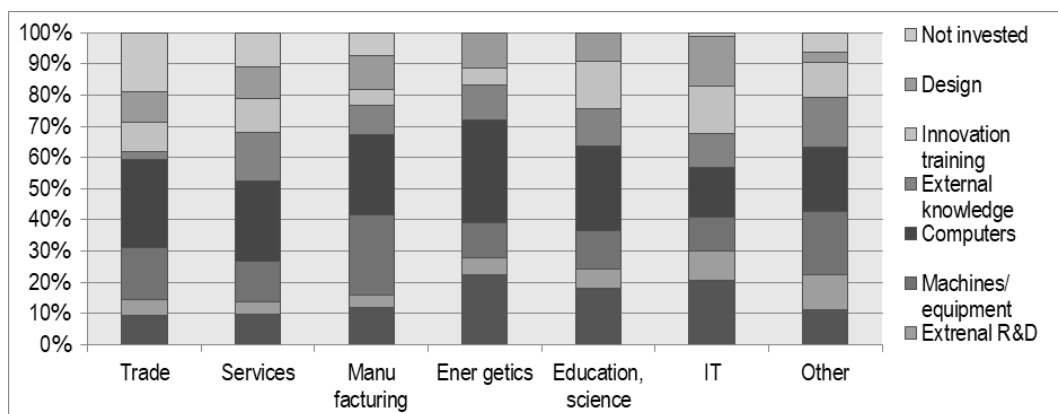
In the context of the Bulgarian business reality, we can note that micro and small companies predominate.

Through the presented results, we visualize the relationship that exists between innovation and competitive advantage in the context of SMEs operating in Bulgaria. It is showing through the investments they make in various activities related to innovation, the creation of innovative products and services, strategies that apply to compete in the market.

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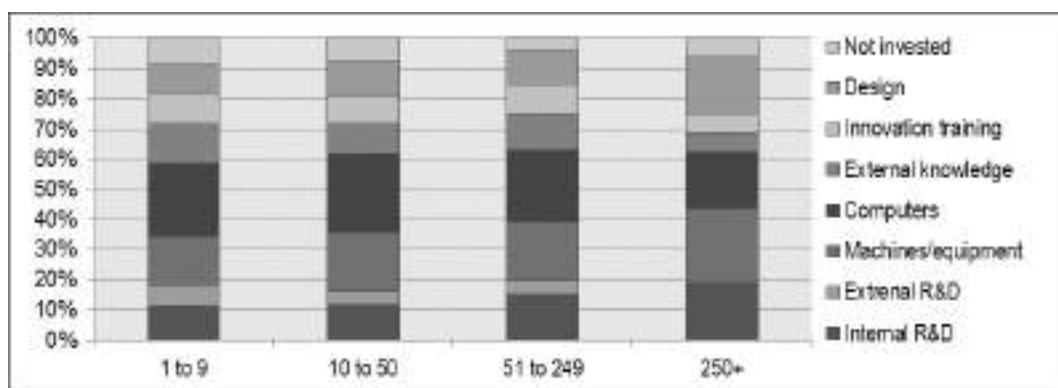
<sup>2</sup> The research is under the project „Innovations in business and education. Development of a conceptual communication model for innovations in business-information organizational environment“, NSF, Contract KP-06-N35 / 5 dated 18.12.2019.





**Figure 1.** In the last three years has your company invest in:/In which sector does your company operate?

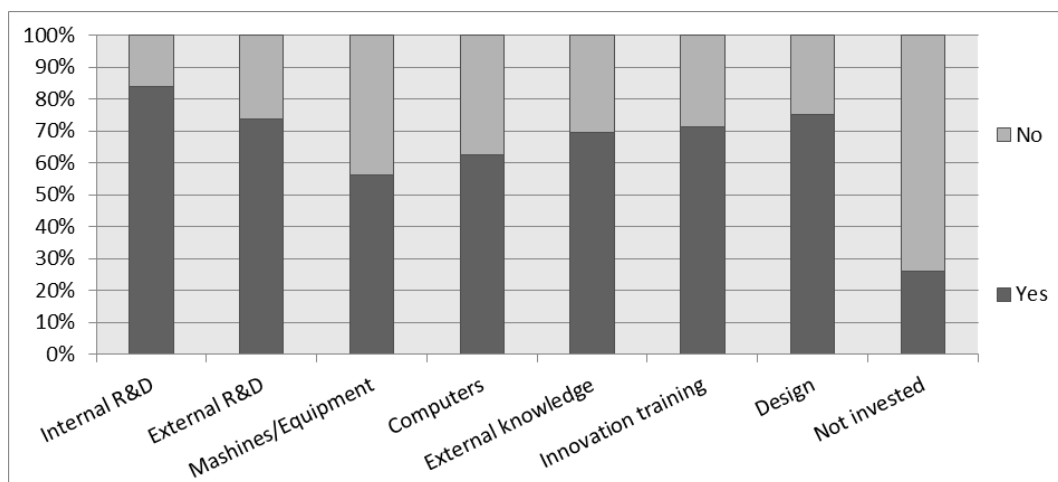
*Source:* The author – Empirical study



**Figure 2.** In the last three years has your company invest in:/The number of employees in your company is:

*Source:* The author – Empirical study

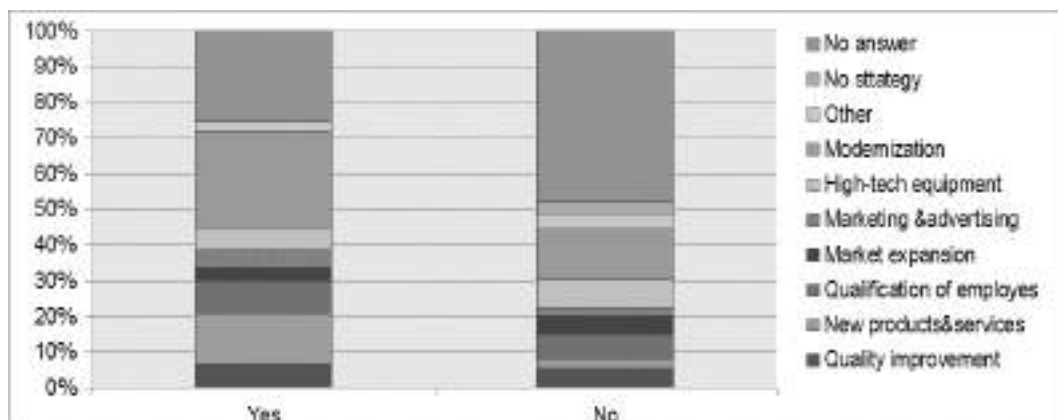
We can say that regardless of the size of the company, the majority of respondents invest in the purchase of computers and modern equipment. Investments in internal research and the acquisition of external knowledge are also among the favourites of the respondents. They also invest in design and training for their employees related to innovation. To a lesser extent, investment is made in external research, and in the case of large ones, no such analysis is indicated at all. A small percentage of respondents indicate that they do not have investments related to innovation.



**Figure 3.** In the last three years has your company invest in:/Has innovative products and services been developed in your company?

*Source:* The author – Empirical study

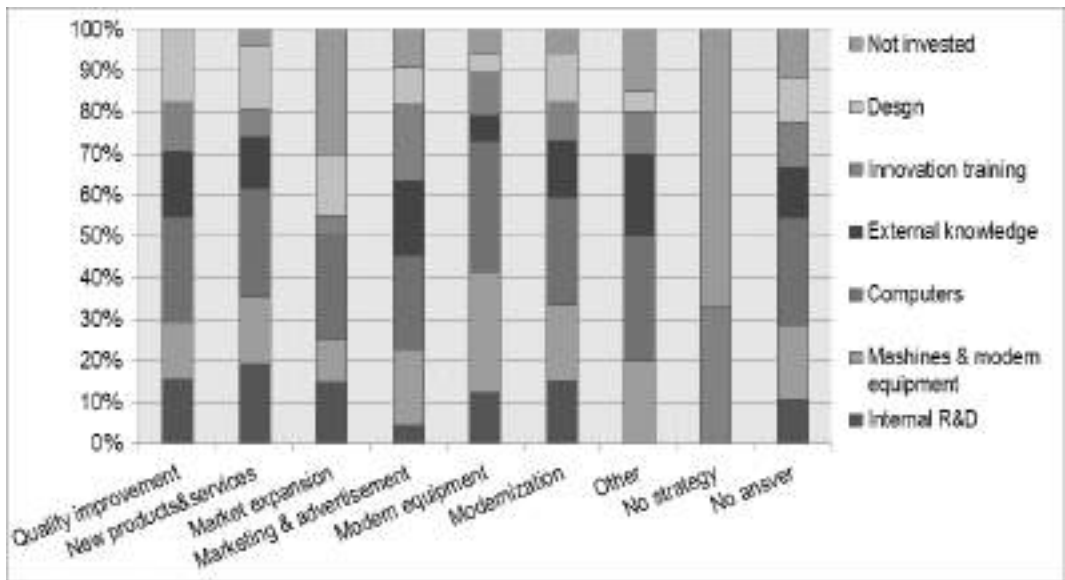
Respondents who have developed innovative products and services invest in internal research, in external research, in design. They also focus on conducting training related to increasing the capacity of members of organizations to generate innovations, the purchase of computers, modern machinery and equipment.



**Figure 4.** Has innovative products and services been developed in your company?/What specific strategy or action would you take to increase the competitiveness of your company?

*Source:* The author – Empirical study

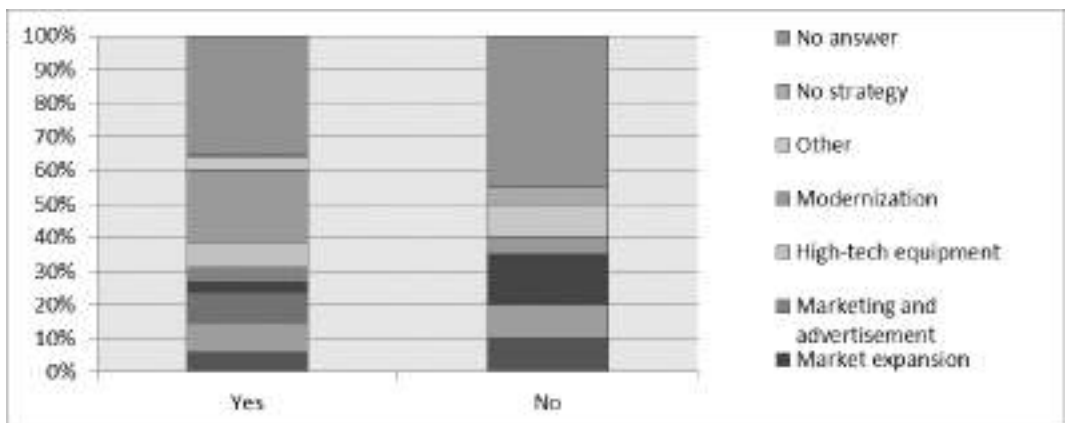
The primary strategies of the creators of innovative products and services are new products and services, marketing and advertising, modernization, followed by quality improvement; staff qualifications, market expansion.



**Figure 5.** In the last three years, has your company invest in:/What specific strategy or action would you take to increase the competitiveness of your company?

*Source:* The author – Empirical study

The main applied competitive strategy is related to the modernization of the various processes carried out by the respondent companies. Modern equipment, new products and services, as well as quality improvement are also among the preferred strategies of those investing in activities directly related to innovation.



**Figure 6.** In the last three years has your company, the organization maintained partnerships with other companies, organizations?/What specific strategy or action would you take to increase the competitiveness of your company?

*Source:* The author – Empirical study

Respondents who maintain partnerships are predominant in the survey. The strategies they apply are marketing and advertising, the use of high-tech equipment, raising the qualification of employees, modernization, creating and introducing new products and services, strategies for expanding the market.

### **Discussion and conclusion**

Respondent companies that developed innovative products/services invest more in intangible resources –than previous study (Димитрова, 2017) in the context of innovation – external research and external knowledge, which is also an indicator of awareness of the importance of knowledge and related constructs for innovation.

The primary strategy of the creators of innovative products and services is the modernization of processes, modern equipment, the offer of new products and services, marketing and advertising, as well as the increase of quality. Staff qualification is also a common strategy, which is logical in the context that more qualified employees have more opportunities to generate innovation, as well as the capacity to manage the equipment of varying complexity.

Compared to a previous study conducted by the author (Димитрова, 2017), we can note that respondents creating innovative products and services, to the greatest extent, emphasize high quality. They offer new products and services, employee training, expanding market, marketing and advertising, competitive prices and high-tech equipment are less used. In the present study, the emphasis is on the modernization of processes in the organization and the use of modern equipment. They are prerequisites for offering innovative and high-quality products and services, as well as for raising the qualification of the employees who work with them.

Respondents who maintain partnerships are predominant in the survey. In connection with the cooperation, the networks of different organizations in the business ecosystem suggest increasing the opportunities for the realization of exchange of knowledge, information, for increasing the capacity for innovation.

Involving partners in the processes of developing and introducing new products and services is a reasonable basis for dialogue with stakeholders and for co-creation of value, which leads to positive competitive performance.

As guidelines for future research, we can offer the consideration of the issue through the prism of the management of small and medium enterprises. The other perspective is the understanding of the relationship between corporate culture and competitiveness. On the one hand, corporate culture is the invisible infrastructure of any organization. On the other hand, it has a direct connection with the strategy and focusing on it will give a fuller picture of generating and implementing innovations, establishing and maintaining partnerships, networking, communication and knowledge sharing.

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## OPPORTUNITIES FOR OPTIMIZATION OF THE TERRITORIAL ORGANIZATION OF BULGARIA AS FACTOR FOR REGIONAL DEVELOPMENT

Kamen Petrov<sup>1</sup>

### ***Abstract:***

*The presented report presents the problems of structural policies, which are essential for the management of regional development. In a simple sequence, the existing problems of regional development are reviewed through the prism of the need to optimize territorial development. The author's statements and views regarding the applied approaches in the territorial management of the separate territories are presented, as well as the possibility to take steps for introduction of a new level of regional management. In practice, the processes of territorial development can be promoted by improving the regulatory and regulatory framework and investing in it effective formulas for optimizing regional development. Proposals have been made for a new structuring of the regions for planning and change in the functional structure of the settlements and respectively of the Bulgarian village. Some new trends in regional development have been caught, related to the spatial development of our national territory.*

*Keywords: regional development, space, territory, structure, economy, management*

### **Introduction**

Modern dynamic processes and phenomena pose a need to optimize the territorial organization of management in order for businesses to develop and manage their competitive advantages. Proper management of the territorial environment requires flexibility, a personalized approach to economically active people and the population in order to effectively use the available resources. In this context, there is a need to rethink the traditional approach to achieve better territorial organization as a factor for regional development in order to timely adapt to the needs of the population and settlements in the new regional economy. Against this background, the possibilities for more effective management of the territory require the consideration of several ap-

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proaches. The first group of measures should be related to reforms in the administrative-territorial organization of the territory (Borissov, 2018).

Next is the provision of appropriate regional connectivity and infrastructure in the territory, which would facilitate the operation of business and the free movement of goods, people and capital. The next group of tasks is related to the rational use of the natural resource potential of the territory, which should be consistent with the available human capital and social infrastructure. In addition, the processes of European integration, the emergence of pandemics and other regional or global crises, show the need for good hierarchical organization of the national space and its effective management. Especially in the conditions of the coronavirus crisis, tangible processes of change in the organization of the socio-economic processes, which has a pronounced regional manifestation, have become necessary. These changes in the organization and functioning of nation-states require a change in the quality of people's lives.

Therefore, the need to reveal the peculiarities of regional development in order to find opportunities for optimizing regional policy is becoming increasingly urgent and complex. In practice, by implementing a more flexible regional development policy, the desired results can be achieved in terms of business functioning, public sector priorities and benefits for the local population. In this presentation, we will consider some options for optimizing the territorial organization, regional development and state of the regional economy in order to achieve greater regional efficiency.

## **Exhibition**

In practice, spatial analyzes and assessments of socio-economic development at the territorial level stand out with their dynamics and applied significance and are necessary for the assessment of regional development. In this respect, we can assume that regional development is a real process, but also a conscious and purposeful activity of the regional society. In addition, the spatial processes require us to look for an opportunity to substantiate forecasts for the development of the respective regional system on the basis of the measures taken by the public sector and the state of the regional business. This brings out our focus on management decisions, active business, and the effect achieved on the living standards of the population. Here we can add that the vitality and structural features of each territory are determined by the basic demographic parameters and spatial disparities in the potential of human resources. Thus, a number of territorial areas with a concentration of human resources have been formed in the national space, mainly around 27 large regional centers in the country. On the other hand, in the last 30 years, the formation of increasingly large areas with very limited demographic potential in the Bulgarian national space has made an impression. The reasons for the outlined processes are complex and almost all of them have their basis, but in general, the leading ones are the socio-economic reasons for the strengthening of regional differences.

Differences in the economic potential of the different parts of the national geo-space generate imbalances and disparities in development, which should be the subject of targeted policy. On the other hand, the established trend of local localization of the regional economy, the state of the regional business and the emerging agglomeration areas of different rank is of decisive importance for the process of formation of new geo-economic structures. Thus, the zone of gravity on the development of their neighboring territories is palpable, but their small number is the reason why they do not reach a large part of the national space through the relevant processes and economic impulses that can affect their development. The imposed new model of construction of new economic zones and parks also has a strong regional effect on the organization and structure of the territory (Димов, 2012). Because in practice it leads to deepening of the processes and manifestation of intensive interactions for achieving regional economic integration. This process leads to conditions for the formation of more complex spatial structures and the construction of new cores, which will lead to a complete restructuring of regional systems. This sets the need to improve spatial planning policies by changing the regulatory environment and creating conditions for the development of local business and economy. In this regard, the model of optimization of the territorial structure should be based on the spatial and territorial features of the settlements. This brings to the fore their active activity and level of public works. In addition, to give perspective to the settlement in the medium and long term.

### **Approaches to spatial planning measures**

In the management of the regional development process, it is important to achieve an optimal territorial balance between the administrative-territorial units in terms of the functioning of settlements, the quality of life of the population and the opportunities for development of regional business. In this respect, the current state of the districts and municipalities is the embodiment of the socio-economic development of the country (Kolev, 2008). According to the established mechanisms for management and financing, the municipalities and the districts can continue to function, and the difference between the large and the small municipalities by population is likely to increase.

The reason for this is rooted in the fact that certain territorial systems are usually built of interconnected elements of natural, demographic, social, economic, cultural, and environmental nature. But to a large extent their development depends on the conjuncture and the model of redistribution, which in our conditions are dependent on the central government. The imposed redistribution model has an impact on the planning and programming process at the municipal level. An additional factor that plays a significant role is the demographic problem, which is particularly painful for small municipalities. With the constant loss of population, small municipalities can hardly solve the problems with the consolidation of the management of the territory in terms of its sustainability, dynamism, specialization and complexity.

The demographic situation also implies a change in the philosophy of local regional policies. At the territorial level, it is necessary to strengthen transport connectivity and accessibility between settlements, which can encourage daily labor migration, in exchange for permanent migration. Secondly, implementation of measures to improve the social infrastructure and the processes of electronicization. Third, promoting the development of local small and medium-sized businesses. It is also necessary to work for optimizing the public sector by creating a series of electronic services for the population and business. It is also necessary to ease the urban planning activity and reduce the tax burdens of the population in the small municipalities. Overall, the path to development is related to the implementation of special programs and investments for the development of small municipalities and businesses in them.

### **Vision for administrative-territorial changes in Bulgaria**

Opportunities for structuring a new intermediate level of regional government. Territorial development must be effective and adaptable to the changing environment, so it has its own spatial dimension. The current model of development shows that the country has adopted the parallel model „West-East“, but the new realities bring to the fore the meridional model „North-South“. In addition, the proposed territorial-urban network based on the concept of spatial development combines these two models through a polygonal figure including Sofia, Plovdiv, Stara Zagora, Burgas, Varna, Ruse and Pleven.

These cities have every reason to become key urban areas and the North-South direction. This model can play a significant role in regional economic integration between Northern and Southern Bulgaria. In the direction „North-South“ are the two transport corridors №4 and №9, the initiative „Three Seas“, the part of Corridor №8 Stara Zagora-Burgas-Varna-Constanta, the Stara Planina passes. This approach will give meaning to the implementation of long-term regional development policies for the purpose of regional economic integration on the Bulgarian territory. Implementation of the model of development of the territory in the North-South direction will have to be accompanied by a change in the administrative-territorial structure of the country.

Traditionally, the reforms are aimed at optimizing the territory and promoting the decentralization process. Achieving this result goes through a reassessment of the current legislation of administrative-territorial units (ATU) municipalities and districts. In essence, the districts have different sizes and populations, but it is more important to rethink their role in the regional development of the country. It must be assumed that the territorial factor and the number of the population are not a determining factor in the formation of the districts (Patarchanov, Patarchanova, Zarkov 2018). It is more important to define the role and scope of the management competencies of the districts and their managers. The need for this reassessment is related to the process of transformation of the settlement network and the functions of the settlements in the country, as well as demographic change in the period 1991-2020. This is mainly re-

lated to the gradual formation of a new image and structure of the population in the country and outlining the new needs for them. It is necessary to keep in mind that the settlement network is formed as a result of long-term historical development of the geospatial space, but it should not be perceived only as a mechanical sum of the population of places with different population numbers. It also includes their hierarchical subordination, their functional connection and the socio-economic relations between them. At the same time, the chosen territorial model does not help to improve the socio-economic development of the smaller municipalities. In practice, this means that it is necessary to optimize the current territorial and administrative structure. It has its deficits and to a large extent helps not to infect the problems of the settlements and puts many puzzles before the possibilities for achieving efficiency of the regional development. These processes of increasing regional disparities lead to further territorial polarization in terms of social and economic development, which lead to an increase in regional imbalances and a decrease in the vitality of the respective territories (Моллов, 2018).

This necessitates a debate on the possibility of redrawing the borders of both municipalities and districts in Bulgaria. At the same time, there are other challenges related to daily labor migrations, labor costs, living standards of the population and others. This creates conditions for the changes to bring to the fore the socio-economic realities, assessment of natural resource potential and analysis of the state of the labor market. Moreover, after 2020 we must change many of the current stereotypes and look for solutions to impose the model of „green economy“. This process can be combined with a change in the structural structure of the country in order to impose the model of labor mobility of the population, construction of new industrial parks and areas, as well as giving impetus to the innovative development of rural areas.

The vision for such a reform should be based on balanced regional development, which should develop the settlement network with settlements „cores“, other „balancers“, „complementary“, „developed“ and „renewed“ in combination with areas for active economy. and recreation areas. It is necessary for the settlements to create their own profile and opportunities for achieving balanced public development (Димов, Стоянова, 2015). Out-of-town areas and spaces are also important in this situation. On the other hand, the emphasis on the spatial development of the country presupposes the search for optimization of the administrative territorial units of the municipalities and districts. I share the view that this reform should maximally preserve the current model of 6 planning regions, but with a change in scope.

**Table 1.** Proposal of Zoning of the Republic of Bulgaria according to NUTS II

№	District	Scope of current districts and population in them
1	Western Administrative Region Center – Sofia	city of Sofia (1,328 thousand p.), Sofia district (226 thousand p.), Montana district (127 thousand p.) and Vidin district (82 thousand p.)
2	Northern administrative region Center – Veliko Tarnovo	District Vratsa (159 thousand), District Pleven (236 thousand), District Lovech (122 thousand), District Veliko Tarnovo (232 thousand), District Rousse (215 thousand)
3.	Northeast administrative area with center – the city of Varna	Silistra District (108 thousand p.), Dobrich District (171 thousand p.), Varna District (469 thousand p.), Shoumen District (172 thousand p.), Razgrad District (110 thousand p.)
4	Southeastern administrative region with center – the city of Burgas	Targovishte District (116 thousand p.), Sliven District (184 thousand p.), Yambol District (137 thousand p.), Burgas District (412 thousand p.)
5	Central administrative region With center – Stara Zagora	Gabrovo District (106 thousand p.), Stara Zagora District (313 thousand p.), Haskovo District (225 thousand p.), Kardzhali District (158 thousand p.), Smolyan District (103 thousand p.)
6	Southern administrative region with center – Plovdiv	Plovdiv District (666 thousand), Pazardzhik District (252 thousand), Pernik District (119 thousand), Kyustendil District (116 thousand), Blagoevgrad District (302 thousand)

*Source:* NSI and author's calculations

Planning areas should have an administrative center (capital) and a „Governor“, as well as district councils. In this connection, a direct election of the „Governor“ with the right to two consecutive terms of 5 years may be introduced. It should be situated as an executive body in the planning region and be able to appoint the heads of the most important state positions at the district level. Legislative solutions can be sought for a more efficient distribution of districts as their number has increased to 34 districts, which means cities such as Dimitrovgrad, Lom, Kazanlak, Dupnitsa, Asenovgrad, Troyan and Berkovitsa to be able to be regional centers, respectively municipalities. to fragment up to 298 municipalities for more effective spatial planning and management.

Here, the opponents of this reform will share that instead of moving towards the creation of new administrative structures in the conditions of a deteriorating demographic structure, it is necessary to reduce the municipalities to 220, to reduce the districts to 14, and to plan the planning regions. our activities. Such a reform is also possible, but it will rather lead to increased internal migration by worsening the demo-

graphic structure of the smaller municipalities in Bulgaria. It is important to share, Demographically, the settlements have their development, and after 1878 they gradually increased until the 80s of the twentieth century, when there was a gradual slowdown in population growth. We can give several reasons for this, but the first is that the gradual modernization and urbanization of the country is changing mostly in the demographic structure of the population. As another reason, it can be deduced that in the urban environment or urban lifestyle the birth rate falls and thus negative demographic processes emerge.

Another factor can be considered the lack of immigrants in Bulgaria after the 50s of the twentieth century, and in the period after 1990 the reverse process of emigration of a significant share of the young population in the direction of Europe, USA and Australia. This predetermines the search for opportunities to optimize the existing territorial and structural policy. In this direction, the main criteria remain the number of their population. Although it does not reflect their hierarchical subordination and does not give an idea of their functions, the analysis based on this criterion in chronological terms gives an idea of the most general changes occurring in the settlement system of the country. In practice, by 2020 there are 6 cities in Bulgaria with a population of over 100 thousand, as Sofia has a population of nearly 1.3 million people, the rest of our leading cities 11 cities have over 50 thousand inhabitants, 5 are between 40 and 50 thousand, and 26 cities are between 10 and 40 thousand people. The rest of the 217 cities have a population of less than 10,000 people, which means that the share of very small towns is predominant in the country. A large number of small towns show the need to pursue targeted policies for regional development and improve their development. At present, the settlement network in the country can be defined as a weakly polycentric network of urban centers, which may change with the new division. By increasing the number of municipal support centers in the declining population and deepening depopulation processes, local problems will be able to be solved more purposefully and quickly.

In order to achieve a slowdown in the negative demographic trends, and in the medium term to overcome them. Reform is also needed with regard to municipal councils. In them, the mayor of the municipality should be the chairman of the municipal council, and the municipal councilors should be significantly reduced. For example, in municipalities over 100 thousand people to have 30 councilors, municipalities from 50 to 100 thousand 20 councilors, municipalities from 25 to 50 thousand people 18 councilors, municipalities from 10 to 25 thousand 12 councilors, municipalities smaller than 10 thousand to 8 the wizard. Another set of problems is emerging, which has brought to the fore the formation of specific neighborhoods, with a clear peripherality in terms of their participation in social processes and the creation of a typical deficit model of regional development.

Border and mountain territories, as well as a number of municipalities with a population of less than 5,000 people can be defined as such. In these areas it is necessary to proceed to change the functional characteristics of individual settlements.

Mostly with the content of the concepts – neighborhoods, neighborhoods, holiday villages, urban area, suburban area, tourist complexes, and others. This change is related to the fact that the concept of „village“ acquires a new characteristic that allows for targeted support from the state budget and the acquisition of an independent (autonomous) status related to public works and management of the territory (Димов, Марков, Стойчев, 2005).

A step in this direction is the need for the villages in Bulgaria to be enlarged and for a village to be considered a settlement with at least 100 houses. The village may include neighborhoods, villa areas, rural neighborhoods, remote neighborhoods with at least 10 houses and more. As with an amendment to the Law on Territorial and Administrative Structure to enable the smallest territorial unit to acquire institutional status. The possibility to create rural municipalities with a population of at least 2,000 people or several villages with at least 500 houses should also be regulated. This will provide opportunities for more rational financing of settlements from the state budget, as well as independent policies in the field of regional development. Territorial changes must be in response to the needs of the population and the overcoming of regional differences and problems in the development of the regions. A new active, purposeful and consistent government policy is needed to overcome the problems of poverty and improve life in the regions of the country.

## **Conclusion**

The presented structure of regional development expresses an argumentative view. It does not and cannot claim exhaustiveness. It is necessary to collect many more news from foreign and Bulgarian authors working on the problems of national development, meaningful by logical and lexical ziti on. We can assume that the problems of the territorial and administrative structure in Bulgaria are open. Their solution must be accompanied by consistent and targeted measures by the state to ensure a better business environment at regional and local level, to improve the quality and speed of administrative services and to create a sustainable and efficient public sector. Here it is important to determine that the improvement of the territorial organization will contribute to the erasure of regional and sub-regional inequalities in the national territory.

Territorial development in Bulgaria seems to be related to the state's desire to achieve a balance of interests, but at the same time, this suggests ideas for public sector reform. On the other hand, the need for a change in a number of provisions in the legal framework governing the functioning and management of regional development is visible. The decisions to be taken to optimize the spatial division must be at the service of citizens in combination with the interests of the public sector and regional business in Bulgaria.



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## POSSIBILITIES FOR PRESERVATION AND USE OF THE IMMOVABLE CULTURAL HERITAGE OF THE CITY OF VARNA

Milena Ivanova<sup>1</sup>

### ***Abstract:***

*Varna is a city with a significant number of sites of immovable cultural heritage. This is a resource that should be protected and managed rationally, in order to preserve the authentic appearance of the objects of immovable cultural heritage, preservation of the cultural history of Varna, and the sustainable development of the city as a tourist center. The aim of the author is to present some of the possibilities for the preservation and use of the immovable cultural heritage of the city of Varna.*

*Keywords: cultural tourism, immovable cultural heritage, protection of immovable cultural heritage*

### **Introduction**

Varna is a city rich in a remarkable number of immovable cultural heritage sites that have been created by a number of men of talent such as Dabko Dabkov, Hermann Maier, Stefan Venedikt Popov, Nikola Lazarov, and Eng. Zlatan Brachkov, who created their works from the late 19<sup>th</sup> to the early 20<sup>th</sup> century. These authors created a number of buildings which now are sites of immovable cultural heritage. Many of those buildings have sculptural color schemes which although vivid and deep are still not seemingly flamboyant. The decorations they used to embellish the buildings were not carved from ready-to-use molds but are works of local and foreign sculptors. This is what makes our city feel authentic and is what preconditions its further development as a tourist destination. The immovable cultural heritage of Varna is not just something to be proud of. This is a responsibility and a resource that needs to be preserved for future generations. This is the main purpose of the Convention for the Protection of the Architectural Heritage of Europe – Granada (CPAHE, 1985), which says that the architectural heritage constitutes an irreplaceable expression of the rich-

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ness and diversity of Europe's cultural heritage, and bears inestimable witness to our past and is a common heritage of all Europeans.

The author set himself the goal of bringing some of the opportunities for the protection and use of the immovable cultural heritage of Varna.

## **1. What is an immovable cultural heritage and its importance?**

The first time the term „cultural heritage“ was used as a general term was back in 1954 in the UNESCO Convention (Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention, 1954) and in the European Cultural Convention of the Council of Europe (European Cultural Convention, 1954). According to the Cultural Heritage Act (CHA, 2009), immovable cultural heritage is defined as comprising all and any cultural value that is permanently fixed to the ground, including underwater, and its adjacent surrounding. For the purpose of our study, we will refer to the definition given in Article 1 of the UNESCO Convention for the Protection of the World Cultural and Natural Heritage, according to which the immovable cultural heritage category includes:

- „monuments: architectural works, works of monumental sculpture and painting, elements or structures of an archaeological nature, inscriptions, cave dwellings and combinations of features which are of outstanding universal value from the point of view of history, art or science;
- groups of buildings: groups of separate or connected buildings which, because of their architecture, their homogeneity or their place in the landscape, are of outstanding universal value from the point of view of history, art or science;
- sites: works of man or the combined works of nature and man, and areas including archaeological sites which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view.“

The reasons underlying the significance of the immovable cultural heritage are of a different kind, and can be organized into the following groups (Rachev, 2017, p. 9-12):

Group I: social reasons – the material evidence for the development of the city is an example of a step-by-step overlapping and successful coexistence of knowledge, traditions and beliefs of different national and religious communities, which have tolerated their ethnic and religious differences and have supported each other's economic prosperity.

Group II: scientific reasons – preserving the construction memory allows the use of materials, techniques, and skills based on tradition, and their modern application potential should be explored.

Group III: cultural reasons – the sustainable cultural development doctrine requires the preservation of cultural memory so that each cultural cycle can begin by using the lessons not only of the immediately preceding but also of all previous cycles.

Group IV: economic reasons – knowing the immovable cultural heritage saves money in construction. Practice knows many cases where the combination of old con-

struction skills and modern technological advances produces excellent economic and functional results. Immovable cultural heritage is a long-term asset that is essential for the development of tourism, and in particular cultural tourism. The Strategic Plan for the Development of Cultural Tourism (SPRKT, 2009) states that cultural tourism is able to contribute to the growth of investments in the region, creation of jobs and an increase in employment, growth in incomes earned on the basis of the growth of the number of tourists, increase in the social welfare of the population which has no monetary value. The Draft Update of the National Concept for Spatial Development 2013-2025“ (NCPD, 2019) states that the valorization of cultural and natural heritage through inclusion in tourist products is one of the local, regional, and national resources with potential still untapped.

Group V: related to national security – the cultural and historical heritage in its material and spiritual dimension is an important factor for the awareness of the cultural background of each individual and of the social communities as well. The cultural traces that outline the lasting and enduring values in the cultural history are the basis on which society builds up the models of its collective identification (Dimitrova, 2015).

Group VI: social reasons – the cultural heritage (inclusive of the intangible heritage) contributes to innovative jobs, products, services, and processes, and can be a source of creative ideas, but also offers capacities for the creation of highly qualified jobs (Resolution of the European Parliament of 8 September 2015 on an integrated approach to Europe's cultural heritage, 2015).

## **2. Factors that work upon the protection and use of the immovable cultural heritage of Varna**

The protection and use of the immovable cultural heritage of Varna are influenced by a number of factors that are different in their content: technical, economic, regulatory, social, etc. To be aware of these factors and how and what they act upon has a practical bearing on all entities involved in the protection and use of immovable cultural heritage – owners and users of immovable cultural value buildings, local authorities, government institutions, etc. Distinguishing between the factors that make a positive impact and the factors that have an adverse effect is a precondition to seeking ways to capture the opportunities the former afford and to avoid the threads the latter create to the greatest possible extent. The detailed knowledge of the factors allows making a SWOT analysis to be used in the formulation of strategic plans for the protection and use of the immovable cultural heritage of the city.

Among the factors that make a positive impact upon the protection and use of the immovable cultural heritage of Varna and its development as a cultural tourist destination can be pointed out the following:

**First:** The rich history of Varna – the city was founded back in the 6<sup>th</sup> century BC under the name of Odessos by the Greeks of Asia Minor. Numerous studies show that the ancient culture of Varna lies at the root of the European civilization due to the

achievements of the socio-economic and spiritual life of its society (Bulgaria – Spirit and Culture Association, 2017).

**Second:** The Tourism Development Program of Varna Municipality 2014 – 2020 states that on the territory of the city there are material and spiritual traces of all historical epochs of human development which provoke motives for tourist visits (PRTV, 2014). This is one of the reasons why there are so many immovable cultural heritage sites (See Table 1.), which in turn is a prerequisite to the development of tourism.

**Table 1.** Number of the immovable cultural heritage sites in Varna

<b>Buildings having the status of architectural and construction /historical/art/landscape immovable cultural heritage</b>	<b>Archeological sites</b>	<b>Buildings having no specific status – proposed for being declared again</b>
510	105	150

*Source:* <https://www.varnaheritage.com>

**Third:** Systematized information about the immovable cultural heritage sites in a single web portal – the first information register of the immovable cultural heritage of Varna <https://www.varnaheritage.com/> which is the first of its kind in Bulgaria was established in 2020. The site is the work of a team of specialists consisting of Architect I. Racheva, D. Eftimov, D. Penev, Architect Vl. Rachev, and the information about the immovable cultural heritage sites of the city systematized according to the provisions of the Bulgarian legislation is made available to the public free of charge.

**Fourth:** The significance of the immovable cultural heritage has been recognized in the local community, which resulted in the establishment of an Immovable Cultural Heritage Department to the Architecture, Urban Planning and Spatial Planning Directorate within the specialized administration of Varna Municipality, which deals with the problems relative to the protection and use of the immovable cultural heritage of the city.

**Fifth:** The provisions of the UNESCO and the Council of Europe conventions have been considerably included in the national legislation related to the immovable cultural heritage.

Unfortunately, there are factors as well that make a negative impact on the protection and use of the city's immovable cultural heritage. Among them we should mention:

**First:** There are a considerable number of buildings – immovable cultural value which are in poor technical condition. Information on the technical condition of these sites is contained in Table 2:

**Table 2.** Technical condition of the immovable cultural value sites in Varna

Good condition	Satisfactory condition	Demolished buildings	Bad condition	Buildings at risk	In a process of restoration
208	195	3	95	10	3

Sources: <https://www.varnaheritage.com>

The data in the table demonstrate that only 40% of the buildings are in good condition. In respect of a significant percentage of buildings – immovable cultural value it is necessary to take measures for their protection. If no such measures are taken, these buildings run the danger of sharing the same fate as the „Pink House“, the „Potato House“, the building of the French College „St. Michael“, the French College „Saint Andre“, etc. (author's notes: these buildings have already been demolished and do not exist).

**Second:** There are no strategic documents in Varna Municipality to give any strategic vision and measures for the protection and use of the sites of the immovable cultural heritage. The Integrated Plan for Urban Reconstruction and Development of Varna states as a priority the development of the city as a year-round tourist and cultural destination. However, at present no cultural strategy of the Municipality of Varna has been developed to address the buildings, the sites of the immovable cultural heritage, and their use as a resource for the development of tourism and culture.

**Third:** The national system for the protection of the immovable cultural heritage functions mainly on a centralized basis. This takes time to coordinate the various responsible institutions, which can bring about fatal results in certain circumstances. In practice, there are cases where buildings were demolished days before they received the status of cultural heritage.

**Fourth:** There is increased investor interest in immovable cultural heritage sites only due to their terrain (which is almost always located in the central part of the city) without taking into account the cultural value of the building.

**Fifth:** One of the most significant factors influencing the protection of the immovable cultural heritage is the replacement technology. This includes the deliberate mismanagement of immovable cultural heritage sites and their driving to destruction and self-destruction, as well as the destruction of existing immovable cultural heritage sites. Replacement technology is also observed in the complete or partial destruction of buildings – architectural monuments and their rebuilding after the model of the original. In the latter case, there is a replacement of the authentic architecture due to depreciation, as the new restoration of the building is far from the original, and replacement of the authentic architecture as a result of renovation (Vekov, 2014, pp. 144-154).

**Sixth:** The legislation provides for a mechanism to make the owners keep the immovable cultural heritage sites in good condition. It is possible, by means of an order

of either the Minister of Culture or the mayor of the municipality, to register a mortgage on an immovable cultural heritage site in danger of destruction, either in favor of the municipality or in favor of the state, to cover their expenses, but it is almost not applied.

**Seventh:** A factor that makes a negative impact on the protection and use of the immovable cultural heritage is the lack of financial resources. A significant part of the buildings – immovable cultural value are privately owned (see Table 3).

**Table 3.** Distribution of the buildings – immovable cultural value by form of ownership

Ownership	Number
Exclusively state-owned	1
State-owned	19
State private	11
Municipal public	15
Municipal private	71
Private	338
Co-owned	55

Source: <https://www.varnaheritage.com>

The data in the table show that about 66% of the buildings – immovable cultural value are privately owned. The owners of these buildings often do not have the required funds to maintain these buildings in good condition. The owners of buildings – immovable cultural value are exempted from paying a real estate tax when the property is not used for commercial purposes. However, this is extremely insufficient given the significant costs for the maintenance of these sites.

**Eighth:** The protection and use of the immovable cultural heritage need human resources with specific vocational training. However, such human resources are not always available. A good example of this is the certified appraisers of immovable cultural value places. There are no individuals legally competent to make an assessment of immovable cultural values placed on the Public Register of Independent Appraisers in Bulgaria (for reference – <http://public.ciab-bg.com/index.php>).

### 3. Measures to protect and use the immovable cultural heritage of Varna

Having studied the factors that have a divergent effect upon the protection and use of the immovable cultural heritage of Varna, we propose the following measures:

**First:** To organize days on the immovable cultural heritage – the organization of such events will draw the public's attention to the immovable cultural heritage and on how critical it is for the development of the city.

**Second:** To place extra information about more significant immovable cultural value sites in Varna on national and foreign web portals for tourist attractions and in the social networks. This will help to attract more tourists and turn the city of Varna into a year-round tourist destination.

**Third:** To promote the immovable cultural heritage sites among the young people through Internet games and applications, including site visits, e.g. geocaching, as well.

**Fourth:** To be more precise when approving projects and electing public procurement contractors for the performance of repair and rehabilitation works of immovable cultural value buildings in order to not allow the use of replacement technology.

**Fifth:** To initiate a public debate and to work out a strategy for the protection and use of the immovable cultural heritage of Varna. A survey conducted in the period September 2019 – April 2020 on how those employed in the sphere of culture find the idea of developing a cultural strategy of Varna shows that they all agree to the need for a public debate to determine a shared strategic vision for the culture and to outline new goals and priorities for the period after 2020 (Dobreva, 2020, pp. 98-105).

**Sixth:** Given a large number of immovable cultural value buildings it is appropriate to establish a territorial division of the National Institute for Preservation of the Immovable Cultural Heritage (NIPICH) in order to ensure better performance of the functions and tasks of the Institute, fast access to administrative services by citizens and legal entities, and better coordination between NIPICH and the local government.

**Seventh:** To implement flexible financial instruments to finance the maintenance of immovable cultural value sites, such as the leasing of immovable cultural properties. In this case, the owner has the opportunity to receive it back fully restored and conforming to the requirements laid down in the property protection regulations after a certain period of time (Krastev, 2015, p. 268).

**Eighth:** To establish non-profit associations of owners of buildings – architectural monuments which could legitimately, through representatives, declare and protect their interests, e.g. against criminal encroachments on immovable cultural heritage sites.

**Ninth:** To work collaboratively with other cities and/or municipalities towards the creation of integrated cultural and tourist products. Such collaboration is possible with the neighboring towns Devnya and Provadiya or with other towns located along the Black Sea coast.

**Tenth:** To strengthen the municipal administration capacity that deals with the problems of the immovable cultural heritage, and to include therein experts from various fields, such as economists, appraisers, and conservators.

**Eleventh:** To make an economic feasibility assessment of the function of the immovable cultural sites by determining the rate of expenses needed for its maintenance and its ability to generate revenue on a market basis. This requires analysis and evaluation of the various alternatives for the maintenance and operation of the site – income from visitations, inclusion in cultural events, manufacturing of souvenirs and multimedia products for commercial purposes, admission to on-site commercial activities, etc. (Krastev, 2019, pp. 321-322).



## Conclusion

In conclusion, we would like to point out that for the protection of the immovable cultural heritage of Varna and for the preservation of the specific appearance of the city it is not enough to protect the individual buildings-monuments of the immovable cultural heritage. What is needed is a comprehensive strategic vision on the problems of the immovable cultural heritage, as well as a dialogue, cooperation, and coordination among all parties involved. The opportunities we have proposed for the protection and use of the immovable cultural heritage are not at all exhaustive. They outline the possible guidelines for further and more in-depth research on the problems of the preservation of the immovable cultural heritage with a view to supporting the theory and practice in this field.

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## SPATIAL MANAGEMENT OF THE REGIONS – THEORETICAL AND PRACTICAL ASPECTS

Nikolay Tsonkov<sup>1</sup>

### ***Abstract:***

*The world and world economy have changed after COVID-19 crisis. The development of regions varies according to the local conditions of the territory. On other hands the world is very fragmented and regionalized. This fact comes to explains to us that the researchers must initiate more interdisciplinary studies and research. The economist's analysis shows that scientists need more complex tools for their research areas. This obstacle is important in the context of regional development science, regional approaches, and managing regional development. The purpose of this research is to provide a theoretical framework and dimensions of regions' management. In achieving this goal the author uses a system, territorial, geographical, and economic approaches, and descriptive, prescriptive, comparison, expert opinion methods.*

*Keywords: economic development, regional research approach, region, regional science, management of development*

### **Introduction**

The development of the world economy is becoming more complex and unpredictable. The reasons for the profound changes are rooted in the change in economic relations nature at different levels, as well as due to civilizational, social, and political transformations in the world. Therefore, knowledge of modern economic and social processes in different regions of the world requires a complex approach and a set (set) of different knowledge and skills. From the very beginning of the development of civilizations, the development of science in various forms began. Descriptive and chronological approaches are used in the initial stages. But in retrospective discourse, it becomes clear that different branches of science related to the habitats (territory, space) in which people live are fundamental at all stages of the development of the world. This is due to the natural constant interaction of man and nature, which continues in present times. This relationship undergoes variations and changes its nature

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depending on the stage of development of countries, farms, and the technological level. That is why geography is one of the oldest sciences. Getting to know the world, describing it by using mapping and other geographical methods, accompany the development of the world, societies, countries, and science in the form of knowledge about the world and its functioning. Of course, much later space began to be seen as an important factor in the development of countries, their farms, the formation of settlement systems. Therefore, presently, the management of spatial and economic development of regions determines their competitiveness and high living standards.

Regional sciences are a natural extension of the geographical sciences. From the name itself it can be concluded that they are all related to the study of territorial features and aspects. To this large family can be attributed – socio-economic geography, economic geography, geoeconomics, regional development, regional studies, international economics, geopolitics, macroeconomics, regional economics, and others. The construction of the system of ideas and knowledge characteristic of science can be defined as a set of paradigms and subsequent approaches. The changes in paradigms and approaches are driven by globalization and other modern processes at the world level.

## **1. Regions' research approaches**

During the different epochs, the regional and geographical sciences go through different stages of development. In the beginning, the research was structured based on the geocentric paradigm. Subsequently, the regional and geographical sciences go through the heliocentric paradigm, determinism, possibilism, to arrive at the perception of the territorial organization of socio-economic processes. In this respect Thomas Kuhn, P. Haggett, and J. Chorley believed that systems analysis and mathematical statistics can be applied successfully in geography (as well as in regional sciences in general). According to them, geography, on which all regional sciences are based, is a boundary between natural and social sciences, and geometry (Кун, 1996; Haggett, Chorley, 1971; Стоянов, 2017).

When analyzing the research approaches of the regions, it is necessary to clarify the issue of their formation and classification. Different classifications of regions can be found in the scientific literature. They can be political, administrative, natural, geographical, social, economic, tourist, environmental, functional, and others. But in general, we can assume that the regions are divided into formal and functional. Formal regions are connected by clearly defined administrative borders, as they are part of the territorial-administrative structure of the states. The functional regions cover economic, industrial, and other types of regions in which there is interaction and subordination of the settlements in the form of center-periphery in the context of a structured system of the regional economy.

Regions are the subject of research by various sciences, using a variety of approaches such as descriptive, historical, geographical, territorial, statistical, mathematical, economic, systemic, functional, localization, network, integrative.

During the different stages of development of regional and economic sciences, depending on the technological level, the level of knowledge, and the current economic concepts for the study of the regions, the mentioned approaches are used. They interpret in different ways the main factors of production – labor, land, capital, including combination among them. We can generally accept the factors for two – physical capital and labor, as classical theories and Keynesians share different views on the way and tools for the development of regions.

In general, we could divide the approaches to the study of the regions into two large groups – classical (traditional) and neoclassical (modern). Both groups include dynamic and static models for territorial organization of the farm (Клисурова, 2018). In the first studies, the regions are perceived as independent, in which the internal potential must be used – natural-geographical, human, and physical capital, infrastructure, etc. These perceptions are related to the localization approach, in which regional economic growth is a function of the endogenous factors that characterize the regions. It is normal to have imbalances between regions. Representatives of this approach are Tunen, Launhardt, Weber, Christaller, Lösch, and others (Tykkyläinen, Hyttinen, Mononen, 1997). In the last years of the XX century and the beginning of the XXI century, a new trend of New Economic Geography appeared with the brightest representative Paul Krugman. It is no longer just the individual region that is important, but the development of all regions. The functional economic regions with internal and regional interconnections and interactions come to the fore. Transport costs, economies of scale, agglomeration effects are important. One of the possible criticisms is the concentration of economic activities in the largest centers, which logically leads to the creation of territorial imbalances (Krugman, 1998).

With the advancement of globalization and the development of information and communication technologies, along with labor, land, and capital, another important factor is emerging. This is information and knowledge (Lönnqvist, Laihonen, 2013). In recent years, a new type of knowledge-based economy has developed, innovative network systems have been built, and knowledge management has become an important element of regional and market management. At the same time, the concept of sustainable development of the regions is beginning to play a key role, implying interconnectedness between regions, reducing disparities, protecting the environment, and rational use of natural resources. Socio-economic processes in the regions are characterized by complexity and complexity, which implies new approaches to research and management of the regions. Complexity implies a combination of separate sectors and policies. This new role is played by the networked and integrated approach of process research and problem-solving (Lönnqvist, Laihonen, 2013).

## **2. Economic development of regions in the context of new world processes**

The new conditions have changed the way of functioning and the geographical scope of the global production and capital networks. This process has imposed new

rules and we see new trends in the localization and relocation of industrial enterprises and services worldwide. Therefore, redistribution of markets for goods and services in the world and a new type of regional integration can be expected. Of course, the question of the nature and determinants of economic development at the global, regional, national, and local levels is fundamental.

In theoretical and applied terms, economic development can be studied in terms of the essence and nature of the concept. On the other hand, economic development needs to be considered at different levels – local, national, regional, and global.

Economic development is a complex socio-economic concept. It characterizes the quantitative and qualitative change in a country. According to Emil Himirski, economic development is associated with improving the conditions through which the human personality is established (Химирски, 2006). Human realization is associated with a reduction in the number and level of poverty, an increase in employment, and, consequently, lower unemployment, as well as a reduction in the disparity between people. Usually, economic development is simply measured by economic growth (Химирски, 2006).

The issue of economic development is central to economics. For this reason, it is present and evolved along with the development and systematization of economic theory. That is why this problem has been studied by Adam Smith, who is the founder of the classical school of economics (Шмит, 2010). Examining the division of labor, the author seeks an answer to the question of the accumulation of wealth of the state, and hence the increase of wealth. It is associated with the mercantilist theory that trade and exports of goods accumulate wealth. At the heart of trade and export of goods is the absolute advantage. He connects the division of labor with specialization in the production of certain goods of the state at the lowest costs and other conditions. Thus, it has an advantage over other countries and through its use and trade-economic development is achieved. The continuation of his ideas is David Ricardo, who defines the advantages as comparative (Рикардо, 1955). Centuries later, the theory of competitive advantage was adopted and developed by the American economist Michael Porter. In his theory of the competitive advantage of nations, he constructed a „diamond of competitive advantage“ (Портър, 2004). М. Porter bases his research on the competitive advantages of nations on the idea of the action of four main determinants: resource conditions; company structure, strategy, and competition; domestic demand conditions; related and supporting productions. These factors are interrelated, and their complex combination leads to increased competitiveness, productivity, and economic growth (Porter, 2004). „Competitiveness“ will be defined in more detail in the next section.

Josef Schumpeter accepts economic development as a state of the closed economic cycle (without growth) (Шумпетер, 1982). For him, economic development is in a steady-state, for which the first analysis is made by D. Ricardo (Рикардо, 1955). Ricardo Schumpeter's steady-state combines with simple reproduction in Marx's ideas. According to Schumpeter: „... the stationary process is such a process, which in fact

does not develop under the influence of internal forces, but only reproduces in certain time intervals the constant norms of real income.“ (Маркс, 2011). His view is that the national economy, based on private property, the division of labor and competition, reproduces and markets is called a social product.

Economic geography has made a significant contribution to the study of economic development. Using different methods, this scientific field clarifies the development of countries based on concentration and territorial distribution of economic activity. Its concentration in each region affects the development of other countries related to it. Several authoritative authors work on these issues, such as W. Aizard, W. Kristaller, A. Lösch, Paul Krugman, G. Hanson, I. Goron, D. Puga, and others. They all look for the nature of economic development in individual regions and countries, exploring factors such as inter-regional connections, transport costs, transport connections, the concentration of capital, human resources development, trade, and economic relations.

Joseph Stiglitz in his article „Global Economic Development and the Green Economy“ emphasizes that the understanding of economic development has already changed. To clarify its nature in the new conditions, he believes that an analysis is needed between industrialized (developed) and developing countries. Stiglitz accepts that: „development is no longer seen as a process of capital accumulation, but rather as a process of organizational change.“ (Шиглиц, 2008).

The full definition of economic development can be adopted as follows: improving public welfare, quality of life, and social existence. It can be seen as a change in the state of a system – state, society, economy, company, or person. Development expresses the satisfaction of all social needs and requirements. Here we must also mention sustainable development, which is defined as the gradual and balanced development of countries, taking measures to protect and restore the environment in accordance with the limited use of natural resources to preserve them for future generations (UN, 1987).

### **3. Concepts of regional development management**

The development of the regions and their governance raises a few questions for modern regionalists. After the total globalization of the world and national economies, in the period after the Kovid crisis, there will obviously be a transformation of the world economy. The main process is the regionalization and shortening of global production networks with an emphasis on their regionalization. This process will go hand in hand with the transition to a new technological stage in the development of countries and the economy with the introduction of 5G technology, which will change again the nature of communication, especially related to the „Internet of Things“ and production processes. The third stage to which a large part of the national economies is moving is the „green“ and „blue“ economies, and the climate neutrality of the countries in the European Union must be achieved over the next two decades. A big leap in development will be the improvement of the hydrogen cell, which will find

application in both energy and industry, especially in the automotive industry. Therefore, an important part of natural resources, etc. energy will be replaced, which in essence will affect the nature, functioning, and appearance of the world and national economy. This can undoubtedly be seen as a new leap in technology and another global industrial revolution. These processes will be directly reflected in the development and governance of the regions. However, in a global context and a constantly evolving Internet network, which will have an increasing impact on the economy, will further complicate the possibilities for regional governance both at the local level and by central authorities.

Within the regional integration communities, there is a process of decentralization of governance, which is in line with the concept of regional development. This concept presupposes closer governance, considering local conditions and conditions for maximizing the use of regional potential by mobilizing available local resources.

Speaking about managing the spatial and economic development of the regions, it is necessary to consider the principles and stages of governance and, on the other hand, to choose an adequate and effective economic concept. As we know from management theory, the management process contains four functions – forecasting, planning, management, and control. Accordingly, we can consider the management of regional development at the strategic and operational levels. Strategic management covers the activities of analysis, problem identification, regional planning, goal setting, and programming, which set the long-term vision for development. These stages end with the development of a regional development plan at the respective levels. The management and control over the implementation of the plan is at the operational level.

The economic and spatial concepts are contained in the plan, which as it turned out are three large groups – traditional spatial models and modern, to which we include the new economic geography and institutional theory of development, as well as a knowledge-based economy and smart regions. All these theories are related to regional convergence and cohesion (Antonescu, 2014). Of course, the traditional and static models for territorial organization of space, which are rather reduced to the localization approach and consider the region independently, as the understanding is that endogenous growth will stimulate the development and overcoming of regional imbalances.

In the newly changed conditions, we should look for a networked and integrated approach to regional development management, which implies a combination of several theories. In my opinion, it is necessary to seek a solution using the new economic geography and modern management models based on information and knowledge (Lönnqvist, Laihonon, 2013).

Many of the working models for the spatial development of the regions are based on the polycentricity of the urban structure of the states. Here we can include Peru's model of central places and periphery, as well as Friedman, who perfected the theory. According to him, the urban structure can be considered as a hierarchical system with one center and adjacent territory, which is influenced by the development of the center (Клисурова, 2017). For greater efficiency and results, polycentric spatial devel-

opment models can be combined with Paul Krugman's spatial economy, the construction of innovative and social infrastructures that generate knowledge and high added value. Of course, the polycentric development of the national and regional space should be based on the management of the connectivity between the individual settlements, and especially between the central places. This connectivity can be ensured by improving communication and transport links between them in both the north-south and east-west. The transport axes, in combination with the polycentric development, the strengthening of the central places, and the application to them of a networked and integrated approach are the right solution for the effective management of the development of the regions.

## Conclusion

Regional economic research occupies an important place in terms of revealing trends and tendencies in the socio-economic development of regions and countries. Objectively, there is a direct link between national and regional economic indicators, and local economic development, including regional competitiveness. In turn, regional competitiveness is an engine for regional economic growth and attracting foreign direct investment (FDI). Therefore, there is a need to strengthen applied scientific economic research and observations to reveal the factors and interrelationships between regional economies. Such research will highlight the determinants of growth and competitiveness that lead to increased investment attractiveness of the regions.

Therefore, it is necessary to study the regions and in particular the municipalities in Bulgaria in terms of their investment attractiveness and capacity to attract foreign direct investment (FDI). The aim of the study is to form a regional investment index based on groups of indicators, which are ranked by severity and importance.

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## FINANCIAL RESOURCES OF MUNICIPALITIES IN BULGARIA AND EUROPEAN UNION COUNTRIES

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### ***Abstract:***

*Nowadays socio-economic relations are principally determined by the ongoing country for more than three decades process of fiscal decentralization. In this aspect, the main goal of this study is to present a „snapshot“ of the state or local finances in the scope of public finances in the Republic of Bulgaria by analyzing the position of the country compared to other EU member states and identifying the „strengths“ and „weaknesses“ of fiscal decentralization over the last 10 years. Based on the research results, the authors defend the thesis that expanding autonomy and affirming its principles is crucial for local self-government and overcoming inefficiencies in the provision of public goods and services and the rationalization of the use of public resources, as well as for increasing the financial capacity of municipalities and improving their fiscal position.*

*Keywords: fiscal decentralization, municipalities, local revenues, tax autonomy, local taxes*

### **Introduction**

Thirty years after the Fiscal Decentralization began, the process of imposing the principles of local self-government in the Republic of Bulgaria and the policy of expanding local autonomy are still incomplete. The effects achieved in the post-1991 period (when the new Constitution of the Republic of Bulgaria laid down the guiding principles of local self-government) to this day are an indisputable fact, but the growing expenditure responsibilities of municipalities and the limited opportunities for self-financing make the issue of their dependence on the central government increasingly pressing.

At present, all EU countries have ratified the ECLSG and are embracing the idea of extending the powers of local authorities to „manage a substantial share of public affairs“ (European Charter of Local Self-Government, Art. 3, 1985). The process of

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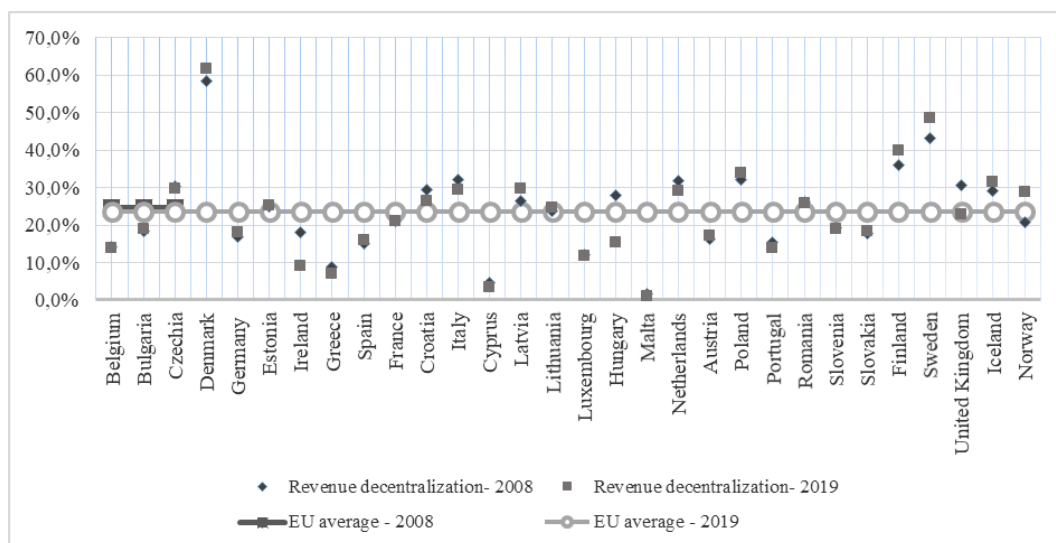
fiscal decentralization in Europe began with the preparation and signing of the ECLSG in 1985 by 7 European countries, among which Austria, Denmark, and Germany and it is still going on. The Charter has been ratified by all EU Member States chronologically, as well as by a number of other European countries, the last of which was San Marino in 2013. In Bulgaria, this process has been going on for nearly three decades and in this aspect, the research and evaluation of the achievements in the area of local finances are of interest. The analysis of the latter has been the subject of study by a number of researchers, most of whom have focused on: funding opportunities for local governments in Macedonia, Bulgaria, and other European countries (Milenkovski et al, 2016, pp. 1-11.), tax autonomy in the EU (Prodanov & Naydenov, 2020, pp. 20-42), debt financing and capacity of Bulgarian municipalities (Zahariev et al, 2020, pp. 40-60), fiscal rules and responsibilities in the EU (Lilova et al, 2017, pp. 31-39). The aim of this study is to present the state of local finances in the structure of public finances in Bulgaria and through appropriate tools to position our country towards the rest of the EU countries, outlining its achievements and weaknesses in the sphere of fiscal decentralization over the past 10 years.

The analysis is based on a toolkit assessing the quantitative indicators of fiscal decentralization, respectively local autonomy. These are the indicators for revenue and expenditure decentralization, the significance of local revenues and expenditures in the public sector, and the tax autonomy of the 'Local Government' sub-sector. Each of these per se has informational significance and, studied jointly and within the European practice, can confirm/reject the hypothesis of slowing down the fiscal decentralization process in Bulgaria in recent years. In terms of methodology, the study is based on scientific literature from Bulgarian and foreign sources. The analysis relies on publicly available financial information and uses dynamic, structural, comparative, and coefficient analysis, deduction and induction methods, graphical methods, and statistical analysis methods.

## **1. Trends in revenue and expenditure decentralization**

The quantitative assessment of revenue decentralization within the EU in 2008 and 2019, measuring the contribution of local revenues to the structure of total revenues under the Consolidated Fiscal Programme (CFP), is presented in Figure 1. According to the latest data, the coefficient of revenue decentralization in Bulgaria is 18.9% and is 0,5% higher than the initial value in 2008. The results in Slovakia, Germany, and Slovenia, where the studied indicator assumes values between 18.1 and 18.8% are comparable to the Bulgarian results. There is a clear deviation from the European average among a significant number of EU countries. For example, in 2019, revenue decentralization in only three EU countries deviated from the European average (-2% to + 2%): Estonia, Lithuania, and the United Kingdom. Eleven years earlier, there were four countries – Estonia, Latvia, Lithuania, and Romania. With this in mind, the countries have to be divided into groups in order to monitor how each country man-

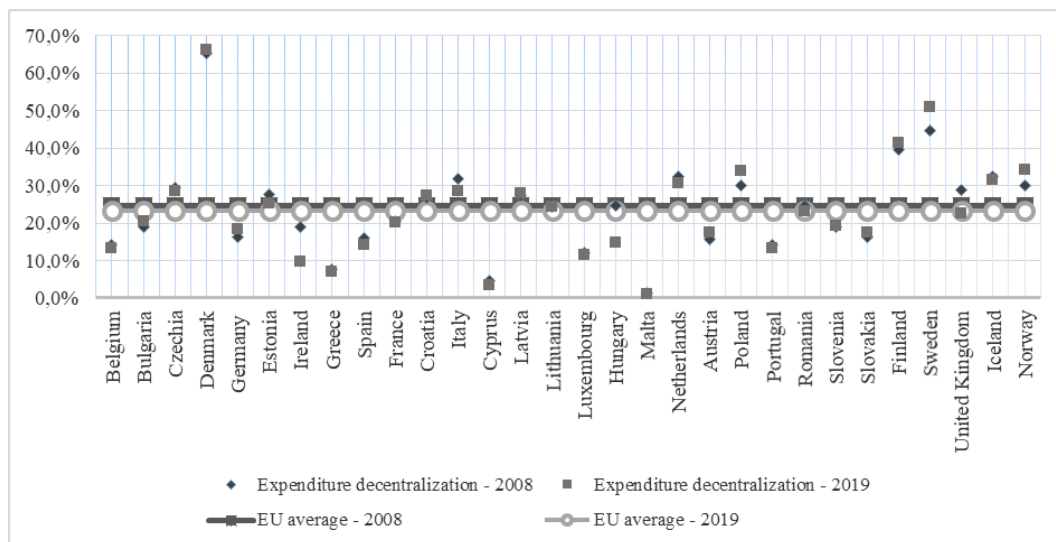
aged to increase the revenues of the ‘Local Government’ sub-sector, respectively the coefficient of revenue decentralization for ten years (2008-2019). The object of study is the EU countries, and the cluster analysis is based on the deviation from the European average during the first year of study – 2008, and the last one with complete up-to-date data (2019). In 2008, more than half (16) of the 30 surveyed countries had values of revenue decentralization below the EU average – 24.8%. These countries are divided into two cluster groups – countries with more than 10% deviation below the average (Cluster 1) and countries with up to 10% deviation below the average (Cluster 2). The findings are that in Ireland, Greece, Cyprus, Luxembourg, and Malta the revenue decentralization has a high deviation, whereas in Bulgaria and ten more countries the indicator deviates slightly, respectively gets closer to the EU average (Cluster 2 of Appendix 1). The countries whose values of revenue decentralization exceed the EU average prove successful in the process of fiscal decentralization. In 2009, these were 14 countries of which the Scandinavian ones – Denmark, Finland, and Sweden had the best results. In 2019, countries retain the number but not their content: Hungary and the United Kingdom lose their place, at the expense of Norway and Lithuania, which move from Cluster 2 to Cluster 3 of the analysis. On the other hand, 16 of the countries analyzed had revenue decentralization values below the EU average of 23.5%, with a deviation ranging from -0.5% for The UK to 22.4% for Malta (see App.1).



**Figure 1.** EU countries revenue decentralization – comparative data 2008 and 2019  
(Data source – Eurostat)

The coefficient of expenditure decentralization is defined as a key indicator for measuring the degree of fiscal decentralization according to a number of authors. This

is due to the fact that local authorities implement the policy of providing public goods and services to the population on the basis of the expenditure side of their budgets. In this sense, the increase in expenditures in the ‘Local Government’ sector, *ceteris paribus*, implies more benefits for society. The high degree of expenditure decentralization also means that the authorities are able to solve existing problems ‘on the spot’, as close as possible to the citizens.



**Figure 2.** EU countries expenditure decentralization – comparative data 2008 and 2019  
(Data source – Eurostat)

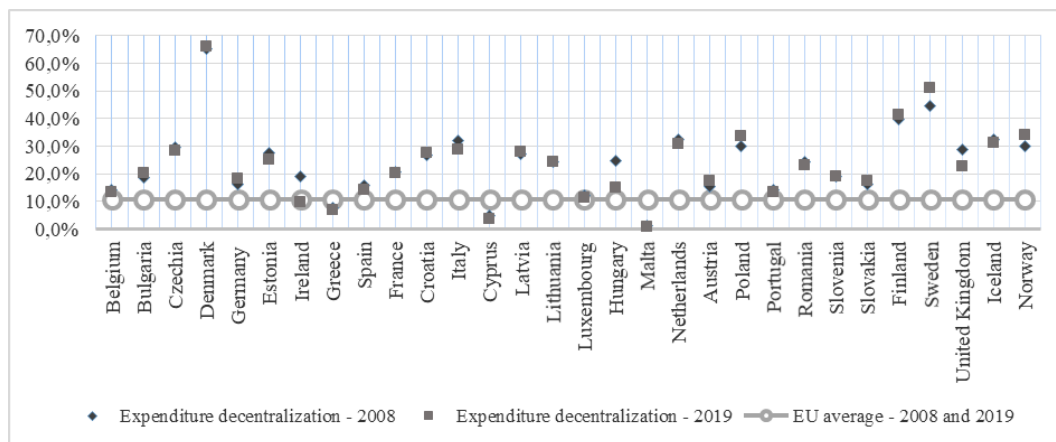
Figure 2 illustrates the progress of the countries surveyed in this respect, and shows that only 9 of the 30 surveyed countries show an increase in local expenditures towards the total expenditures in the public sector, among which is Bulgaria. The fact that our country maintains values below the EU average both at the beginning and at the end of the analyzed period is considered a negative aspect: 18.8% of public sector expenditures were made at the local level in 2008, and in 2019 there were a 1.5 percentage points increase to 20.3%. The results for 2019 are comparable to those of Slovenia and France. The wide range of coefficient variation (1% – 51%) requires cluster analysis based on the deviation from the EU averages. In 2008, in 14 of the analyzed countries, the level of expenditure decentralization was lower than the European average. A significant deviation (over 10% below average) was observed in Greece, Cyprus, Luxembourg, and Malta, and a slighter deviation (up to 10% below average) – in Belgium, Bulgaria, Germany, Ireland, Spain, France, Austria, Portugal, Slovenia and Slovakia. For comparison, in 2019 the number of countries grew to 16, with Estonia and Hungary being added. Six countries had significant deviations (more than 10% below the average), and in 2008 they were one less – Ireland deepened its

lagging behind, reducing its expenditure decentralization from 19 to 9.7 percent. There were 16 ‘outstanding’ countries in 2008, with Lithuania, Hungary, and Romania deviating slightly from the EU average (see App. 1). Given the fact that in 2019 the number of countries in which the level of expenditure decentralization exceeded the European average dropped to 14, it can be argued that the process of fiscal decentralization at the macro level is slowing down. In support of this, the empirical analysis shows that 17 countries reduced the coefficient of expenditure decentralization in 2019 compared to 2008. At the national level, the measure in question, for example, in Hungary decreased by 9.7% in 2019, lagging behind the European average by 8.3%. Although such trends should be viewed in the context of the country’s overall macroeconomic policy, they are an indication of limiting the redistributive processes through local budget expenditures (Bordás, 2016, pp. 89-96).

## **2. Significance of local expenditures and tax autonomy**

The ‘Significance of local expenditures’ indicator reflects the above process: it is known that budget expenditures are a tool for redistributing national income between economic agents, and the ratio of local expenditures to gross domestic product for a given reporting period should reflect both the achieved degree of fiscal decentralization and its significance for the national economy. The average European value of the examined measure coincides with the two analyzed years and is positioned at a 10.6% level. By 2019, eighteen countries, including Bulgaria, failed to reach this benchmark. In Bulgaria, only 76 percent of the GDP was redistributed through the local government budget according to data from 2019, with an upward trend compared to 2008. The highest degree of fiscal decentralization and the best-developed process of redistribution through local expenditures unsurprisingly are reported again by the Scandinavian countries, where the examined indicator varies from 32.8% in Denmark to 17.7% in Norway. Of the Balkan countries, only the Republic of Croatia is in the ‘top ten’, with a value close to the European average (12.9% for 2019). The opposite situation, at an extremely low ‘Significance of local expenditures’ coefficient, is measured in Malta and Cyprus – 0.4% and 1.4% of GDP, respectively. The wide margins of variation again require that a cluster analysis be made in order to reveal the similarities between the countries. In 2008, fifteen of the countries included in the analysis deviated downwards from the EU benchmark (10.6%). In Bulgaria, the discrepancy is 4.2%, while in neighboring Greece it is 7.6%. Comparable to the Bulgarian results are those of Portugal and Ireland, and ten years later: Belgium, Slovakia, and Hungary. Our country made progress in the process of decentralization of the public sector after the analyzed indicator increased by 0.3 percentage points and the deviation from the EU average decreased by 0.3%. The data show that half of the surveyed countries improved their position, bringing their values closer to the EU benchmark. Estonia, Hungary, and the UK, which moved to a higher cluster group and exceeded the benchmark of 10.6% in 2019, marked great success. The above-mentioned countries,

together with 6 others, report an increase in the ‘Significance of local expenditures’ coefficient, as well as getting closer to the EU benchmark. The Republic of France does not change the value of the analyzed measure for the period, and in Ireland, it falls dramatically – from 7 to 2.4 percent. On this basis, the authors express their conviction that the high degree of the ‘significance of local expenditures’ measure confirms the high degree of completion of the process of fiscal decentralization at the national level and the achievement of financial autonomy at the local level, including the provision of sufficient quantity and quality of local goods and services.

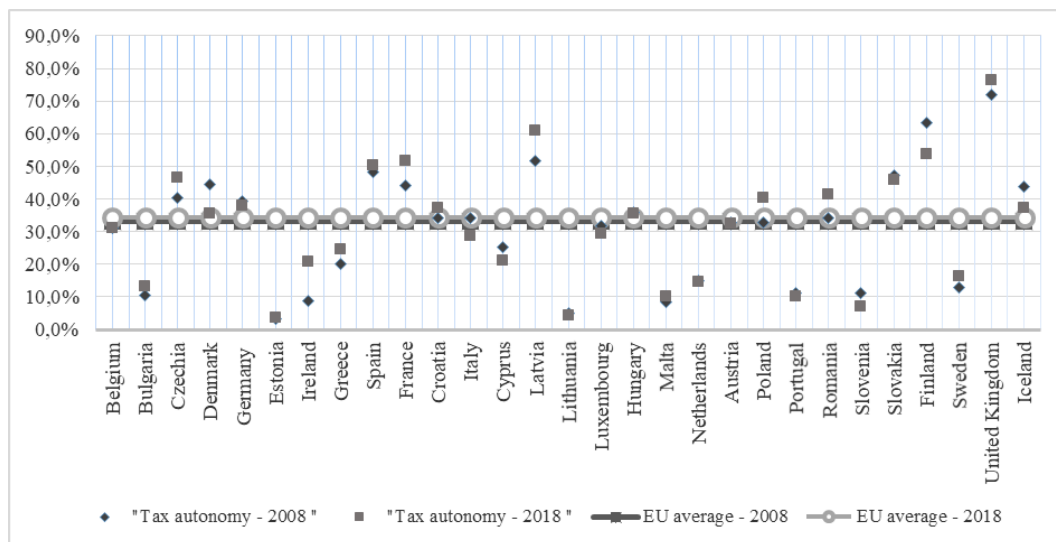


**Figure 3.** EU countries significance of local expenditures: comparative data 2008 and 2019  
(Data source – Eurostat)

The ‘Significance of local revenues’ indicator should be considered in the same context given the fact that budget revenues are the basis for the implementation of the expenditure policy of each budgetary institution, including municipalities. Therefore, government revenue is also an instrument for redistributing GDP. The commented indicator is not subject to detailed analysis, as the results derived overlap largely with those of the ‘Significance of local expenditures’ indicator.

The national legislation of each country, in accordance with the principles of the ECLSG, imposes on local authorities the responsibility for providing a certain amount of public goods and services at the local level in accordance with public needs. In Bulgaria, local activities are subject to financing with local revenues and a total balancing subsidy (Public Finance Act, Articles 52-55). Therefore, the accumulation of a larger volume of revenues from own sources, incl. tax opens to the local government more opportunities to increase economic efficiency and public welfare, and the independence of local government from the central government in financial terms can be measured by the number of their own revenues to implement the expenditure program of the respective municipality. In this case, the own revenues from tax revenue are important, which as a rule constitutes a significant part of the total own revenues. A

joint study shows that local parliaments have limited powers in the organization of local taxes in Bulgaria (Naydenov & Pavlova-Banova, 2020, pp. 1-28), which creates difficulties in fulfilling local expenditure responsibilities. In this sense, the analysis of the ‘tax autonomy’ indicator is completely reasonable and reveals important features in terms of the financial capabilities of Bulgarian municipalities. The latter measures the significance of local tax revenue for the total revenues of municipalities and has a high informational significance for measuring the degree of decentralization in the public sector.



**Figure 4.** EU countries Tax autonomy: comparative data 2008 and 2018  
(Data source – Eurostat)<sup>3</sup>

Figure 4 shows the summarized results of the countries subject to analysis, which shows that local tax revenue in Bulgaria in 2018 constituted 13.3% of the budget revenues, the total for the sub-sector, and a decade earlier it was even lower – 10.7%. The value of the indicator in the two analyzed years is lower than the European average, which is positioned at 33.2% and 34.4% respectively for 2008 and 2018. At the macro level, the indicator varies widely – between 3.5 % for Estonia and 42% for Iceland according to the latest data. The identified differences suggest a re-examination of the countries based on cluster analysis. The countries are divided into 4 groups according to the deviation from the European average for the respective year (2008 and 2018), which allows us to track the extent to which the sub-sector in a particular country has succeeded in its efforts to break away from depending on the central government.

<sup>3</sup> On the given date, October 29, 2020, As Eurostat does not publish complete data for local source revenues in the EU for 2019, the analysis forward is based on those from 2018.



Clusters 3 and 4 groups the countries with a low degree of tax autonomy compared to the benchmark for the respective year. The findings are that in half (15) of the analyzed countries the coefficient of tax autonomy does not exceed 33.2% in 2008. In Bulgaria, it deviates downwards by 22.5%, and in Romania and Slovakia, the results are close in value, too. Cluster 4 includes the following countries: Estonia, Ireland, Greece, Lithuania, the Netherlands, Austria, and the United Kingdom. The distribution is heterogeneous in Cluster 3 of the analysis, too, which includes economies whose tax autonomy coefficient is lower than the EU average by up to 10% and unites the following countries: Belgium, Cyprus, Luxembourg, Poland, and Portugal. Compared to 2018, the tax autonomy of the 'Local Government' sub-sector in some countries registers progress. The measure determining this increases its value in five countries of Clusters 3 and 4 of the analysis. Portugal registers the highest result, whose coefficient increased from 32.7% to 42.4% to be repositioned in a higher cluster group in 2018. The place of the latter is taken by Italy, where the analyzed measure reports a decrease of 34.4% to 28.7%, deviating downwards, according to the latest data, from the European average by 5.7%. Bulgaria, Estonia, Greece, and the United Kingdom, for their part, get closer to the 2018 benchmark, reporting an increase in the coefficient of tax autonomy, similar to Portugal, but retaining their place in Cluster 3 of the analysis. Therefore, the country's affiliation to a particular region in Europe or the degree of socio-economic development (as they are often classified) is not determinative for the tax autonomy of the countries' economies. This is confirmed by the distribution of countries whose tax autonomy is higher than the European average (Clusters 1 and 2 of the analysis). Iceland records the highest coefficient (76.3%) with 42% over the EU average in 2018. The other countries grouped downwards in the highest cluster group are Latvia, Sweden, France, Spain, Belgium, and Finland. Denmark, Germany, the Republic of Croatia, Hungary, Norway, and Slovenia are close in value to the EU average (exceeding by up to 10% the benchmark of 34.4% for 2018), retaining their position in Clusters 1 and 2 of the analysis for the last 10 years.

According to the authors, the analyzed measure most accurately reflects the achieved degree of autonomy of local government from the central government, as it is directly dependent on the size of the local taxes, which are allocated for local activities in accordance with the needs of the local citizens. In this sense, the financial capabilities of the separate unit of local government (municipality) are determined by:

- Its ability to increase the collectability of taxes, which it accumulates through specific 'on-site' measures;
- The ability to control the use of tax reliefs and preferences by taxpayers in order to achieve maximum revenue;
- The ability to independently determine the tax rates of local taxes in order to optimize revenues (the so-called Scandinavian model of taxation, which is not applicable in Bulgaria);

- Its right to dispose of tax revenues assigned in its favor, which are legally paid into the state treasury;
- Provision of other sources of own revenues, other than tax.

The idea of tax reform with a view to assigning a certain part of the personal income tax, for example, in favor of municipalities, is seen rather as the vanguard for the Bulgarian reality, but the adoption of such good practices, in the authors' opinion, would contribute essentially to increasing the financial capabilities of municipalities and improving their fiscal position. Such a proposition is supported by the fact that countries like Germany, Portugal, Sweden, Spain have a high degree of tax autonomy, and at the same time assign taxes in different formats (Bahl & Cyan study, 2010, shows that Austria, Belgium, Portugal, Germany and the Scandinavian countries use personal income tax as a local source of revenue).

In conclusion, the present study generalizes that expanding autonomy and affirming its principles is crucial for local self-government and overcoming inefficiencies in the provision of public goods and services and the rationalization of the use of public resources, as well as for increasing the financial capacity of municipalities and improving their fiscal position. In this respect, our country (Republic of Bulgaria) has made some progress in the last ten analyzed years, and in the clustering of selected countries, it is positioned in the middle of the distribution. Comparable to the Bulgarian results are those of Austria, Ireland, France and Germany in terms of revenue and expenditure decentralization and the significance of local expenditures for the national economy, and in terms of tax autonomy – with Estonia, Greece, Lithuania, Austria, and Romania. The deceleration of fiscal decentralization at the macro level, incl. in Bulgaria, requires a rethinking of the philosophy of operation of the tax system in our country in order to bring the results closer to the EU average and achieve maximum public satisfaction with the received local goods and services.

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**Appendix 1.** Measures of fiscal decentralization – territorial and time aspect

Country	Revenue decentralization		Expenditure decentralization		Significance of local expenditures		Tax autonomy	
	2008	2019	2008	2019	2008	2019	2008	2018
Austria	C1	C2	C1	C1	C2	C2	C1	C1
Belgium	C2	C2	C2	C2	C2	C2	C2	C2
Bulgaria	C3	C3	C3	C3	C3	C3	C1	C1
Croatia	C4	C4	C4	C4	C4	C4	C3	C3
Cyprus	C2	C2	C2	C2	C2	C2	C2	C1
Czechia	C3	C3	C3	C3	C3	C2	C3	C4
Denmark	C2	C1	C2	C1	C2	C2	C4	C3
Estonia	C1	C1	C1	C1	C2	C2	C1	C1
Finland	C2	C2	C2	C2	C2	C2	C4	C4
France	C2	C2	C2	C2	C3	C3	C4	C4
Germany	C3	C3	C3	C3	C3	C3	C3	C3
Greece	C3	C3	C3	C3	C3	C3	C1	C2
Hungary	C1	C1	C1	C1	C2	C2	C3	C3
Iceland	C3	C3	C3	C3	C3	C3	C4	C4
Ireland	C2	C3	C3	C3	C2	C2	C1	C1
Italy	C1	C1	C1	C1	C2	C2	C3	C2
Latvia	C3	C2	C3	C2	C3	C2	C4	C4
Lithuania	C1	C1	C1	C1	C1	C1	C1	C1
Luxembourg	C3	C3	C3	C3	C3	C3	C2	C2
Malta	C2	C2	C2	C2	C2	C2	-	-
Netherlands	C3	C4	C3	C3	C3	C3	C1	C1
Norway	C2	C2	C2	C2	C2	C2	C4	C3
Poland	C3	C3	C3	C3	C2	C2	C2	C2
Portugal	C2	C2	C2	C2	C2	C2	C2	C3
Romania	C2	C2	C2	C2	C2	C2	C1	C1
Slovakia	C4	C4	C4	C4	C3	C4	C1	C1
Slovenia	C4	C4	C4	C4	C4	C4	C3	C3
Spain	C3	C2	C3	C2	C3	C2	C4	C4
Sweden	C3	C3	C3	C3	C3	C3	C4	C4
United Kingdom	C2	C3	C3	C4	C3	C3	C1	C1

## THE EFFECTS OF COVID-19 CRISIS IN THE ALBANIAN ECONOMY

Valbona Sakollari<sup>1</sup>

### ***Abstract:***

*The article aims to present an overview of the Albanian economy, 6 months after the start of the pandemic situation. The effects of the crisis are analyzed, considering the size of entities affected and the sector when the entity operates. There are pointed out factors that affected the performance of each group. The government interventions in response to the crisis are analyzed and evaluated. The empirical data are taken into account, as well as a statistical analysis of these data. Combined research methods have been used, taking into account qualitative data and quantitative data for the collection of information. The main findings of the paper: first, the dependence of the Albanian economy on tourism, and second, the predominance of small enterprises makes the economy collapse easily, due to lack of capital reserve.*

*Keywords: Covid-19 crisis; fiscal policy; subsidy; industry sectors*

### **Introduction**

The COVID-19 virus is the new biggest challenge on a global level. The health crisis is transformed into an economic crisis, since every day people are losing jobs and income. Albania tops the list of countries with the earliest and strongest isolation. The pandemic crisis influenced the demand and supply at the same time, decreasing them both, affecting severely consumption. The impact on the economy is strong. The paper reflects the changes in the Albanian economy and the economic result of the country, due to the global changes and in adaption to the new global reality. The main limitation of the paper is the inability to enlarge and deepen the research in different sectors, due to the lack of precise information and due to the dynamic changes of the pandemic situation. The article aims to present an overview of the Albanian economy, 6 months after the start of the pandemic situation, analyzing different sectors of the economy. The performance of entities is evaluated based on the results and data pub-

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lished by the responsible institutions. The explanation of the characteristics of the sectors and the lineament of the general situation is evaluated useful and important to have a better framework of the analyzed environment. The purpose of this paper is to present a clear and fair presentation of the effects of the pandemic crisis in Albania, to try to explain why these effects are not reflected equally in all sectors and how the situation can be improved in the most critical sectors.

### **Purpose of the study**

The purpose of the article is to present a clear and fair presentation of the effects of the pandemic crisis in Albania. It tries to explain why these effects are not reflected equally in all sectors and how the situation can be improved in the most critical sectors. Since future efforts will be concentrated to overcome the negative effect of the crisis, the paper could help to highlight the weak point of the sectors and to give some recommendations regarding the best practice to follow for a faster and healthy recovery. The research aims to easier the policymakers' decisions regarding the future supporting policies in the short-run and long-run periods. At the same time, students or researchers of the field can use the findings of the article as the starting point for future and deeper analyses.

The article will try to answer three main issues:

- What is the general effect of the pandemic crisis on the Albanian economy?
- How does the business react and respond to the crisis?
- Government interventions and their efficiency

### **Methodology**

The presentation of the global situation and the presentation of the Albanian economy are the starting points for the research. The characteristics of the local business are analyzed, which helps to understand the reaction to the pandemic crisis, to the actors in the market. Focusing on the comparative analysis for two periods is explained the dependence between the size of the enterprise, the importance of the sector where it operates, and the impact of the pandemic. The paper has a comparative analytical approach, focusing respectively on: (1) analysis of financial data based on fiscal indicators of the country, for the period January-September 2020, (2) comparative analysis of the economic performance of different sectors (3), evaluating supporting policies for businesses and individuals, to cope with and overcome the crisis. The combined research method is the right one, because of the data and information on which the paper is based.

### **Main findings**

- The Covid-19 pandemic is having profound consequences for the Albanian economy. The first 8 months of the year marked a series of massive bankrupt-

cies, rising unemployment, declining purchasing power, declining domestic production, and trade exchanges.

- The entities most affected are SME-s, which represent 99 percent of entities in Albania and have the largest number of employees in the country. Self-employed and unpaid workers in the family business, which are 53.2 percent of the total employed in the country, were the first who joined the army of people who needed immediate economic support.
- The strong impact of the crisis is explained by the dependence of the country on by tourism and all the economic activities connected with it.
- The supporting policies, drafted in hurry, without consultation with groups of interests have more a social character than recovery for the economy.

### **Overview of Albanian economy JAN-SEPT 2020**

The COVID-19 pandemic is the new global health crisis of our time. The entire world is facing one of the most serious challenges. It starts in Asia, late last year, and is spread in all continents. Countries are trying to slow the spread of the disease in different ways, by testing and treating patients, limiting travel, quarantining citizens, carrying out contact tracing, and canceling large gatherings such as sporting events, concerts, and schools. The lockdown changed the so-called „normality“ of our way of living. Most of the people experienced the home-office regime, working by home, the schools and universities passed in the on-line platform. It is changing everyday life, the way how people spent their leisure time. It is changed the governance approach. It is changing the way of thinking. The health crisis is transformed into an economic crisis since everyday people are losing jobs and income.

The paper reflects the changes in the Albanian economy, the economic result of the country, due to the global changes and global reality. The first case identified as affected by Covid-19 (the patient zero) in the country was registered on 09.03.2020. On the same date, the government declared the lockdown. On 24.03.2020 the Council of Ministers (CoM) of Albania, through Decision No. 243, declared the State of Natural Disaster, which lasts up to 23.06.2020. During this period, CoM has issued about 17 normative acts with the force of law, in the function of the situation with COVID-19. Even the parliamentary activity is changed, adapting its activity with the online platform. The need of the Assembly for functioning and decision-making, during the lockdown, was accompanied by rapid amendments to the rules of procedures and accelerated and limited decision-making practices. This violates the elements of transparency, public consultations, and regular parliamentary agenda. The rapid procedure was applied for different constitutional amendments, avoiding the political consensus and their online review and debate. Assembly included in the agenda not only the initiatives directly related to the pandemic state but even political and electoral initiatives, initiated by the government (initiatives for financial amnesty, for wiretapping/police, financial markets, legalization of medical cannabis, for transitional own-

ership processes, etc.). During Jan-August 2020, the Assembly approved 115 laws, or two times more, approved in the same periods of 2018 and 2019) (ISP, Krasniqi et al. 2020). The President returned to the Assembly approximately 1 in 5 laws.

## Revenues

Regarding the performance of the fiscal indicators, and their performance, the Report of the Minister of Finance, in a summary of Preliminary performance of consolidated fiscal indicators for the period January – August 2020 (Minister of Finance and Economy, 2020), shows that the revenues, in the first 8 months of the year, were ALL270.702 million, registering ALL 35.200 million less than the same period of the previous year. In detail: Total revenues for the 8 months of 2020 were realized in the amount of ALL270.7 billion. Compared to a year ago, the income has a contraction, mostly caused by the pandemic effect, with ALL 35.2 billion.

Tax revenues for the 8 months of 2020 were ALL254.8 billion.

Revenues collected from the General Directorate of Taxes (GDT) and the General Directorate of Customs (also Contributions collected by the GDT), were in the amount of ALL237.7 billion, with a reduction from the effects of the pandemic with ALL30.8 billion less or – 11.5% compared to 2019.

Customs revenues (revenues from VAT on imports, excises, customs duties and royalties) are realized in the amount of ALL 96.1 billion, shrinking by ALL 11.9 billion or 11.1% compared to the fiscal year 2019.

Revenues from VAT on imports for the 8 months result in ALL 62.6 billion, or 11.9% decreased compared to a year ago. Excise revenues also decreased by 9% less, royalty revenues by 19.8% less; customs tax revenues, 8.8% less than the same period of the fiscal year 2019.

Tax revenues (revenues from net VAT in the country, profit tax, personal income tax, national taxes, and contribution and collection from the GDT) are in the amount of ALL 141.6 billion. The contraction compared to last year reflected the effect of the pandemic of 18.8 billion or 11.7%.

Revenues from VAT collected (gross), were realized in the amount of ALL28.9 billion, ALL2.5 billion, or 7.9% less than 8 months in the fiscal year 2019. Net VAT within the country is realized in the amount ALL 18.7 billion, ALL778 million or 4% less than the 8 months of 2019

Revenues collected from a tax on profit, in the amount of ALL 17.6 billion. Due to the postponement of the installments of the tax on profit sites on business assistance, these revenues are realized 28.4% less than a year ago.

Personal income tax was collected in the amount of ALL 23 billion, ALL 8.6 billion, or 27.2% less than 8 months in 2019.

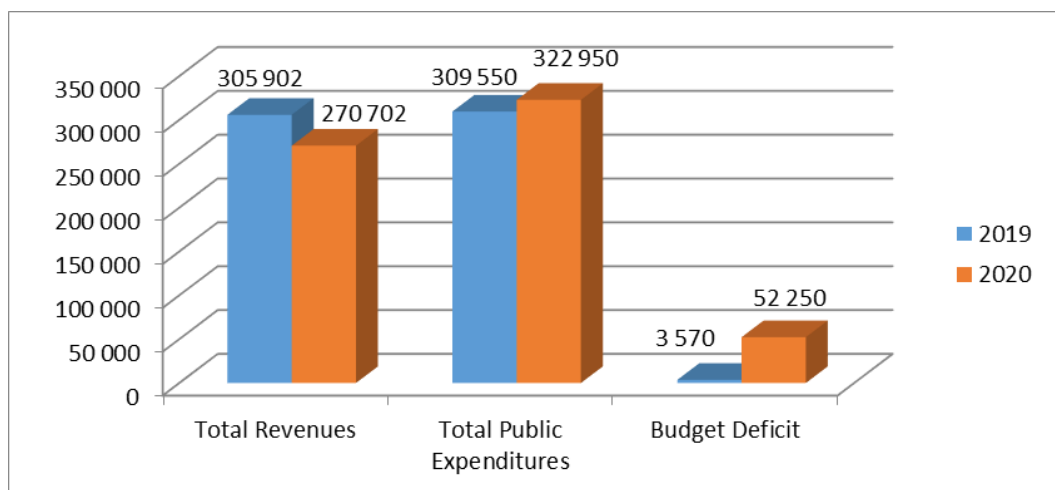
National taxes, in the amount of ALL 20.5 billion, with a contraction of ALL 1.6 billion or 7.2% in relation to 8 months of 2019.



Revenues collected as a contribution for social and health insurance (administered by the GDT), were realized in the amount of ALL61.8 billion, only 1.4% less than 8 months in 2019. In summary, the revenues were decreased by 11.5% compared with the same period in 2019.

## Expenses

Total public expenditures, for the 8 months of 2020, reached ALL322.95 billion, around ALL13.4 billion more or 4.3% higher, compared with the same period of 2019. The financial packages, in support to business and individuals, including in the total public expenditures made up around ALL11.8 billion. This package is only 3% of total public expenditures for the period Jan-August 2020 and is less than the total increase of the expenditures for the period.



**Figure 1.** Total public expenditures for the 8 months of 2020

*Source:* Minister of Finance of Albania

The shrinking of the revenues, which reflects the shrinking of the economy due to the pandemic crisis, is not followed by an adaptation of government expenses. The increase in public expenses is higher than the money that the government dedicated to the Anti-Covid measurements, in support of the individuals and businesses to over-pass the crisis.

Current and capital expenditures have marked a realization of compliance in the amount of 99.7% and 94.9% of the plan for the period, making no change as a result of the pandemic. Current expenditures with the plan 8 months ago this year, represent a realization of 99.7%, resulting in about 269.7 billion. The main items that affect the level of realization of current expenditures against the 8-month plan are special:

- expenses for the local budget with 110.8% of the period plan

- other social expenditures with 105 percent of the period plan.
- operating maintenance costs by 100.5 percent of the period plan.

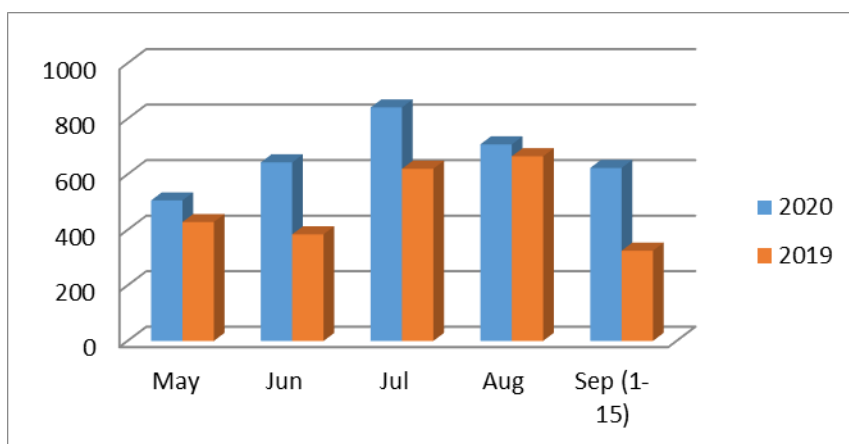
Capital expenditures, for the month of 2020 have a realization in the amount of about 40.6 billion ALL. Respectively, domestic financing is realized in the amount of ALL 27.46 billion and foreign financing is realized in the amount of ALL 12.44 billion. Compared to the annual plan, for the 8-month period of 2020, a general realization of public investments in the amount of 46.2% of the annual plan has been ascertained. The level of deficit in the eighth month of 2020 resulted in about ALL52.25 billion against ALL3.57 billion that was for the same period of 2019 (14.6 times higher)

For the same period, the expenditures are increased by 4.3%, (109 million euro) including the Anti-COVID-19 Financial Packages, in the amount of 95.5 million euro, or 3.65% of the total expenditures.

### **The business response to the crisis**

A huge number of businesses have closed or suspended the activity because of the Covid-19 pandemic crisis. The closure or suspension of the activity started immediately at the end of March. For the Albanian law, the suspension of the activity occurred when the tax administration transfers the taxpayer registration from the active register to the passive register kept by the tax administration (Law, Nr. 9920) when certain conditions are met. In the situation of pandemic crisis, the transition to passive status occurred mainly by the will of the taxpayer who declared to the National Business Center (NBC) the suspension of activity. This declaration does not exclude the business from the payment of tax liabilities accumulated up to that moment but gives it the opportunity not to submit periodic tax declarations and not to be penalized for non-tax declaration. Also, the transfer to the passive register does not eliminate the existing tax liability and does not stop the tax administration from assessing or collecting the tax liability, after the transfer to the passive register. As long as an economic entity is in a passive status, it cannot develop any kind of economic activity. Any transaction performed by taxpayers, natural or legal persons, traders, who are in the passive register, is considered an administrative violation and both the seller and the buyer can be punished. The closure of the activity or the deregistration is a long and complicated process, therefore companies suspend the activity in advance, transferring in passive status until all deregistration procedures are performed. The central tax administration publishes on the official website of the General Directorate of Taxes and updates on a daily basis the list of taxpayers who are in the passive register. Based on the information published on the GDT, there are identified two periods with the highest number of taxpayers transferred in the passive register. The financial packages Anti-Covid kept open the small business, at least for the first and second month after the declaration of the state of the natural disaster, keeping the unemployment rate under control. Once the funds from packages of support were distributed,

thousands of economic entities could not survive in the market, where consumption had shrunk significantly. The first period of business closure, which belongs to the months of May-July, reached the peak in July, with a medium of 27 businesses per day, transferred in the passive register. At the end of July, the total number of employees, excluding the agricultural sector, dropped to 630 thousand people from 688 thousand in February, before the onset of the pandemic, falling by 8.3%. Among 58 thousand people who have lost their jobs, 73% of them came from small entities. The number of businesses closed has been high, too. Based on the data of the tax directorate, the number of entities, at the end of July, decreased to 79.6 thousand from 112 thousand in February, 29 percent less. Out of 32.4 thousand closed businesses, 98% of them were small entities (General Directorate of Taxes, 2020). The second wave is forecasted for September-November. Only during 1-15 September, 39 businesses per day suspended their activity. The closed activities are mainly located in Tirana, Durres, Vlore, etc.



**Figure 2.** Enterprises in passive status

*Source: Directorate of Taxes*

The huge number of small businesses closed is explained by the structure of the business in Albania. The characteristic of Albanian businesses is the big number of small and very small enterprises. The size of enterprises is determined by the number of employees:

- Enterprises with 1-4 employees are classified as very small enterprises;
- Enterprises with 5-9 employees are classified as small enterprises;
- Enterprises with 10-49 employees are classified as medium enterprises;
- Enterprises with 50 or more employees are classified as large enterprises.

The enterprise register at the end of 2019 counts 162,342 active enterprises. By the end of 2019, there were 44,473 farmers equipped with a Taxable Person Identification Number, NIPT. The Albanian economy is mainly focused on commercial activity, a

phenomenon which is also observed in enterprises registered during 2019. Commercial enterprises occupy 43% of the total service producers. Large enterprises with 50 or more employees occupy 1.2% of the total active enterprises and their contribution to employment was estimated at 47.8% in 2019.99% of total enterprises are considered SME, with 1 up to 9 employees.

Large businesses relied on economies of scale and have more financing opportunities and financial reserves, which enabled them to afford the temporary closure of their activity, due to lockdown. Small businesses had started the recession cycle before the crisis, as a result of the reorientation of the economy towards large chains, the containment of consumption affected by emigration but also by the November earthquake.

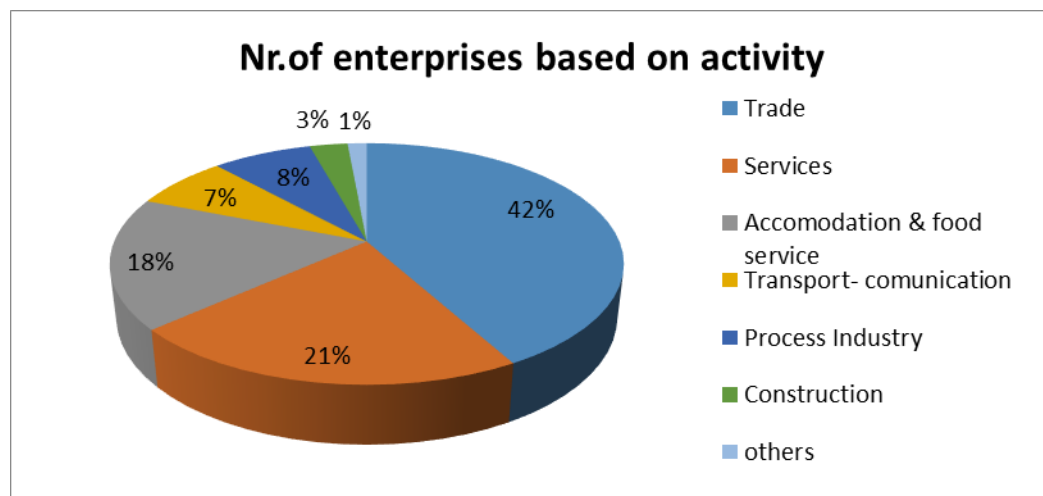
**Table 1.** Active enterprises by economic activity and size

Economic Activity	End of the year 2019				
	Total	Group by the number of employed			
		1-4	5-9	10-49	50+
<b>Total</b>	<b>162,342</b>	<b>144,857</b>	<b>8,569</b>	<b>6,932</b>	<b>1,984</b>
		<b>89%</b>	<b>5%</b>	<b>4%</b>	<b>1%</b>
<b>Producers of goods</b>	<b>60,061</b>	<b>55,342</b>	<b>1,871</b>	<b>2,052</b>	<b>796</b>
Agriculture, forestry and fishing	45,705	45,543	85	66	11
Industry	9,630	6,681	1,122	1,251	576
Construction	4,726	3,118	664	735	209
<b>Producers of services</b>	<b>102,281</b>	<b>89,515</b>	<b>6,698</b>	<b>4,880</b>	<b>1,188</b>
		<b>88%</b>	<b>7%</b>	<b>5%</b>	<b>1%</b>
Trade	44,324	39,971	2,498	1,658	197
Transport and storage	5,614	5,101	251	208	54
Accommodation and food service activities	18,440	15,819	1,758	794	69
Information and communication	3,089	2,554	267	213	55
Other Services	30,814	26,070	1,924	2,007	813

Source: INSTAT

Based on the estimates of the Labor Force Survey, at the end of 2019, 1,266 thousand people were employed in Albania. The services sector and the agricultural sector have the highest percentage of employees with 43.5% and 36.4% of the total employees, respectively. Characteristic is the high number of self-employed and family contributors. Thus, only 45.7% of employees are salaried employees, 32.3% are self-employed (employer or self-employed without other employees) and 22.0% are unpaid workers in the family business. Those people are the first ones who joined the army of persons that lose their job and had an immediate necessity for support.

Despite the global characteristics of the Covid-19 crisis, the structure of the Albanian entities and the characteristics of the labor market in the country can help to explain why the effects of the crisis are different in different sectors. A deepen analysis of the economic performance per sector can support the issue.



**Figure 3.** Enterprises based on economic activity

*Source:* INSTAT

## Tourism

Geographical location, local climate, and terrain favor the development of a tourism industry throughout the year in Albania. In recent years, tourism has become one of the most important and growing sectors of the Albanian economy, becoming one of the main engines of national growth. Albania is increasingly being recommended as a tourist destination by various tour operators and international travel guides. The tourism sector has generated economic development, employment, and self-employment opportunities. The contribution of this sector to total GDP is estimated at ALL 358.3 billion or 21.2% of GDP. The 254.3 thousand employees of the sector are 22.2% of the total number of employees in the country. In 2019, the growth of the sector was + 8.5% compared to 2.7% of the total economic growth of the country. Tourism is diverse and consists of three main product areas:

- Coastal tourism, where it has been developed as the main product that focuses on „beach and sun“ tourism, mainly in coastal destinations such as Velipoja, Shengjini, Durrës (Adriatic Sea), Vlora, Himara, Saranda, Ksamili (Ionian Sea).
- Cultural tourism, based on the resources and the history of Albania in archeology, heritage, and culture offers considerable potential. Albania offers three World Heritage sites: Butrint Archaeological Park, UNESCO Berat, and Gjirokastra, followed by a number of historical and cultural attractions and monuments.

• Natural tourism-rural-ecotourism, favored by the climate of Albania, geography, and physical diversity of the territory, is represented by a series of mountains, lakes, rivers, and lagoons that are associated with a rich biodiversity of flora and fauna. There are a lot of national parks and nature reserves within the country. Natural and rural areas in Albania offer opportunities for the development of rural tourism, eco-tourism, and nature-based activities (river rafting, paragliding, mountain biking, fishing, trekking, climbing, hiking, horseback riding, study trips, etc.).

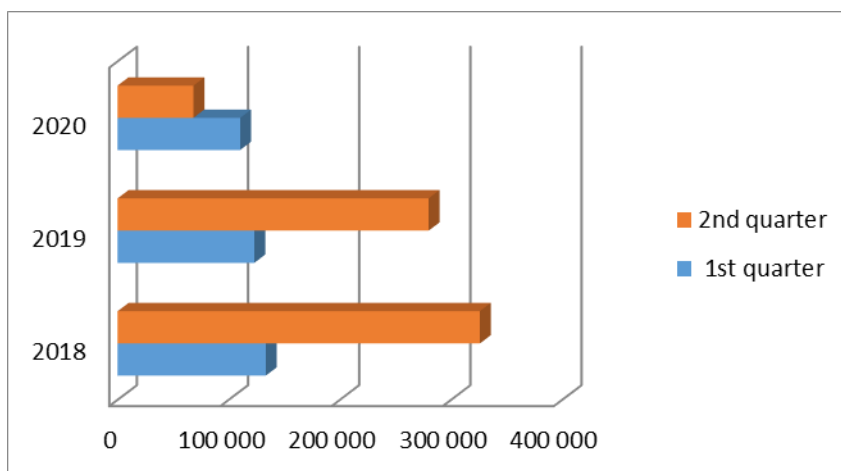
Tourism and the range of all related support services is one of the most affected sectors of the economy, as Covid-19 has severely restricted movement. Therefore, the activity of bars, restaurants, activities related to entertainment, travel agencies, airlines have been greatly affected by this crisis. Being a small country, domestic tourists cannot replace the contribution of foreign tourists to the economy due to the limited number and the fact that domestic tourists do not spend like foreign tourists. The land border enables the arrival of tourists from Kosovo and Macedonia, but these constitute only a part of the foreign tourists who have started coming to Albania.

**Table 2.** Passengers arrivals

<b>Total arrivals</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>1st quarter</b>	<b>133,331</b>	<b>123,042</b>	<b>110,251</b>
<b>2nd quarter</b>	<b>325,918</b>	<b>279,814</b>	<b>68,234</b>

*Source:* INSTAT

Due to Covid-19, this summer the part of tourists coming from Eastern European countries such as Bulgaria, Czech Republic, Poland, Hungary was missing, reducing significantly the income in this sector. This situation of the drastic decline of vacationers, and the lack of organized tourism due to the pandemic, raised the question of the survival of operators in the sector. The lockdown during March-May and the severe restriction in the consecutive months caused massive cancellations of early reservations. The secret ingredient for the accommodation structures was adaptation. It was passed from the B&B formula to „Full board“ or „all-inclusive“ packages, based on the request of the client at the moment of check-in (Maho, 2020).



**Figure 4.** Quaterly arrivals  
*Source:* INSTAT

For big operators of accommodation structures, the „all-inclusive“ package remained one of the best formulas. Costs for this product increased significantly, for several reasons: first, the small number of vacationers; second, the protocol of anti-Covid security measures have increased costs; third, the demand forecast was only 20% of it, the rest was „on request“, making planning very difficult and consequently risking and affecting negatively the cost-saving concept. The price of the packages decreased compared to previous years, affecting the income side. The expenses out-of-package were greatly reduced, while the interest in out-of-hotel activities was almost zero. The crisis has particularly hit small accommodation structures, which used to operate with online platforms offering B&B, rental rooms, etc. The tourist agencies tried to convert the early reservation for a trip to foreign countries with a vacation in Albanian structures, but it was limited. Due to the low demand in the sector, the operators reduced the number of seasonal employees to a minimum, almost zero. Normally the sector used to hire almost 80% of staff during June-August. As a total effect, there is a decrease at 70% in turnover of the sector.

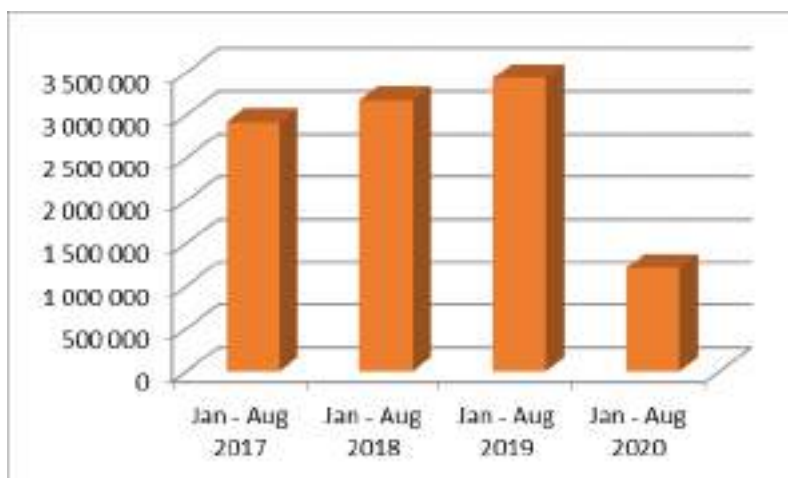
### **Transport of passengers**

The number of tourists that enter Albania (Table 3) in the second quarter of 2020 was 68 thousand tourists or 76% less compared with the same quarter of 2019, when were registered, 279.814 tourists. The beginning of 2020 had a positive balance registering an increase of 8- 9% in the number of tourists compared to the same period of 2019. Due to the lockdown, in April – May, the number of passengers registered was 90% – 98% less than the same period of the previous year.

**Table 3.** Passengers entrance (in %)

	Passengers 2020 vs 2019
<b>Jan</b>	8.20%
<b>Feb</b>	9.31%
<b>Mar</b>	-65.27%
<b>Apr</b>	-97.78%
<b>May</b>	-96.48%
<b>Jun</b>	-90.16%
<b>Jul</b>	-66.60%
<b>Aug</b>	-66.49%

Source: INSTAT

**Figure 5.** Registered passenger

Source: INSTAT

## Trade

In August 2020, exports of goods reached the value of ALL 19 billion, decreasing by 3.4%, compared to the same period of the previous year and 21.1%, compared to July 2020. Imports of goods reached the value of 48 ALL billion, decreasing by 7.0%, compared to a year ago and 15.3%, compared to July 2020. The trade deficit of this month is ALL 29 billion, decreasing by 9.2%, compared to August 2019 and 10.9%, compared to July 2020. The consequences of the pandemic have been particularly strong in the Eurozone, where Albania has the main trading partner. Adaption is the keyword even for this sector.



**Table 4.** Flow of goods in foreign trade, (billion ALL)

	Jan-Aug 2019	Jan-Aug 2020	
<b>Exports</b>	200	170	↓15%
<b>Imports</b>	429	376	↓12%
<b>Trade balance</b>	229	-206	

*Source:* INSTAT

### **Clothing and footwear**

The textile and footwear industry marked a rapid development after the 1990s. The geographical proximity to Italy and the free labor force encouraged many Italian entrepreneurs in cooperation with the Albanians, to open factories, working with the system of the customer material, accounting for about 39% of the total, in 2019. The characteristic of the sector is high dependence on Italy, with 71% of total textile exports and 86% of footwear, according to INSTAT figures for 2019. Most of the sector does not completely close the production cycle but focuses on several processes, mainly the cut-sew-iron process. It creates difficulty to collaborate and diversify into other countries, which prefer to work with companies that close the cycle completely. Italian companies choose to do only a few processes in Albania. This has left most of the domestic enterprises undeveloped and highly dependent on the economic situation in the neighboring country, Italy. The sector has the competitive advantage of cheap labor costs. According to the INSTAT Structural Survey, staff expenditures on textiles and clothing account for 44% of their total expenditures, and 25% for the shoe manufacturing sector. The average cost of the wage for all producers in the market is around 9%. As a result, the textile and footwear sector is very important for employment, especially for the poor people, with about 55 thousand employees or approximately 11% of employees in production, in the country. Because of the bi-monthly quarantine (where production was significantly reduced), and the total closure of Italy (where over 50% of products produced in Albania are exported), for January-May exports of footwear and textiles fell by 44% compared to the same period of last year. INSTAT data show an improvement in the textile industry, starting from May. The main reason is that the textile companies adjusted the processes to produce masks and hospital clothing, approaching pre-crisis levels. Clothing manufacturers have adapted the lines according to the new requirements imposed by international partners as a result of the situation created by the coronavirus. Additional elements are the resistance of the coating to strong disinfectants and detergents and non-penetration of moisture. The shoe industry found it more difficult the adaption, due to the specific nature of the production (Azo, 2020). In May, exports were 31% less compared to the same period of the previous year. Lack of orders, falling demand in foreign markets due to the closure of fairs and shops are the main factors that make the sector one of

the hardest hit by the crisis. Regarding the continuity, due to the changing consumer tastes, influenced by the new global reality imposed by the Coronavirus, the orders from the international customers are not yet well defined. However, a contraction in exports is to be expected, especially for non-essential goods or luxury goods.

## Construction

The November 2019 earthquake and the Reconstruction Project that follow it and the government's strategy to stimulate growth through public projects, especially in infrastructure, are two instruments that had given strong, positive signals and inputs to the construction sector. The conference „Together for Albania“, organized by the Council of Europe, raised 1.15 billion euros in grants, loans, and funds for development projects, injecting significant resources into this sector. On the other hand, Albania has been included, since 2014, together with the other countries of the Western Balkans, North Macedonia, Kosovo, Serbia, Bosnia, and Montenegro, in the European interconnection agenda (European Commission, 2015). The Trans-European Transport Network Program (TEN-T) aims to complete and modernize transport routes by 2030, in Europe. The six Western Balkan countries have been included as an indicative expansion in this trans-European transport program (TEN-T) including the core network, core network corridors, and priority projects earmarked for infrastructure investments.

2021 is an electoral year in Albania and the general trend is to increase public investment at the local and sectoral levels. The Albanian government is engaged in a wave of Public-Private Partnership projects, amounting to 10% of Gross Domestic Product.

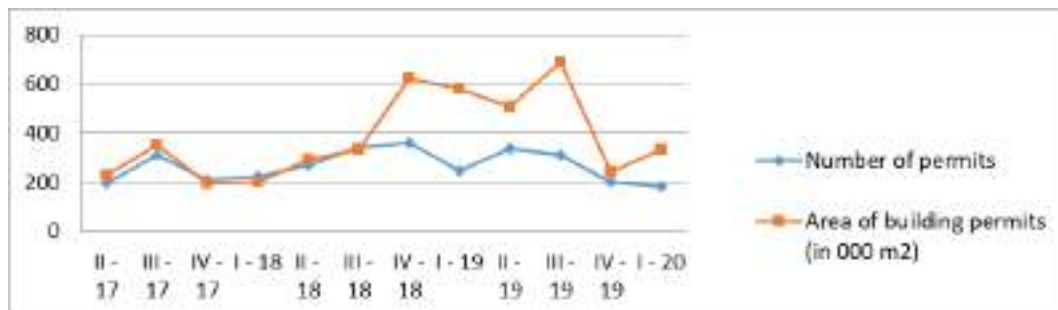
**Table 5.** Private construct investments performance

	<b>Approx. value of building permits issued</b>	<b>Number of permits</b>	<b>Area of building permits (in 000 m2)</b>
<b>2017</b>	<b>€ 307,076,750</b>	863	947
<b>2018</b>	<b>€ 475,981,694</b>	1,194	1,445
<b>2019</b>	<b>€ 651,917,669</b>	1,094	2,022
<b>Jan-June 2020</b>	<b>€ 227,511,548</b>	393	656

*Source:* INSTAT

Another characteristic of this sector in the analyzed period is the large number of construction permits issued as well as the spaces dedicated to private constructions (Table 4). In 2019 the space for construction was doubled compared to the previous 2-3 years. The number of constructions permits in the first quarter of 2019 was almost 45% higher than in 2019. The amount of investments in buildings is 476 mil€ in 2018

and 650 mil€ in 2019. All these factors, helped the sector to have a steady performance and development during the crisis (except for a slight slowdown in March).



**Figure 6.** Building permits approved  
Source: INSTAT

## Financial sector

In the first half of 2020, the activity of the banking sector developed steadily, despite the challenges posed by the pandemic situation in the country. Banks take different operational measures to ensure the continuity of critical functions and customer relations. The public authorities take different measurements to mitigate the pandemic impact on the economic and financial activity of the country. Action taken from both parties enabled that the activity of financial intermediation should continue in an appropriate manner and the financial indicators of the banking sector should remain at a good level.

The Central Bank Stability Report for the first semester of 2020 shows *the normal performance of financial markets in the country*. In these markets, despite the increase of the volume of government borrowing not only in Albanian Lek (ALL) but also in foreign currency, the average interest rate on debt securities did not change during the period. The volume of transactions in the secondary market remained low and focused on the short-term issue.

**Sustainable financial system performance.** The activity of the financial system was expanded by almost 4.4 percentage points (pp) during the period, rising to 111.6% of GDP. The banking sector contributed 3.9 percentage points to this growth. Financial system performance indicators including those of capitalization, profitability, liquidity, and asset quality remain at a good level (Bank of Albania, 2020).

**Controlled exposure of the banking sector to risks.** At the end of the first half of 2020, the stock of non-performing loans was about ALL 48 billion, almost unchanged during it. The main impact on this stability of the value of non-performing loans was provided by the provisions in the loan repayment moratorium, which enabled banks to temporarily suspend the recording of non-performing loans and changes within them.

The Bank of Albania increased the monetary stimulus by reducing the key interest rate, therefore, lending activity to the private sector increased at an annual rate of

6.8% in the second quarter, supported by the state guarantee provided by the government and the two packages of Aid Anti-Covid.

Credit to businesses increased by 7.3% compared to a year ago. Credit to households showed a slowdown in growth rates in the second quarter, falling to 6.1% compared to 7.5% in the first quarter.

The suspension of loan installments (loan moratorium), so the deferred installments have helped significantly the amortization of the loan portfolio, contributing 70% to the quarterly portfolio growth.

The operational measures taken by banks for the continuity of critical functions and customer relations, as well as measures taken by public authorities to mitigate the pandemic impact on the economic and financial activity of the country, made it possible for financial indicators to remain at good levels.

The Bank of Albania's gold reserves reached a record high of 147m euros at the end of July. Bank of Albania statistics show that gold reserves have increased by 73% compared to a year ago. The increase in the value of gold has come from the expansion of central bank investments for this instrument but mainly from the increase in the price in international markets. For the period July 2019-July 2020, the value of gold has increased by 32% and this is a profitable instrument in the country's foreign exchange reserve.

In March-June of this year, in the conditions of slowing down the economic activity due to the pandemic and the expected difficulties of the borrowers to cover the loan repayments, the Bank of Albania undertook some measures and regulatory changes of prudential nature, which aim to facilitate of the burden of borrowers affected by the pandemic, the increase of financial resistance of banks and the continuation of lending activity by the banking sector.

These measures consisted on:

- issuing a moratorium enabling the temporary suspension of loan repayment payments to pandemic-affected borrowers, initially until the end of June 2020 and then, until the end of August 2020;
- adoption of regulatory changes that enable banks to maintain their credit ratings and levels of non-performing loan provisions during this situation. The goal is that, by the end of this year, banks and their borrowing clients will find ways to restructure certain loans that quickly restore the solvency of pandemic-affected borrowers;
- suspension the distribution of banks' profits until the end of this year, so that in case of materialization of financial losses, the size of capital will be appropriate not only to absorb this loss, but also to support new lending.

The Bank of Albania's gold reserves reached a record high of 147m euros at the end of July. Based on the data published at the Bank of Albania site, the gold reserves have increased by 73% compared to a year ago. The increase in the value of gold has come from the expansion of central bank investments for this instrument but mainly from the increase in the price in international markets. For the period July 2019-July

2020, the value of gold has increased by 32% and this is a profitable instrument in the country's foreign exchange reserve.

### **Informatic & technology**

For the IT sector (information technology), in the position of providing services in the market, the pandemic greatly affected the increase in the use of technology. This new reality has forced businesses, banks, and consumers to look for new ways and channels of communication. Before the pandemic situation, businesses were skeptical about the benefits of using technology. During the lockdown period, it was proven that they could work remotely, control various operations and continue operating precisely thanks to the use of technology. The lack and reduction of physical visits of customers to points of sale forced businesses and banks to act quickly in the digitalization of their activities, to enable the provision of services and distance transactions. This has allowed companies in this sector to remain active during the lockdown period and beyond. The benefits of using technology, in Albania, are more evident in resale companies, as long as production lines are not automated, as in developed countries. On the other hand, consumers tested the use of digital channels to meet their needs, in complete security. This created a solid foundation for the IT and digital sector not only during the pandemic period but also for future continuity. Stimulating the sector can be avoided if the young people leave the country. They can offer their services from Albania, reducing emigration, increasing income, and decreasing the unemployment in the country.

### **Entertainment/Art/Freelancer**

This sector was one of the most affected. The initial total lockdown, first and the closure and the stoppages of all the cultural events, gym and sports activity, concerts, theaters, cinemas, the music clubs, the restriction to the music not beyond 20:00 in the evening, etc., but this sector at the top list of the hardest hit sector. The support to the category was the financial assistance for employees in business entities with annual income up to 14 billion ALL – payment of three minimum monthly salary (26.000 lek) – so-called „war salary“ or for the payment of dismissed and financial assistance of 40.000 lek (330Euro) for different categories of employees that lost their job due to the closure/stoppage of the activity by order of the Minister of Health.

### **Other factors**

Albanian economy is facing a new phenomenon in the last time. The Albanian companies are investing abroad. Based on the Report of Albanian Bank, from May 2019 – March 2020 more than 62 million euros are invested from Albanian companies in the Region. The major part of investments is directed towards three big projects in North Macedonia. The investing companies are already consolidated in the

Albanian market and are following the strategies of increase in the region. North Macedonia has put the as strong point of development the attraction of the foreign investment. To achieve this goal has facilitated bureaucratic procedures, offers subsidies up to 50%, to foreign companies that create jobs, and applied lower taxes in the region. Facilities are provided in the issuance of necessary permits, the efficiency of services, and necessary support by the municipal and state institution. The stock of Albanian investments abroad reached 1.3 billion euros during 2019, increased by 4% compared to 2018. It is approximately 10% of GDP for 2019 and makes up 19% of the stock of FDI in our country. In the first quarter of 2020, the investment balance deteriorated, as the inflow of foreign investments fell, while the outflow of Albanian investments abroad increased. Albania is listed in the region, as the country with the highest fiscal burden for investors and has lower fiscal facilities compared to countries as North Macedonia, Serbia, BiH, Montenegro, and Kosovo. The countries of the region have functional free economic zones with a very competitive stimulus, indifference from Albania.

Meanwhile, the Albanian entrepreneurs are preferring to invest their free funds abroad, the flow of foreign direct investment has declined. For about 4 previous years, FDI had remained at high levels, due to large projects in the field of energy (works on the Devoll River hydropower plant by Statkraft and Trans-Adriatic-Pipeline (TAP). Both projects reach the value of 2 billion euros, of which TAP is the most important foreign investment in the country, with a value of around 1.5 billion euros. Both investments have already been completed. Investments in the field of hydrocarbons that provided stimulus in the first quarter, are already in crisis, halting production for the first time in April. In the first quarter of the year, Foreign Direct Investments (net effect) was 214 million compared to 285 million for the same period in 2019, having a decline of 25 %. The Covid-19 crisis has reduced the interest of the investors, at least in the short term.

### **Supporting policies**

To cope with and overcome the critical situation, government intervention has been comprehensive. Economic, supporting policies have been focused on both monetary and fiscal direction.

**The monetary intervention**, directed by the Bank of Albania, was used as the main instrument the easing monetary policy by lowering interest rates. The key interest rate was reduced from 1.0 to 0.5 and the loan interest rate from 1,9 to 0,9. The second instrument used is the deferment of loan installment payments for 6 months.

**The fiscal intervention** of the Albanian government interfered with financial measurements in order to release the crisis effects. The main Packages Anti-Covid, are Two Financial Packages as social support for citizens and businesses; Additional budget for the health sector; Additional budget for the defense sector for their humanitarian work; Addition to the Reserve Fund for other necessary and unforeseen expenses.

The first package (**Package 1**) was support for Small businesses and Citizens, at the value of ALL4.9 billion or 39.5 mil euro. It was focused in three directions:

Measure 1 – financial assistance for employees in business entities with annual income up to 14 billion ALL – payment of three minimum monthly salaries (26.000 lek) – so-called „war salary“.

Measure 2 – Doubling the payment for individuals who receive payment of economic assistance.

Measure 3 – Doubling the payment for individuals who benefit from the payment of unemployment income.

The second package (**Package 2**) – Entrepreneurship and Employee Support – ALL7.04 billion or 56.7 mil euro, is a subsidy for dismissed and financial assistance of ALL40.000 (330Euro) for different categories of employees that lost their job due to the closure/stoppage of the activity by order of the Minister of Health. There are 176 thousand versus around 1.2 million of total employees in Albania that benefit from this second Aid Package, for ALL7.04 billion or 56.7 mil euro).

Both packages had a social character. It is a normal practice when employees lose their job, they apply for social assistance. 141 thousand employees benefit from both packages versus 1.266 thousand employees in Albania, only 11% of total employees in Albania.

**Sovereign Guarantee Instrument** is another instrument used by the government in support of businesses. The Council of Ministers has approved two instruments of the Sovereign Guarantee for a total amount of 26 billion ALL or 210 million euro.

**Sovereign Guarantee I** in the amount of ALL11 billion, was directed to all businesses that were directly affected in their activity, by the measurements. Anti-Covid applied by the decisions of Council of Minister. It was applied by Businesses in every second-tier Bank in the Republic of Albania: it was guaranteed 100% by the Albanian State; it covers the three months salaries of the employees of the companies affected by the Covid-19; the interest is subsidized by the Albanian Government, and a grace period of three months was allowed.

**Table 6.** Sovereign Guarantee I and II

	Sovereign guarantee I	Sovereign guarantee II
Total value of funds made available	€ 88,709,677	€ 120,967,742
Total value of the applications made	€ 65,080,645	€ 32,580,645
Total value of approved applications	€ 50,967,742	€ 6,774,194
have signed agreements for 1st guarantee	12 banks	9
Received and approved application	12 banks	n/a
No. of enterprises that have submitted applications	751	89
Applications approved	521	40

Source: Minister of Finance

Sovereign Guarantee II in the amount of ALL 15 Billion was applied to Businesses in all sectors of the economy. The main criteria imposed was the using of the money for working capital and investment needs; the risk was shared between government and banks, covering a percentage of the principal of each loan; it was applied preferential financing terms, and repayment period up to 5 years; for the first six months the companies had to pay only the interest, without repayment of principal (grace period).

The expiration date of the Sovereign Guarantee I deprived many companies of applying due to the numerous bureaucracies that banks applied to documentation requirements. Businesses that due to the difficulties for liquidity caused by the pandemic, could not afford to pay secondary liabilities were also excluded. For the Sovereign Guarantee II, many businesses were not able to apply due to tight conditions. Risk analysis excluded businesses that during 2019 generated income and profit, but in the period of the pandemic had their decline. The total value of approved applications for the sovereign guarantee II is around 6.8 million euro or only 5.6% of the total value of funds made available – approved applications 6.77 million euro versus 1.270 million euro made available (Table 6).

While there are still unused funds from the two sovereign guarantees, the application of a Sovereign Guarantee III can be an important instrument in supporting the recovery of businesses. In this case, the government has to avoid the lack of consultation with the interesting parts during preparation and drafting, as happened with the first two guarantees. Assistance to businesses should be done through clear, direct rules and without excessive bureaucracies.

## Conclusion

Albania tops the list of countries with the earliest and strongest isolation. The pandemic crisis influenced the demand and supply at the same time, decreasing them both, affecting severely consumption. The impact on the economy is strong. To cushion the impact of the shock is warranted a sizeable increase of the 2020 fiscal deficit. The fiscal deficit is projected to rise to about 7 percent of GDP and the public debt to slightly above 80 percent of GDP at the end-2020. The economy of the country is projected to contract by about 7.5 points, in 2020, reflecting its dependence on tourism. The activity strongly related to tourism, such as bars, restaurants, food-service, activities related to entertainment, travel agencies, airlines have been greatly affected by this crisis, as well. The entities most affected are SME-s, which represent 99 percent of entities in Albania and have the largest number of employees in the country. Support fiscal policies have had more a social character than recovery for the economy. The Bank of Albania's accommodative policy stance and flexible exchange rate policy support to manage the crisis. The prolongation of the crisis increases the need for appropriate support to the businesses, with actions that directly impact them. The support measurement and policies have to be projected to cover the short-run period and the long-run period, as well. The increased number of the affected cases all over



the world imposes the necessity to act fast with effective short-run measurements, such as the easing fiscal stimulus, directed especially to the most affected sectors (tourism-food-accommodation). Therefore, the release of taxes burden to the businesses and the individual taxes at the national and local level, such as a postponement or decrease of them, has to be considered as a potential instrument that impacts directly the income.

Subsidies of the rent, for the structures of services for SMEs, could be an effective instrument. The rent is one of the most important fixed costs in the Financial Statements of Small-Medium Enterprises. The decision of the government to grace the payment of the rent for some period, only postponed for a few months the obligations of entities towards the third parties. On the other side, the decision put the renters in difficulty, since for many of them the rent is the only or/and the most important income source. Subsidies on rent for the SME, could directly affect positively both, lessor and lessee.

A Sovereign Guarantee III, which can use the unused funds from the two sovereign guarantees, can be an important instrument in supporting the recovery of businesses that have been hit hard by the pandemic. The drafting of this measure should be done after proper consultation with the business, both for the applied interest and for the established conditions, which were lacking in the drafting of the first two guarantees. Assistance to businesses should be done through clear, direct rules and without excessive bureaucracies, avoiding the meaningless exclusion criteria.

In the long-run supporting policies, mega projects, and PPP as tools for stimulating economic growth could be a risky tool, because the costs could be higher than forecasted, the fiscal risks off-balance could be increased and such investments can create arrears. The stimulus financial packages to attract FDI and to keep the investment capital in the country, have to be considered as an effective instrument, following the experience of neighboring countries, that has similar characteristics as the Albanian economy.

The increased demand for IT sector services due to the conditions imposed by the pandemic is an interesting source of growth. The home-office regime, work in distance, digitalization is good opportunities to keep resources within the country. The young people can easily offer their services from Albania, reducing emigration, increasing the income and decreasing the unemployment in the country.

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## PROVISION AND DELIVER OF ADMINISTRATIVE SERVICES IN A PANDEMIC SITUATION

Tsvetelina Berberova-Vacheva<sup>1</sup>

### ***Abstract:***

*The right for good governance and good administration is always associated with the idea of good administrative services, and in an epidemic characterized by the emergence of the new SARS-CoV2 virus and Coronavirus Disease 2019, electronic administrative services are the ideal solution to the question of optimal compliance with anti-epidemic measures. The aim of the study is to reveal the current stage of development of electronic administration in Bulgaria and the provision of e-services during a pandemic, as the tasks are related to chronological monitoring of the existing legal framework and analysis of available information related to the provision of electronic administrative services.*

*The new circumstances necessitated a change in all sectors – e-education, e-social activities, e-health, e-administrative services, etc. In 2020, many new services were created to improve electronic and various administrations at a central and local level were involved.*

*Keywords: e-government, information and communication technologies, e-administrative services, pandemic*

### **Introduction**

We live in times of digitalization and over-information, times of pandemics and life-changing as we know it. E-governance is the answer to the coming change, allowing us to take advantage of any service in an electronic environment. With the development of information and communication technologies and the development of e-governance we have entered a process through which it meets not only European but also global trends.

For over 20 years we have been witnessing a new and dynamic way of life, subject to the rapidly evolving technologies and the new channels of communication. Activities from everyday life, from work, from the economy are subject to the new forms of digitalization. That is why e-government services are the natural course of develop-

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ment of any country, especially in the conditions of an epidemic characterized by the emergence of a new virus.

In the present study, we would focus on administrative services in Bulgaria and in particular electronic administrative services in 2020. The ability of citizens, businesses, and administrations to communicate in a digital environment and to provide efficient, transparent, and convenient services, which is key to the development of e-management in the new environment. The imposition of this model would lead to a more efficient, faster, and cheaper way of communication at the local, regional, national and supranational levels, which leads to a change in communication within Bulgaria, the EU, and the international community.

### **1. Normative review of electronic administrative services**

Bulgaria is on the path of implementing e-management, aiming to use best practices and principles. According to universally accepted consensus definitions, the goal of e-management is good governance (Николов, 2016, p. 19). In a globalizing world, electronic management is becoming a real and fundamental tool for implementing important policies that make the economic and social environment increasingly competitive and rapidly evolving (ДА Електронно..., 2020). Electronic administrative services, as an element of e-management lead to increased quality in this area of administrative services, to increase the internal efficiency of the public sector and are mostly for the benefit of citizens and businesses, which in turn are defined as a key element of society (COM, 2016, p.1). The more e-services are offered, the more useful e-management becomes for the society, and this is a distinctive feature in the progress of our country in the process of modernization of the country's administration with the use of developing a common network environment.

The use of information and communication technologies of the population has a positive correlation with the penetration in Bulgaria, as it is defined as a country with average performance, and regarding the analysis of e-government performances in terms of penetration and digitalization in the time included between 2016 and 2019, our country has a negative trend from 42% to 54% (EU, 2020, p. 40). Citizens and businesses need to be persuaded to use e-government services by creating services that meet their needs.

There is a great diversity in the understanding of the practices and mechanisms for the introduction of e-government in the different administrations, a result of ignorance of the definition of e-government introduced by the legislation. For the first time, the term „Bulgarian e-government“ was used in 1977 in the establishment of the Unified System for Civil Registration and Administrative Services, with Decree №15 of the Council of Ministers of Republic of Bulgaria (Цицелков, Дачева, и др., 2016, p. 26). The current process of e-government reform began in the late 1990s with the approval of the National Strategy for the Information Society, which places Bulgaria among the first European countries with such a strategy. In 2001, the Electronic Doc-

ument and Electronic Signature Act was adopted<sup>2</sup>. This law regulates the terms and conditions for the creation and use of electronic documents and electronic signatures, as well as the terms and conditions for the provision of certification services.

The first strategy related to e-government was adopted in 2002. – „eGovernment Strategy“ and „eGovernment Strategy Implementation Plan“<sup>3</sup>. Along with the adoption of the eGovernment Strategy, a Concept for improving administrative services in the context of the „one-stop“ principle<sup>4</sup>. The idea of this concept is to improve the conditions for providing administrative services to citizens and businesses, by applying the organizational principle of „one-stop“, which will lead to further facilitation and improvement of administrative services (coordination of actions to ease regulatory regimes; files; e-government).

In 2007, the Law on Electronic Government<sup>5</sup> was adopted, which regulates the activity of public administration bodies for the creation and exchange of electronic documents, as well as the provision of electronic services. Electronic administrative services in our legislation are defined as administrative services provided by administrative bodies and organizations entrusted with the performance of public functions, and public services that can be requested and/or provided remotely through the use of electronic facilities. The next step that e-government goes through is the one adopted in 2010. General strategy for e-government in the Republic of Bulgaria 2011 – 2015<sup>6</sup>. It replaced the then e-Government Strategy and in practice aims to achieve coordinated planning and implementation of projects at national and local level, the introduction of business models to the administration, building a „digital administration“ and creating convenient access to administrative services.

In 2013, the Basic Model of Complex Administrative Services was approved, and the aim of the model is to present a structured comprehensive methodology for the practical introduction of complex administrative services and good practices for applying the principles of complex administrative services<sup>7</sup>.

<sup>2</sup> Electronic Document and Electronic Signature Act , Published in a state newspaper, issue. 34 or 06 April 2001 r., amendment in a state newspaper, 6p. 58 or 23. 07. 2019 r., <http://lex.bg/laws/ldoc/2135180800>, Accessed: 20 December 2020

<sup>3</sup> Strategy for e-government, adopted by Decision №866 of the Council of Ministers of 28.12.2002, <http://www.strategy.bg/StrategicDocuments/View.aspx?lang=bg-BG&Id=558>

<sup>4</sup> Concept for improving the administrative service in the context of the „one-stop shop“ principle, adopted by Decision № 878 of the Council of Ministers of 29.12.2002., <http://www.strategy.bg/StrategicDocuments/View.aspx?lang=bg-BG&Id=603>, Accessed: 20 December 2020

<sup>5</sup> E-GOVERNANCE LAW, In force since 13.06.2008, amended in the State Gazette issue 69 of 4 August 2020, <https://www.lex.bg/laws/ldoc/2135555445>, Accessed: 20 December 2020

<sup>6</sup> General strategy for e-government in the Republic of Bulgaria 2011-2015, adopted by Decision № 958 of the Council of Ministers, dated 29.12.2010, <http://www.strategy.bg/StrategicDocuments/View.aspx?lang=bg-BG&Id=662>, Accessed: 20 December 2020

<sup>7</sup> BASIC MODEL OF COMPLEX ADMINISTRATIVE SERVICE, approved on 19.06.2013 by the Council of Ministers, <http://www.strategy.bg/Publications/View.aspx?lang=bg-BG&Id=155>, Accessed: 20 December 2020

With the adoption of the goals set in the „Europe 2020“ Strategy and trends in the development of e-government in Bulgaria, it is necessary to adopt a number of documents such as the Strategy for Development of e-Government in the Republic of Bulgaria 2014 – 2020<sup>8</sup>, plan and roadmap for its implementation; Strategy for development of the state administration 2014 – 2020, plan and road map for its implementation<sup>9</sup> and others.

In the implementation of the country policy in the field of e-government today, there is an E-Government Act, an E-Identification Act<sup>10</sup> and regulations for its implementation, an E-Communications Act<sup>11</sup>, an Updated Strategy for E-Government Development Bulgaria 2019-2023<sup>12</sup> and a roadmap to it, Architecture of the e-government of the Republic of Bulgaria<sup>13</sup>, Ordinance on the general requirements for information systems, registers and electronic administrative services<sup>14</sup>.

Today we know that the smart and right choice for good governance is to invest in well-functioning information and communication technologies. According to a statement from the European Commission, „The COVID-19 pandemic shows, as never before, the importance of digital technology in today's world. Thanks to digital solutions, Europeans can connect, work and heal“<sup>15</sup>. The new conditions require that social distance need to be respected, but the provision of services by central and local

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<sup>8</sup> Strategy for development of e-government in the Republic of Bulgaria 2014 – 2020, Adopted by Decision № 163 of the Council of Ministers of 21.03.2014, [https://www.mtitc.government.bg/upload/docs/2014-03/1\\_StrategiaRazvitieEU\\_RBulgaria\\_2014\\_2020.pdf](https://www.mtitc.government.bg/upload/docs/2014-03/1_StrategiaRazvitieEU_RBulgaria_2014_2020.pdf), Accessed: 20 December 2020

<sup>9</sup> Strategy for Development of the State Administration 2014 – 2020, Adopted by Decision 40140 of the Council of Ministers, dated 17.03.2014. <http://www.strategy.bg/StrategicDocuments/View.aspx?lang=bg-BG&Id=891>, Accessed: 20 December 2020

<sup>10</sup> LAW ON ELECTRONIC IDENTIFICATION, in force since 21.11.2016, amended in the State Gazette No. 60 of 7 July 2020, <https://www.lex.bg/bg/laws/ldoc/2136822116>, Accessed: 20 December 2020

<sup>11</sup> LAW ON ELECTRONIC COMMUNICATIONS, Published in the State Gazette No. 41 of May 22, 2007, amended in the State Gazette No. 69 of August 4, 2020, <https://www.lex.bg/bg/laws/ldoc/2135553187>, Accessed: 20 December 2020

<sup>12</sup> Updated Strategy for Development of e-Government in the Republic of Bulgaria 2019 – 2023, adopted by Decision of the Council of Ministers № 546 of 18 September 2019 <http://www.strategy.bg/StrategicDocuments/View.aspx?Id=892>, Accessed: 20 December 2020

<sup>13</sup> E-GOVERNANCE ARCHITECTURE IN THE REPUBLIC OF BULGARIA, Approved by the Chairman of the State Agency for Electronic Government with Order № DAEG-5040-11.04.2019 <https://e-gov.bg/wps/wcm/connect/e-gov.bg-18083/7f0e66cd-ae05-4789-bf18-bc8e611299a1/architecture.pdf?MOD=AJPERES&CVID=>, Accessed: 20 December 2020

<sup>14</sup> Ordinance on the general requirements for information systems, registers and electronic administrative services, <https://www.mtitc.government.bg/bg/category/166/naredba-za-obshtite-iziskvaniya-kum-informacionnite-sistemi-registrite-i-elektronnite-administrativni-uslugi>,

<sup>15</sup> European Council, Council of the European Union [https://www.consilium.europa.eu/en/topics/digital-europe/?SubscriptionOptions=&utm\\_source=DSMS&utm\\_medium=email&utm\\_campaign=2020-11-digital-europe-subscription-EN](https://www.consilium.europa.eu/en/topics/digital-europe/?SubscriptionOptions=&utm_source=DSMS&utm_medium=email&utm_campaign=2020-11-digital-europe-subscription-EN), Accessed: 20 December 2020

government must not be stopped. The digitalization of administrative services is a successful tool for mitigating the effects of the pandemic, as well as compliance with the new conditions, allowing for the remote provision of services by municipalities, regions, and other administrations. According to Bulgarian legislation, the information society is „a society with a qualitatively new structure, organization and public relations based on global access and use of information and communication networks and services, without national, geographical or other restrictions on information exchange, scientific, spiritual, cultural and other achievements“ (Кискинов, 2005, p. 34).

E-government is carried out by administrative bodies, the judiciary, public officials and public service providers, legal relationships, administrative processes and services, and interaction with consumers through the use of information and communication technologies that provide more high level of management efficiency.

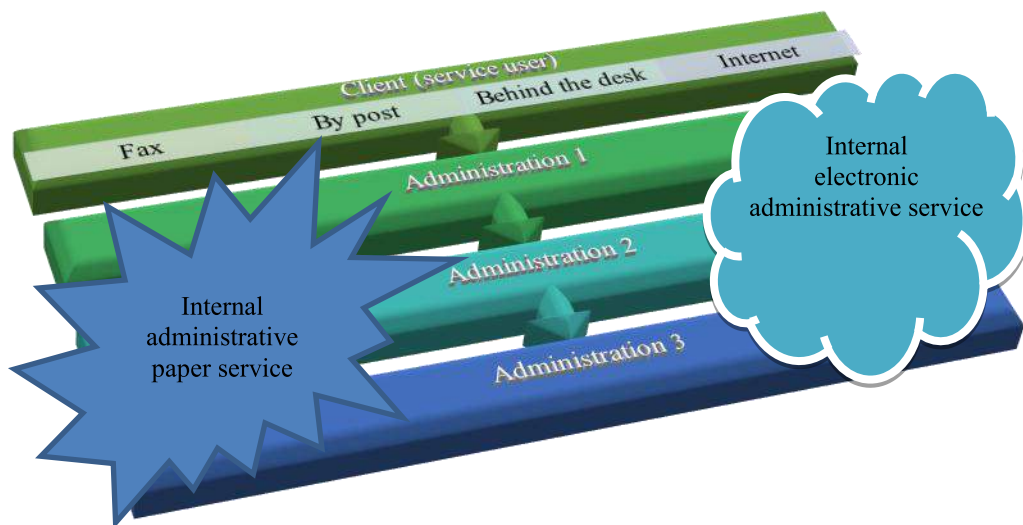
The administrative service is performed by the executive bodies at central and territorial level. Administrative services are provided in accordance with the Administration Act and the Administrative Procedure Code<sup>16</sup>, special laws, by-laws issued by the Council of Ministers, ministers or municipal councils. In the general case, the administrative service can be presented through Figure 1. The ways of requesting an administrative service are regulated in the Administrative Procedure Code, in Article 29, paragraph 6. except on the spot (at the counter), the services may be requested electronically, by a licensed postal operator, by fax or in any other way announced by the authority as technically possible. The same law also specifies the ways for the users of the services /citizens, businesses, employees of the administrations/ to receive the issued individual administrative acts: at the place where it is requested, at the specified exact address, in case receipt is requested through a licensed postal operator or electronically.

The strategy for the development of e-government in the Republic of Bulgaria covers the development of four main areas of communication and services, including modern Internet and WEB-based solutions:

- „Administration – Citizens“
- „Administration – Business“
- „Administration – Administration“
- „EU Member State – EU Member State“

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<sup>16</sup> ADMINISTRATIVE PROCEDURE CODE, In force since 12.07.2006, supplemented in the State Gazette issue 44 of 13 May 2020, <https://www.lex.bg/laws/ldoc/2135521015>, Accessed: 20 December 2020



**Figure 1.** Administrative service

*Source:* Author's interpretation, based on data from IPA's „Complex Administrative Services: Applied Aspects“

The brief outline of the existing legislation undoubtedly proves that Bulgaria has gone through various stages of e-government. According to authors (Алексиев, 2015, p. 24) our country has gone through the preparatory, experimental and actual phase, and by 2017 we are in the phase of purposeful and dynamic development (Петрова, 2018, p. 42, 43). If we accept this statement, then from 2020 we will have the rapid and purposeful use of these services in each of these areas of communication and services. So far, the implementation of e-government has been troubled by weaknesses in operational planning in the implementation of strategic objectives, measures, and activities that hinder the implementation of many projects in time. It is essential for the transformation of the administration and public institutions into digital is the implementation of measures related to ensuring interoperability through the development and subsequent implementation of the concept of interoperability, standards, procedures and technological means for their maintenance, construction, digitization and development of basic registers and their integration.

## 2. Electronic governance during a pandemic

E-government is the main platform for the digital transformation of public institutions, for improving the quality of administrative services, for the transition to rational electronic processes of functioning and management in the public sectors, and for electronic access to the information available to the public institutions. It is a tool both for comprehensively increasing the efficiency of the processes in the administra-



tion and for facilitating the interaction between the administration, the citizens, and the business. Valuable resources, such as money, people, and time, are freed up in a coordinated, standardized, and appropriate implementation of e-government. E-government in Bulgaria is related to the National Agency for E-Government (NAEG) at the Council of Ministers and was established by the Law on E-Government (promulgated in SG, issue 50 of 2016). The Agency is the legal successor of the Electronic Government Directorate in the Ministry of Transport, Information Technologies and Communications and of the Executive Agency for Electronic Communications Networks and Information Systems.

For the purpose of developing the electronic administrative services, the site of the unified portal for access to electronic administrative services /<https://egov.bg/> has been created. For the full functioning of the complete system for electronic administrative service, the System for secure electronic service /SSES/ has been created; Electronic Forms System (e-Forms), Electronic Authentication System (e-Authentication); Electronic Messaging Environment /EME/; The Interregister Data Exchange Environment (RegiX); The Electronic Payment Environment (e-Payment). Bulgaria is making progress through a unified model for requesting, paying, and providing electronic administrative services. The two most notable improvements for Bulgaria, which have improved from 26% to 42% according to the report (EU, 2020, p. 113 end p. 121).

The maintenance of electronic services is much more cost-effective than the provision of services „over the counter“ – from the point of view of both service users and those who provide it. Through the electronic services, there is no loss of time to wait in queues, to comply with working hours, it is necessary to have a means of identification /QES {qualified electronic signature}, PIC {personal identification code}, PIN {personal identification number}, UAC { Universal access code}/ and certain software programs to have the desired result.

The National Agency for e-Government (NAEG) has developed and successfully implemented a „Unified Model for Ordering, Paying and Providing Electronic Administrative Services“. This is a set of the main centralized workflow for requesting, paying, and providing e-government services and e-government resources through which it is provided. The unified model provides citizens and businesses with the opportunity to request, pay for and provide electronic administrative services and related information centrally.

In order to ensure easier and wider use of electronic services, a means of electronic identification has been introduced – the cloud electronic signature, in addition to the existing ones (QES, PIC e National Revenue Agency and The National Social Security Institute, a unique code for access to the National Health Insurance Fund). In addition to being an electronic identification tool, the cloud signature is used to sign applications in terms to receive electronic services. Thanks to the cloud signature, citizens and companies can request the services provided by administrations through a mobile smart device with Internet access from anywhere in the world, 24/7, 365 days

a year. With it, each user has access to the Unified portal for access to electronic administrative services maintained by the National Agency for Electronic Government. This provides a high level of security and the ability of users of the service to perform it from mobile devices.

These introductions reduce the administrative burden for citizens and businesses. Bulgarian citizens and businesses have electronic services that are not only related to checking social security, checking taxes, utility bills, and more. Each year, the Council of Ministers adopts a report on the state of the administration<sup>17</sup>, which includes e-services and progress in implementing e-government. The last report adopted in May 2020, the data show that as of 31.12.2019 the actual participants in the electronic exchange of documents are 1,027, of which: 579 administrative structures, incl. 257 municipal administrations and 448 separate specialized territorial units, which have their own offices and generate a large exchange of documents (MC, 2020, p. 33).

Due to the COVID-19 pandemic and the desire to use the Unified Model for ordering, paying, and providing electronic services, letters were sent to local authorities with an invitation, as a result of which 70 new municipalities joined in March-September, according to an inquiry. (Калчева, 2020, p. 6).

According to the data indicated in the report on the state of the administration, a total of 345 electronic administrative services have been developed and are provided through the electronic forms system, developed and published on the Single portal for access to electronic administrative services (SRAEAS). Of these: 181 are the electronic administrative services of the central administration, 21 are the electronic administrative services of the district administration and 143 are the electronic administrative services of the municipal administration. The total number of developed electronic forms is 451, which are for requesting administrative services and accompanying documents. In 2019, information was introduced, electronic application forms were developed and published at SRAEAS for 169 new electronic administrative services, of which 143 belonged to 43 municipal administrations, 23 belonged to 27 regional administrations, and 3 services were provided by all administrations. (MC, 2020, p. 31)

From the beginning to the middle of 2020, 1027 administrations are real participants in the electronic exchange of documents through the Electronic Messaging System (EMS) of the National Agency for e-Government<sup>18</sup>. During this period, the Secure Electronic Service System (SESS) with SEOS is used by a small number of administrations, currently, this opportunity is used by 16 administrations, announced by National Agency for e-Government.

As of mid-2020, the agency reports that 355 electronic administrative services, 3 e-services and 448 e-application forms and accompanying documents for central, re-

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<sup>17</sup> The report on the state of the administration in 2019 was adopted by Decision № 326 of the Council of Ministers of 14.05.2020, [https://iisda.government.bg/annual\\_report/488](https://iisda.government.bg/annual_report/488), Accessed: 20 December 2020

<sup>18</sup> NAEГ, News <https://e-gov.bg/wps/portal/agency/news/news-details/news-e-services-358>

gional and municipal administration have been developed. This means that during the first wave of the pandemic, 10 more new electronic services were developed and the number of electronic forms was reduced by 2. For the same period, the services were used 25,440 times, with over 23,400 e-services requested from the beginning of 2020, according to official information from DAEG.

According to the information provided by National Agency for e-Government, the most frequently requested administrative service is for registration of job seekers (14,660 times), followed by the service for issuing decisions for termination of registration of job seekers (1,657 times), and the third the most used service is the one for exemption of persons from vignette fees when using republican roads (802 times).

The analysis shows that at the end of September 2020, 370 electronic services are offered. This gives reason to say that the number of electronic services has increased by 25 since the beginning of the year. In 110 municipalities (or about 41% of all municipalities) offer electronic administrative services through a Unified model for ordering, paying, and providing electronic services

According to the data presented in the Report on the state of the administration as of 31.12.2019, all obligated persons have created profiles in SSES, as a total of 26 297 users have been registered, of which: individuals – 23 741; legal entities – 149; persons performing public functions and organizations providing public services – 1,250; persons from administrative bodies – 1 157. The total number of messages sent through the system is 153 725 (MC, 2020, p. 32).

According to data shared by the National Agency for Electronic Government, in 2020 more than 3 million times citizens accessed the System for Secure Electronic Service /SSES/. At present, there are 113,776 users registered in the CMEA, which is a drastic increase compared to the previous year by over 87,000 users. According to the provided data, we have more than 4 times the increase of the individuals or in particular, they are 101 650 individuals for 2020, more than 36 times they have increased and in 2020 they are 5 461 companies. The registered administrative bodies have increased the least by only 188 more compared to 2019, and persons providing public and performing public functions are almost four times more in 2020 and reach 4,909 people. The data show that during the pandemic, the average number of messages sent through CBS increased from 500 to nearly 2,000 per day. The National Revenue Agency (NRA) itself reports that as a result of the pandemic, in 2020 over 80% of individuals declared their income online<sup>19</sup>.

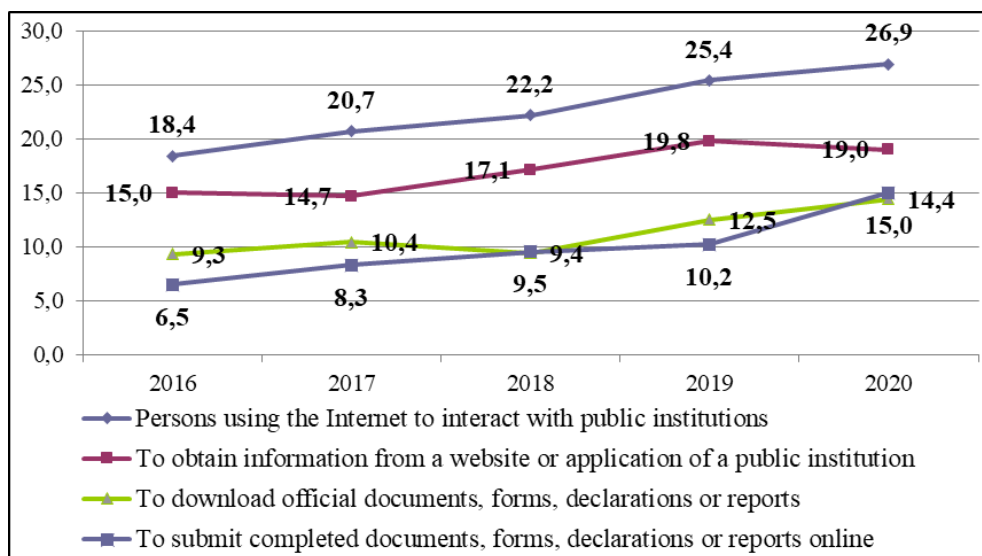
This incomparably proves that the interest in e-services has grown in the pandemic 2020. The situation we are facing becomes the reason why the process of perception of the use of services in the e-environment is accelerated, both by users and by the administration, as service providers.

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<sup>19</sup> Successfully completed the tax campaign for individuals, April 30, 2020, The tax campaign for the physical has successfully ended , NRA , News, <https://nra.bg/news?id=4251>, Accessed: 20 December 2020

According to the statistics of the Open Data Portal, there has been an increase in the number of users in the last three months of the year. Also, during the introduction of the first restrictive measures, we did not have an increase in consumers, but rather a restriction<sup>20</sup>. Based on the data provided there, it is observed that the most numerous age group of users is aged 25 to 34 years, followed by users aged 35 to 44 years. The next age group is people aged 45 to 54, which is very close to that of consumers aged 55 to 64. The lowest number of service users is among young people aged 18 to 24 and the oldest part of the population aged 65+. Based on the data published on the same site, most service users are from the capital, followed by Varna, Plovdiv, and Burgas.

Based on the data provided by the open data portal and the National Statistical Institute /NSI/, it can be seen that users are mainly looking for data and information, followed by those who download data and information and a very small part download documents. According to data published by the NSI, there is an increase in an Internet communication with the administration, when using the services offered online by public institutions, and women are more active than men.



**Figure 2.** Persons using the Internet to interact with public institutions in percentages

Source: According to NSI<sup>21</sup> data

<sup>20</sup> Open Data Portal, Statistics, <https://datastudio.google.com/reporting/438fd750-9d98-4203-b7ff-8fef4468a984/page/DsNMB?s=k7DfSPMbaf8>, Accessed: 20 December 2020

<sup>21</sup> NSI, Persons using the Internet to interact with public institutions, <https://www.nsi.bg/bg/content/2824/%D0%BB%D0%B8%D1%86%D0%B0-%D0%B8%D0%B7%D0%BF%D0%BE%D0%BB%D0%B7%D0%B2%D0%B0%D1%89%D0%B8-%D0%B8%D0%BD%D1%82%D0%B5%D1%80%D0%BD%D0%B5%D1%82-%D1%81-%D1%86%D0%B5%D0%BB->

In 2020, the number of people using the global network for interaction with national and local authorities is 26.9%, which is an increase of 1.5% compared to the previous year, and for the last 5 years the increase by over 8%. The most serious growth in the pandemic 2020 is related to the online submission of completed forms, declarations or reports – 15.0%, which is an increase of 4.8% compared to the previous year and directly corresponds to the electronic services provided by the administration. Considering the five-year period presented in the figure above, we can see an increase in every aspect of communication between public institutions and the population.

Consistent action is needed in enforcing e-services. Expanding their use and creating trust among their users. Electronic services create security in communication. The system is designed for the benefit of citizens and legal entities, for public administration, for people performing public functions, and for organizations providing public services. Electronic delivery is a system that allows sending, receiving, and storing electronic documents to and from public institutions, individuals, and legal entities. It supports e-mail and SMS notifications. The time for sending and receiving the document or the message and its content is certified by the qualified time and electronic seal of the National Agency for Electronic Government. The authenticity of the document flow is guaranteed, the e-mail services are the electronic equivalent of registered mail with a return receipt. The services provided are in a controlled environment, which leaves a mark on each sending and receiving of an electronic document.

In the conditions of a pandemic and the attempt to limit the meetings with the people as much as possible, the most affected are the people who need care. In the sector of health care and social assistance and services, meetings cannot be limited, they are for the neediest. In order to have a social distance in the new circumstances in the field of healthcare at the end of 2020, an electronic direction and an electronic prescription were created, and in 2021 we will also be able to take advantage of the electronic patient record service.

In connection with the declared state of emergency, the Social Assistance Agency is expanding the ways of access to its administrative services through the System for secure electronic service (identification with PIC in National Insurance Institute or qualified certificate for qualified electronic signature {QCQES}) or by mail with return receipt, or by e-mail without the need for an electronic signature. More than 20 services are provided for the alternative ways of using the service, and during the introduction of the first restrictions, various organizations offered to provide a cloud electronic signature free of charge to whom it may need. A new monthly targeted assistance was opened for families with children up to 14 years of age in case of a de-

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%D0%B2%D0%B7%D0%B0%D0%B8%D0%BC%D0%BE%D0%B4%D0%B5%D0%B9%D1%81%D1%82%D0%B2%D0%B8%D0%B5-%D1%81-%D0%BF%D1%83%D0%B1%D0%BB%D0%B8%D1%87%D0%BD%D0%B8-%D0%B8%D0%BD%D1%81%D1%82%D0%B8%D1%82%D1%83%D1%86%D0%B8%D0%B8, Accessed: 20 December 2020

clared state of emergency or declared an epidemic emergency and one-time assistance of BGN 375 for parents on unpaid leave. The Social Assistance Agency recommended that the territorial directorates be visited as a matter of urgency.

In the field of social assistance and especially social services, fears of the unknown among professionals are high. From their point of view as citizens and professionals, people employed in the social care sector experience tension, dissatisfaction, and anxiety due to a lack of clarity about the duration of this situation following a survey. Working in a state of emergency poses problems that are not new, and the difficulties of consumers stem from their needs, which have become clearer, shared in a study conducted in 2020 (Петрова, et al., 2020, p. 94).

The results of the study show that the COVID-19 pandemic accelerates the introduction of some e-services in Bulgaria, and alternative approaches to the provision of services are offered to those most in need. It is necessary to create a national campaign for understanding electronic services, as well as incentives for Bulgarian citizens to use them. In Bulgaria, the price of the Qualified Electronic Signature for individuals is lower than the one offered in Europe and varies between BGN 10 and 12 per year, and the initial issue requires an additional cost for issuing a Smart Card, Smart Reader card, or USB Token according to our own internet research.

In Bulgaria, there is also a positive development of e-government and the supply of electronic services. As a result of the pandemic, the number of administrations involved is growing. In a democracy, it is important that e-government has qualitative changes and modernization of national and local administration in a common network environment. Public policy must address the lack of motivation among the population to purchase an electronic signature in order to prove that governance becomes more transparent, efficient, secure and accessible.

A study conducted in 2019 and 2020 proves the need for learning and development in the workplace through the wider application of digital forms of learning in the administration itself. A leading guideline for any modern organization is the establishment of an organizational culture that encourages the collection, creation, and sharing of knowledge, their rethinking, and innovative application, which increases the sense of meaning and security at work. (Николов, Тушева, Стефанов, С., 2020, p. 29)

The e-government strategy gives the optimistic forecast that in 2023 every citizen will be able to communicate entirely electronically with the national administration by receiving easily, securely and reliably personalized administrative services.

## **Conclusion**

The main prerequisites for sensible and successful e-reforms are the political will and political consensus that Bulgaria has proven to have in recent years. It asserts that the chosen path of digitalization of administrative services for citizens and businesses, as well as for the employees in the administration is in response to the desire of our country to be competitive and respond to the changing world, especially in pandemic

times. Improving the accessibility and openness of public institutions would invariably lead to an increase in trust in Bulgarian institutions.

Our country has the necessary set of legal and strategic documents, also a single portal for access to electronic administrative services /<https://egov.bg/>, with the System for secure electronic service (SSES); Electronic Forms System (e-Forms), Electronic Authentication System (e-Authentication); Electronic Messaging Environment (EME); The Interregister Data Exchange Environment (RegiX); The Electronic Payment Environment (e-Payment). Through a unified model for ordering, payment, and provision of electronic administrative services is introduced and approved an effective model in the work of the administration for the provision of services to citizens and legal entities.

In 2020, the number of persons submitting completed documents, forms, declarations or reports online increased by 4.8% compared to 2019. The users in the secure electronic service system increased the number by over 87,000. The provided electronic services increased their total number to 370, as more and more local and central administrations offer their services. In parallel with the ongoing digitalization processes, attempts have been made to guarantee the rights of people in need of social benefits and services.

Searching for opportunities to provide efficient and easy for use e-services would assign a higher position to Bulgaria than the currently ranked 44th among 193 countries in the UN e-Government Survey 2020<sup>22</sup>. Although there will always be social groups (people without access to the Internet, elderly people unable to use computers, people in extreme poverty and in need of social protection) who will not be able to benefit from electronic services, the use of electronic services would simplify and streamline the work processes in the administration and reduce the administrative burden for citizens and individuals. The changes generated in the field of e-government are always targeted at consumers and affect many sectors (e-security; e-health; e-customs; e-justice; e-education, e-statistics; e-procurement, etc.).

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<sup>22</sup> E-Government Development Index, <https://publicadministration.un.org/egovkb/en-us/Data/Country-Information/id/26-Bulgaria/dataYear/2020>, Accessed: 20 December 2020

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## **GEOECONOMIC DIMENSIONS OF INFRASTRUCTURE CORRIDOR № 9 TO IMPROVE CONNECTIVITY IN THE EURASIAN SPACE**

**Radoslav Kostev<sup>1</sup>**

### ***Abstract:***

*The report is dedicated to the prospects and challenges for trade and economic relations in the Eurasian space, caused by the infrastructural connections between the two continents. The main points of the exhibition are dedicated to the opportunities for improving transport accessibility through the construction and development of infrastructure in the direction of Corridor № 9. A model of spatial development is presented, which outlines the main factors and territories important for the integrated development of regions and territories. in the Eurasian space, through the use of the potential of corridor № 9. An attempt has been made to identify the necessary needs for improving the connectivity and geoeconomic opportunities that open up to Bulgaria through the infrastructure corridor № 9.*

*Keywords: space, region, development, connectivity, corridor*

### **Introduction**

The accelerated pace of economic development of the world in the XX and XXI century and the increasing globalization of social and economic life pose serious challenges to the economy and government to solve a number of problems with regard to the territorial organization of the global, national and regional economy. From global development and emerging phenomena and processes in the global space. Increasing the scale of production, the rapid and widespread spread of new technologies and their entry into social and economic life, as well as a qualitatively new generation of means of transport and communications lead to the removal of barriers to the movement of people, resources, goods, capital and related services. Economic development follows the spatial structuring of the territory, with its centers and axes of development, mobilizes resources according to their potential and strives to achieve social cohesion and environmental sustainability by creating competitive economic zones.

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All this is determined by the process of globalization – the elimination of borders and distances as a factor for global development.

### **1. Importance of the infrastructure corridor № 9 for improving the connectivity and cooperation between the countries and regions in the Eurasian space**

The spatial location and the level of development of the transport infrastructure have a direct impact on the utilization of the territorial potential. In this direction, the geographical genesis of the transport infrastructure must be taken into account, which is expressed in the overcoming of the space, the utilization, and the congestion of the territory. From the very beginning of the transport infrastructure construction, during the Ancient period, with the construction of the Roman roads on the European continents, their construction on a corridor principle can be noticed. The spatial configuration of Roman roads aims to connect and improve accessibility to all territories of the continent, both within the then Roman Empire and the connection with other territories and continents, divided into major and minor. The main roads outline the main trade directions and were the backbone of the road network. The secondary roads were significant road arteries connecting the administrative and commercial centers, as well as the larger cities in the separate territories. Thus, the road network has acquired great importance for the spatial connection and unification of settlements and territories, and large geoeconomic centers, as well as the possibility for equal distribution of resources in space (Деведжиев, 1996). On this basis, for the purposes of this study, an infrastructure corridor is considered as: an organizational set of forms of territorial organization in large areas with conditions for connectivity and cohesion for regional economic integration and functional connection with infrastructure and transport accessibility of major centers and settlements in their adjacent space. The infrastructure in the direction of the transport corridors includes the infrastructures of several types of transport – road, rail, water, air, pipeline, as well as the facilities and systems for transmission of information and energy. All this determines the intermodal/multimodal nature of the infrastructure corridors. Thus, the system of infrastructure corridors is formed by the system of transport, communications, trade, energy, and resource management (Arnold, 2006).

The modern configuration of the transport network strongly resembles that of the ancient period. The corridors of the core network, in addition to covering the most important long-distance transport flows, their essential role is to ensure the connectivity of individual points in space. The determination of the corridor routes is based on the main transport and trade directions in the space. The spatial configuration of the infrastructure corridors is characterized by a parallel-meridional structure (Rodrigue, 2020), they provide the main connections in space in a north-south and east-west direction. With the help of the adjacent wide-ranging infrastructure, the peripheral areas of the corridor are connected and fully covered. The comprehensive infrastructure

network aims to integrate regional infrastructure networks into the core network corridors (Regulation (EU) No 1315/2013). This contributes to the improvement of territorial connectivity in all parts of the space.

At the transport conference of transport ministers in Helsinki in 1997, some adjustments were made to the proposed routes, and 10 pan-European transport corridors were finally adopted. This marks the beginning of the transport policy for the creation of a unified transport network (Дюкова & Петров, 2015). Trans-European infrastructure networks should facilitate cross-border connections, promote greater economic, social and territorial cohesion, and contribute to a more competitive social market economy and reduce harmful effects on the environment (Петров, 2020).

Modern European policy in the field of infrastructure networks focuses on connecting them in a single European space. An expression of this policy is the creation of a „Connecting Europe Facility“ (Regulation (EU) No 1316/2013), aimed at integrating and improving the competitiveness of the internal market and cohesion within the EU, as well as improving links with European and global markets. The aim is to create sustainable transport, telecommunications, and energy connections throughout Europe, which have a significant impact on the socio-economic development of countries and regions.

Of particular importance for improving connectivity are the meridional corridors, ensuring the connectivity of the northern and southern parts of the European continent. Such is the corridor № 9, connecting the Baltic Sea with the Aegean and the Mediterranean. This is the shortest and most convenient north-south route in Eastern Europe. The corridor originates from the Finnish capital Helsinki, passes through the city of Viborg and enters the territory of Russia in the direction of St. Petersburg (with a branch to Moscow) – Pskov, with a branch in the direction of Kaliningrad and the Lithuanian port city of Klaipeda, continuing south. Ukraine in the direction of Kiev (with a branch to Odessa), passes through the Moldovan capital Chisinau and from there in the direction of Bucharest. On the territory of Bulgaria, the route of the corridor enters the city of Ruse, passes through Veliko Tarnovo – Stara Zagora – Dimitrovgrad – the Makaza pass and ends at the Greek port of Alexandroupolis (Петров, 2009). Thus, Corridor № 9 provides transport and trade links between the EU, Northern and Eastern Europe and the Middle East, the Caucasus-Caspian region, North Africa and the Far East, through access to the Mediterranean and the Black Sea ports.

Looking at the trade directions of the EU countries, the importance of the Eastern European territories and their transport networks is clear.

The main trade flows to and from Europe are in the direction of North America to the west and Asia to the east. The EU's economic relations to the east determine the need to create appropriate conditions for trade.

The EU's main trading partners are non-EU European countries, such as Eastern Europe, the Western Balkans, Norway, Iceland, and Switzerland. For 2019, imports from these countries are 24.2% of total EU imports, which shows an increasing trend over the past 3 years. The EU's main trade and economic partners in Eastern Europe

are Russia, Turkey and Ukraine. The share of imports from Russia for 2019 is equal to 7.7%, which shows a decrease in values compared to previous years. The decline in trade is mainly due to the economic sanctions imposed on Russia in 2014, in force in 2020, on the occasion of the „Ukrainian crisis“, but still Russia remains a major economic partner of the EU. Turkey and Ukraine account for 3.1% and 1.1% of total EU imports, respectively.

**Table 1.** EU exports/imports by main trading partners (in EUR'000)

Trade directions	Exports (thousands of euros)			Imports (thousands of euros)		
	2017	2018	2019	2017	2018	2019
EU-general	1 878 570,0	1 958 126,3	2 039 205,2	1 854 278,7	1 980 230,5	2 053 106,5
USA	376 166,9	406 599,0	449 579,2	257 265,6	268 715,8	293 922,4
Europe (non EU)	442 203,8	448 968,5	461 529,3	446 516,6	489 550,1	496 663,0
Turkey	84 794,8	77 151,7	74 025,1	69 775,6	76 136,9	80 102,4
Russia	85 991,3	85 103,4	90 786,4	144 684,3	168 919,3	157 345,9
Ukraine	20 302,9	22 137,6	24 809,8	16 691,4	18 013,1	19 793,7
Asia	672 585,0	691 551,9	710 786,3	850 970,1	898 677,9	927 863,7
China	197 620,5	211 326,3	225 180,0	375 278,5	395 167,4	419 812,0
Africa	149 843,9	153 141,3	155 943,6	130 847,1	151 751,8	151 651,2
OPEC	136 989,4	129 992,6	126 851,4	114 417,0	142 680,1	128 006,3

*Source:* Eurostat

The main imports of goods into the EU are from Asian countries. Imports from Asia amount to 45.2%, with China's share being the largest – 20.4% of total imports for 2019. ASEAN countries also have a relatively large share in EU imports – 7%. This determines the importance of the transport and trade-economic parallel connections east-west, the connections Europe – Asia.

International exports of goods from the EU by major economic partners are similar to imports. The largest exports are to the countries of Asia and North America, in particular the United States. The share of exports to the United States in 2019 is 22% of total EU exports. Exports to Asia accounted for 34.9% of total exports, remaining relatively constant over the years. The main trade and economic partner of the EU remain the countries of the continent that are not members, as they form 22.6% of exports in 2019.

Thus formed trade and economic relations Europe – Asia and Africa and their strengthening determines the congestion of transport networks in Eastern Europe. To maximize the needs of international markets, it is necessary to develop and improve the appropriate transport infrastructure to improve interregional and intercontinental connections (Fujita et al. 1999).

The EU's main trade with other countries is mainly through maritime transport, which accounts for 50% of total goods transport. Improving connectivity between the

Baltic and Aegean Seas, and hence the Mediterranean, is important for Eastern European countries, which will improve maritime transport links. Access to the sea to the northern and southern parts of the continent will affect the economic development of the regions and increase their competitiveness. The Trans-European Transport Corridor № 9 and its area of gravity create favorable opportunities for improving the spatial connectivity between major urban centers and their adjacent regions along with it, expressing the close economic ties of the countries of the Eurasian space.

Other serious geoeconomic and geopolitical challenges to the cooperation and development of European and Asian countries are energy supplies to Europe. In recent years, energy and the supply of energy resources have become increasingly important for integration.

European energy policy is aimed at creating energy networks by optimizing and developing energy infrastructure in Europe. The EU's energy infrastructure includes all sites, facilities, and equipment, both within the Union and in its connection with countries outside it.

The establishment of the Trans-European Energy Networks (TEN-E) aims to support the creation of the internal energy market while promoting the rational production, transmission, distribution, and use of energy resources, reducing the isolation of less-favored and less developed regions, to ensure the reliability and diversification of the Union's energy supply, sources, and routes, including through cooperation with third countries, and to contribute to sustainable development and environmental protection (Regulation (EU) No 347/2013).

The EU has the following priority corridors in the field of trans-European energy infrastructure: North-South connections between gas transmission networks in Central, Eastern and South-Eastern Europe (NSI East Gas) – gas infrastructure for regional connections between and within the Baltic Sea, Adriatic and Aegean sea, the eastern Mediterranean basin and the Black Sea. This meridional gas connection in Eastern Europe aims to increase the security of supply of both Russian gas and the opportunity to diversify gas sources for the countries of Northern and Central Europe.

Another important area is the Southern Gas Corridor (SGC), an infrastructure for transporting gas from the Caspian Basin, Central Asia, the Middle East, and the Eastern Mediterranean to the EU to increase the diversification of gas supplies.

Based on the analysis of transport-trade and energy-transport connections of the countries of the European continent, the role of the Eastern European territories as a bridge between two continents is clearly visible. The transport flows passing through Eastern Europe determine the need to build and improve the transport infrastructure, not only in the east-west direction but also in the north-south direction.

Trade flows to and from EU countries clearly show the congestion of the transport networks of Eastern European countries. This reveals the need to develop and improve their transport networks so as to respond as much as possible to global economic realities. Thus, the infrastructure corridor № 9 occupies a central place in the transport and communication system in the Eurasian space and contributes to the spa-

tial connectivity and economic cohesion of geoeconomic centers, of various ranks, from Europe and Asia.

All this puts before the countries like Bulgaria new challenges and perspectives before the cooperation in the field of the construction of the trans-European infrastructure corridors, in particular the meridional connection – corridor № 9.

## 2. Geoeconomic opportunities for Bulgaria through the construction of an infrastructure corridor № 9

Bulgaria's geographical location and full membership in the EU create favorable opportunities for its geo-economic development and strengthen its role in international relations. In addition to the strengths and opportunities that open up for the country, it is necessary to identify its weaknesses – internal conditions that reduce its competitiveness and possible threats – external conditions that would negatively affect its development. For this purpose, SWOT analysis was used, which is a widespread technique in strategic management.

**Table 2.** SWOT – analysis of the national space of Bulgaria in the construction of an infrastructure corridor № 9

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Favorable geographical location;</li> <li>• Favorable conditions for integration in the European transport and economic space;</li> <li>• Favorable opportunities for transport, trade and energy transmission links between Europe and Asia;</li> <li>• Extremely good opportunity to use all modes of transport;</li> <li>• Favorable opportunities for technological interaction of different types of transport;</li> </ul>	<ul style="list-style-type: none"> <li>• Poor condition and maintenance of the transport infrastructure;</li> <li>• Weak connection of the transport infrastructure with the neighboring countries (including a small number of border checkpoints);</li> <li>• Weak intra-regional connectivity in the North-South direction;</li> <li>• Passage of transit traffic through urban areas and settlements;</li> <li>• Decommissioning of some objects of the transport infrastructure (airports, railway lines, railway stations, etc.);</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• The geostrategic position of Bulgaria creates good opportunities for the development and use of all modes of transport;</li> <li>• Opportunity to improve intra-regional and inter-regional connectivity;</li> <li>• Integration of transport and energy infrastructures with those of neighboring countries and EU countries;</li> <li>• Opportunity for high-speed intermodal connections in Eastern Europe;</li> <li>• Opportunities for improving cross-border cooperation with neighboring countries;</li> </ul>	<ul style="list-style-type: none"> <li>• Poor implementation of priority infrastructure projects and bypassing Bulgaria from international transit traffic;</li> <li>• Delaying the introduction of new technologies and improving the technical condition of the transport infrastructure;</li> <li>• Deepening of regional disparities and deterioration of the demographic situation;</li> <li>• Irrational distribution of investments in transport and energy infrastructure;</li> <li>• Deterioration of the business environment through limited access to the domestic and international market;</li> </ul>

Source: image of the author

The transport and geographical position of Bulgaria brings to the fore its strengths as a major transport, trade, and energy hub in Southeast Europe and the possibility of using all modes of transport in its territory. The weaknesses that create difficulties are the poor condition of the transport infrastructure, the low level of maintenance of the existing infrastructure, and the decommissioning of many depreciated infrastructure sites. Other challenges to the integration of the Bulgarian regions and the national space as a whole are caused by the weak connectivity both in the intra-regional and intra-national plan, as well as in the inter-regional plan. This is reflected in the difficult connection of the regions between Northern and Southern Bulgaria and the connection of the transport and energy systems with those of its neighboring countries.

The construction of the infrastructure corridor № 9 creates favorable opportunities for the geo-economic development of Bulgaria, which is expressed in the improvement of cooperation and connectivity with its neighboring countries (Динков, 2002) and more distant partner countries in the north-south direction, as well as strengthening ties between the countries of the Black Sea region (Nikolov & Tsolov, 2018). The possibility of using all types of transport on the territory of the country creates an opportunity for it to become a multimodal transport and energy center in Southeast Europe. All this will strengthen Bulgaria's role in the geoeconomic and geopolitical relations of the European continent.

The other opportunity for the country is to attract international transit traffic between Europe – Africa, the Caucasus-Caspian region, the Middle East, and Asia. International transit, in the modern dimensions of the globalizing world and within United Europe, is huge but still poorly realized national resource for the export of transport services. The well-known experience of such countries as Germany, Austria, France, Italy shows us how, using all the features of their infrastructure, they have long ago made transit an essential item of income in their budgets. The transit of goods and commodities can be considered as a kind of resource potential, as an inexhaustible resource that can be self-renewable (Станев, 2010).

The trade and economic relations of the countries from Europe and Asia define the transit cargo flow as a resource potential, and the challenge is revealed to Bulgaria whether it will be able to utilize part of it and turn it into a geopolitical chance (Деведжиев, 2006), bringing budget revenues, stabilization of the economy, improving connectivity and cooperation and the transformation of Bulgaria into a geoeconomic factor in Southeast Europe.

Important in the choice of route is the one with the least resistance, expressed in speed and security of transport, routes provided by modern railway and road infrastructure, modern transport corridors, complexes of specialized terminals, logistics centers, and freight terminals, opportunities for intermodal transport, faster and better customs and border procedures, availability of modern information technologies for communication, monitoring, and planning of transport, etc. In this regard, Bulgaria must focus its transport policy on providing a modern, high-speed, and secure transport network – a transport-transit system that meets modern requirements.



Geeconomic and geopolitical development of the world and the relations between the „big players“ in the global space (Karastoyanov, 2009) put countries like Bulgaria in such a position that they inevitably have to comply with these realities and reap maximum benefits for their socio-economic development and integration. Due to the small capacities of their regional and national economies, but their favorable transport-geographical position, the countries of Eastern and South-Eastern Europe have such opportunities to attract international transport and trade flows and reap maximum benefits by creating transit of their economies. Thus oriented economy is considered as a transport-territorial and industrial-territorial system, in which the revenues from the passage through the country of freight and passenger flows, vehicles, energy and information resources, the provision of transit services and the development of related industries constitute a significant part. from the revenues of local authorities, economic entities, and the population of this territory, one of the bases for increasing their welfare (Цветков et al. 2020). The economic effect of the transit of the economy comes not only from fees for passing through the territory but also as the sale of transport services – freight flows to be transported by local and national transport companies, the use of logistics centers, and recreation areas. Thus, transit creates added value to invest in the improvement of infrastructure and rolling stock, with a multiplier effect further in the chain „production – employment – regional economic growth – a standard of living“.

## Conclusion

The construction and development of the infrastructure along Corridor № 9 would greatly affect the improvement of the connectivity between the geo-economic centers in the Eurasian space and will create an opportunity for diversification of the transport trade and energy transmission directions between the two continents. This is a prerequisite for strengthening economic ties and cooperation between countries and regions directly linked by the corridor.

As part of the EU, Bulgaria must follow the adopted European policy of diversification of transport and energy routes and in cooperation with its neighbors Romania and Greece, also part of the „European family“, to create the appropriate conditions for the transit of its national space by building of a modern multimodal connection for transport, energy transmission, and a unified telecommunication system. The construction of the main route of Corridor № 9 and its adjacent infrastructure, in accordance with modern economic and technical needs, will strengthen Bulgaria's position as a „bridge between two continents“.

In connection with all this, Bulgaria's international political and economic relations face a major challenge – our country to succeed in convincing neighboring countries and countries in the region that the project to build an infrastructure corridor № 9 is not only important social-economic development but important for the development of the whole region.

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## CURRENT TRENDS IN REGIONAL SCIENCE RESEARCH: INTERNATIONAL CONFERENCES REFLECTIONS

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### ***Abstract:***

*Yearly in the regional science field, numerous conferences are organized, as in any other research field. The question is if there are specific trends in the thematic range among these scientific events in the last four years. Analyzed are the International research forums from the two leading scientific organizations' calendars in the European regional science – ERSA (RSAI) and RSA. The topics are systematized in macro and microclusters from a variety of unique themes. The results are outlining the dynamics and tendencies in the mainstream debate in the regional science community.*

*Keywords: regional science, regional studies, regional policy, research topic*

### **Introduction**

In Europe, on an international level, the regional science researchers are sharing their knowledge among their community, mainly in two international scientific organizations – the European Regional Science Association (ERSA) and the Regional Studies Association (RSA). Both are in the science community arena for more than half a century. In 2020 ERSA celebrates its 60th anniversary as part of Regional Science Association International (RSAI), and RSA counted 54 years of work. Most of all, researchers in regional science around Europe and worldwide are interacting with these organizations – as members, participants of numerous events, etc. „This network works as an arena of research of global scientific quality in a field where standards from different scientific disciplines will merge“ (Florax, Plane, 2004). International forum at this level is the standard and most common way of scientific communication and ideas exchanges in all academic fields. „The number of scientists who are active in the field continues to grow, and a complex web of seminar and conference activities belong to the field“ (Florax, Plane, 2004). The international conferences with the

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most visibility and scientific reflection are these organized by the leading organizations in the field.

Every year both organizations are hosting their congresses and some other (one or two) large-scale research events with hundreds of participants. Meanwhile, national research communities and other local and regional organizations set a range of topics for conferences. How to define the dominant trends in the regional science in this „sea of topics.“ The mainstream is not always with most significance for every researcher, but for the academic debate, even for the university programs and teaching is valuable knowledge which are the most observed and discussed topics in the concrete field or subfield of a particular science. This paper has made such observations for the last four years, based on the European Regional Science Association (the European section of the Regional Science Association International) and the Regional Studies Association. Years ago, different presidents and high respected members are discussing the impact of one or both organizations on the research community in the field. With plenary speeches, they are underlining the core role of the conducted regional sciences and studies conferences during the years. „Publication of journals and books on this topic, but also an organization of conferences and summer schools have escalated, contributing to the exchange of ideas and the development of the field“ of regional science (Scutariu, 2015, p. 116). Following the same logic, here are observed conference topics and subtopics because of their role as „elements of institutionalization“ (Barnes, 2003, p. 9) of the regional science, research, and studies.

## **1. Theoretical highlights**

Theoretical research in this area is focused on the history of regional science in different periods (Isard, 2003; Florax, Plane, 2004; Boyce, 2003), foundations of the research field and community (Boyce, 2003), dilemmas about the approaches directions and dominant methodology or subfield of the social sciences (Rees, 2005), the mix of disciplines in the field and the need of „introductory regional science courses at the undergraduate level“ as well in master and Ph.D. programs in the area (Bailly, Gibston, 2004, p. 127).

A significant contribution to the debate of regional science and academic programs' future is given regularly from various perspectives. For the crises in regional science regarding lack of practical orientation and decreased academic presence, and the need for interdisciplinary research in the field, write Bailley and Coffey back in 1994. Due to this period, they argued that regional science's social relevance, with the necessary economic, political, social sciences, has not been well reflected by regional science (Bailley and Coffey, 1994, p. 12). We can say that this debate is part of the history of regional science and its dynamic. Nevertheless, the discussion and the analysis about the current mainstream approaches in the regional field stay actual. The authors are standing for a balance between the economic and other social science approaches in regional research. „What we are advocating is for a more balanced and

open approach in regional science, one with a higher degree of sensitivity toward the possibility of operationalizing theoretical and methodological advances in the field for the good of society“ (Bailey and Coffey, 1994, p. 13).

Boyce (2003), as an overview of the 50 years of development of regional science, concluded that „the field is robust and dynamic and is making a substantial contribution to both science and policy.“ He underlines that „the center“ of regional science „lies in the social sciences, but certainly extends to the physical sciences, engineering and even in the humanities. In this sense, regional science is truly an interdisciplinary field“ (Boyce, 2003, p. 46). Finally, the author sees the great success of regional science in the following line – the regional research became a field, not just a discipline in the socio-science logos.

„Periodically regional scientists have questioned the direction and relevance of regional science, highlighting the challenges it has faced as an interdisciplinary field of research“ (Stimson, 2016, p. 12). Here is underlined a viewing of the leading topics in regional science in the last three years. These tendencies are expressing the direction of the scientific debates in the concrete period. They are not an evaluation of all transformations, new patterns, and dimensions in regional science. But the mainstream debate is an important starting point for deepening research field discussion.

## 2. Approach, data, and limitations

The observation and comparison period is limited in the last four years, 2018, 2019, 2020, 2021. The first motive for the included years is the intention for a focus on actual and current topics. The second reason for the chosen range of years is the data availability. Before 2018 only one of the observed organizations has a public archive for past conferences. The used approach is as follows.

**Table 1.** Observation structure

Period	Four years	2018, 2019, 2020, 2021
<b>Objects of observations</b>	Conferences (year congress and other international)	Total 20
<b>Collected data</b>	Main conference topic All summarized sub, special, and concrete topics	Total 12 main topics Total 281 unique themes (used for the clusters)
<b>Main sources</b>	ERSA Annual congresses RSA European conferences	Total four conferences Total 16 conferences
<b>Region</b>	Europe	Conferences organized in Europe
<b>Results</b>	Clusters of main topics (macro themes groups) Clusters of subtopics and concrete themes (micro themes groups)	Total 9 Total 75

*Source:* Author's systematization

The used information is limited to the conferences' titles and topics for calls for papers. The ideas and vision of the organizers are the focus of the selected data. Argumentation for such an approach is the understanding that the conference organizers – international research organizations, regional research communities, and national/local academic institutions playing a significant role in the discussion directions. The geographical scope of the observation includes conferences held in Europe. Forums from national branches of both organizations and junior and student research events and academic lectures are not included in the study. The focus is on international conferences, workshops, and webinars held in Europe.

### **2.1. Data source**

The information for the scientific event calendar is used from the official internet page of the organizations. Table 2 shows the used conferences.

**Table 2.** Conferences are used as an information source

<b>Event (conference, workshops, webinars)</b>	<b>Organization</b>	<b>Year</b>
4th RSA ReHi-workshop: 'A historical account of regional resilience'(2018)	RSA	2018
Industry 4.0 – Implications for an EU industrial policy	RSA	2018
Beyond economic contribution: Migrant Identities, Working Lives and Social Embeddedness	RSA	2018
A World of Flows: Labour Mobility, Capital and Knowledge in an Age of Global Reversal and Regional Revival	RSA	2018
Displacement, Transnational Mobility and Religious Realities	RSA	2018
Regional Governance, Industrial Restructuring and Sustainable Development	RSA	2018
Smart City-Regional Governance for Sustainability: Smart Governance (and Institutions) – A Question of Sustainability?	RSA	2018
2018 SMARTER Conference on Smart Specialisation and Territorial Development	RSA	2018
Combining state and non-state partnerships for effective place leadership	RSA	2018
Conceptualizing, Identifying and Analysing Polycentric Urban Regions (2019)	RSA	2018
Planning and Governing Polycentric Urban Regions	RSA	2019
2019 RSA Winter Conference Turbulent Times: Rethinking Regions and Cities	RSA	2019

<b>Event (conference, workshops, webinars)</b>	<b>Organization</b>	<b>Year</b>
2019 RSA Central and Eastern Europe Conference, Lublin, Poland Metropolises and Peripheries of CEE Countries: New Challenges for EU, National, and Regional Policies	RSA	2019
International and Internal Migration: Challenges and Opportunities in Europe RSA Migration, Interconnectivity and Regional Development (MICaRD) research network	RSA	2019
#CPnet Workshop: The Social Dimensions Of Cohesion Policy – CANCELLED (2020)	RSA	2020
2020 RSA Annual Conference – POSTPONED to 2022 Transformations: Relational Spaces, beyond Urban and Rural	RSA	2020/2021/ 2022
Cities, regions and digital transformations: Opportunities, risks and challenges (ERSA) 2019	ERSA	2019
Places for People: Innovative, Inclusive and liveable Regions (2018) ERSA	ERSA	2018
Territorial Futures – Visions and scenarios for a resilient Europe (2021)	ERSA	2021
Spatial Challenges for the New World“ (2020)	ERSA	2020

*Source:* Author's systematization based on the webpages of RSA and ERSA

For the results are used 20 conferences of the chosen international organizations. The organizations differ because ERSA is just the European section of the Regional Science Association International, and RSA is acting globally. It means that for comparative research, RSA and ERSA are not with the same characteristics. In this observation, the goal is not a comparison between them and their work. That is why we do not have problems with the result by using both organizations. Another specific in the data is the different number of conferences from both sources. That is also not a liability of the data because its focus is on the regional science field's general tendency in the last three-four years. In this meaning, the number of events each year is not relevant, only the subject of the organized events. Finally, it is possible to miss conferences from table one to be the author's misjudgment or lack of information available so far. Nevertheless, the ideas outline a tendency of the research discussion, and some information gaps are not fatal in this path.

Local academic interests drive the motivation for this analysis. This paper is looking for answers to help develop the Bulgaria regional science community and educational (academic) programs. The tested here idea for research is a pre-study for further quantitative analysis regarding the frequency of inclusion of topics in different years, dynamics of concrete academic issues per year and general for a period, etc.



The result is focused on the preliminary answer to the questions about the leading topics in the academic debate in regional science in the last three-four years.

### 3. Results

Bailly and Gibson (2004) analyze on a systematic level the future challenges in front of regional science in the matter of research approaches and directions, a transformation of academic programs, etc. A very used from the scholars in the topic „field of regional science“ figure is part of Bailly and Gibson's research. The figure named „Three periods for regional science“ (Bailly and Gibson, 2004, p. 131) systematizes the development after 1950 than 1980 and the today and future development after 2010. The authors see today's development of the field as more impactful and bringing „more importance of regional science in society“ (Bailly and Gibson, 2004, p. 131). Such effect is given as a result of the mainstream disciples in regional science, which both authors suggest and recommend for the period after 2010 and nowadays. The main topic in this direction is the „Environmental and Social Sustainability“ with subfields „Thinking sustainable,“ „Continental cooperation: „Financial Power.“ Every five-year different regional scantiest systematizes the necessity directions of the field or analyzes the latest trends.

Simson (2016, p. 17) summarizes the most vibrant themes in regional science after different authors' systematization in time. Such shortlist with main primary topics for the regional science are given from various researchers in 1991, 2000, 2010, 2005, 2014, 2015 as an explanation of primary contemporary challenges in regional science. These topic varieties by year mainly combine current trends in the concrete period and the experienced authors' recommendations. Scutariu (2015, p. 117) observed that in the field is often seen the overlapping of topics between regional science and other areas. The debate about the main research topics is ongoing and is a decades trend with many directions.

Here we will use the conference agendas of both leading research organizations to outline the latest trends.

#### 3.1. Identified general topics

The summarized conference announcements and abstracts and the conference's topic and subtitle outlined 12 main areas of leading research themes in the last four years. These areas follow:

- *regional resilience*
- *mobility and migrants*
- *regional governance*
- *sustainable development*
- *smart city & smart specialization*
- *cohesion policy*
- *territorial & spatial development*

- *urban & rural regions*
- *innovative regions*
- *inclusive regions*

Other topics are strongly presented in most of the 20 searched events but not in the headlines. However, such themes are also in the main sessions and the general subject of the examined conferences. These popular topics are directed to geopolitics & geoeconomics, regional analysis methods, topics related to COVID – 19 crises, and post-crisis decisions.

The second group of topics outlines qualitative results from the conducted content analysis of the available conference information. Even when they are not included in the conference headlines, these research directions are constantly important in the scientific events, abstracts, and programs.

Even with the manual approach of searching and counting results in the study's given limitations, we can conclude that the dominant topics represent the regional science research area. Topics from different fields of the social sciences are in the prime places in the examined academic debate.

### **3.2. Identified subtopics**

The conferences call for papers and draft programs are the source used to define the subthemes on the regional science main international forums during the last four years. The subtopics are systematized after the general topic to which they are most belonging, based on mutual keywords or a place in the program session. The title of the subsection is collected in full and grouped in clusters. Finally, we have a general topic based on the last 20 conferences, and one or two subtopics from all examined 20 calls for papers and/or conference programs. All relevant to the general topic subtopics are systematized in the main theme section as general topics (macro theme clusters), and their subfields are constructing thematic clusters (micro theme clusters). Some general theme clusters also have two or three subtopic clusters. Afterward, the concrete topics are grouped in microclusters.

As a result, each variety of micro themes outlines and the number of micro themes in a sub-theme level and the variety of research directions in a general field.

The result is given topic by topic.

#### **3.2.1. Regional resilience**

The subtopics here are made for this systematization in two lines – economic resilience and social resilience. Forty topic varieties of regional resilience are included in the analyzed 20 conferences. Over six times, the general topic „regional resilience“ was included as a special session title, call for papers' specific direction, etc.

We managed to organize six microclusters for *economic resilience* themes: *regional resilience and labor markets*; *tourism resilience*; *regional finance and fiscal challenges*; *local economy activities*; *mapping for resilient development in the sense of competitiveness, innovation, and productivity*. Seventeen varieties of these topics are indicated in the used 20 conferences. Actually, the area of economic resilience has

dimensions concerning housing policies, but their frequency is significantly low and is not included separately as a micro field. Also differs from the other subjects to be included in some clusters so far.

The subtopic of *social resilience* was grouped in 9 micro theme clusters – *adaptive and resilient cities; resilience after crisis; resilience in peripheral regions; human capital (education and skills) for resilience; transport, accessibility, and resilience; tourism and culture and resilience; regional health, aging and resilience; social innovations and resilient regions; social infrastructure and resilience*.

The theme of resilience is included in almost every conference event, and conferences' specifics for resilience are organized. There is a place for research for economists and econometrists, and other social scientists and approaches in the area of public policy, political science, etc.

### 3.2.2. Regional sustainability

The defined clusters of topics are 8 in this theme as follow: *sustainability and innovation; sustainable tourism via consumption of resources; urban dimensions of sustainability via resources and consumption behavior; sustainability and social capital; regional environmental and ecological issues; territorial green policy approaches; economy sectoral transformation for sustainability*. Sustainability is one of the most fruitful topics examined, with 31 unique, varied thematic lines summarized here.

### 3.2.3. Regional governance

In the field of *regional governance*, we define five micro theme clusters – *governance and institutions; territorial and regional governance; urban governance and politics; smart city-regional governance and „smartness“ in governance; collaboration-based governance via stakeholder; social partners*. All topics about governance in outlined conferences are 25. So, each of our 5 clusters are included up to 5 topics related to regional governance. We have to include that in this variety of governance interests, both politics and policy dimensions are included. So far, politics and policy are in balance as gained attention from the conference organizers and theme masters. The leadership role in governance is also included in one of the clusters, but it appears only once as a topic so far.

### 3.2.4 Regional policy and planning

*Regional policy* and planning is a structural topic, and it is a part of every other subject and area. However, still, there are some themes specifically focused on planning and policy-making issues. The four leading directions are *regional planning and governance, politics and regional development, urban policy and planning, different sectoral policies (for example – smart specialization policy)*.

### 3.2.5. Cohesion policy

The past and future of the *cohesion policy* of the EU is still a vibrant topic in the European regional scientist community. Five are the main directions for academic discussion about cohesion — the *future, theoretical and historical lessons about cohesion, convergence outcomes*. The fourth dimension is *cohesion and regional inequalities*, and the fifth cluster of topics is *on linkages between cohesion policy and*

*other EU policies*. Fourteen unique topics were used for the constructed 5 clusters here. The topic is more homogenous from most of the others.

### 3.2.6. *Territorial and spatial development*

The macro topic territorial and spatial development has numerous subthemes. We separate them into three subthematic clusters: *economic development*, *territorial development*, and *spatial development*. In every one of these three, the unique topics are a substantive number.

The thematic cluster *economic development* is defined as five thematic clusters – *new economy and alternatives for current growth models*, *regional growth*, *regional vulnerability to economic shocks*, *the geography of real estate stock*, and *local/regional economy*.

The critical point is that in the subtopic economic resilience some themes are similar. Even though most of the economic development cluster topics are from unique topics about territorial development or spatial inequalities.

The *territorial development* topics can be organized as follow: *territorial transition and futures*, *territorial economic analysis*, *socio-territorial analysis*, *housing*, and *real estate*. These four thematic clusters have 13 concrete topics included. *Spatial development* clusters of topics are *global spatial challenges*, *spatial aspects in social and health care policy*, *the spatial dimension of productivity*.

### 3.2.7. *Urban and Rural development*

*Urban and regional inequalities*, *megacities & urban clusters*, *urban transformation*, as well as *urbanizations on a global scale*, and even *urban hierarchies* are the clustered topics regarding urban development. We managed to identify four thematic groups in this area made from 13 unique urban-related topics among the 20 conferences.

The *rural development* is addressed with three thematic directions – *urban-rural integration*, *visibility in mountain and rural areas*, *rural communities*.

The urban thematic also has another macro cluster, where it is more often discussed – the smart city and smart specialization topics. But the rural development has fewer accompanying themes which to be on focus.

### 3.2.8. *Smart cities and smart specialization & Innovative regions*

For the topic of *smart cities*, we defined three clusters of themes – *smart solutions for city governance*, *urban redevelopment & remaking of cities*, *intelligence shaping cities' future*.

*Smart specialization* is included in the research debate with the five following clusters of topics: *actors of smart specialization*, *smart specialization implications varieties*, *evaluation of smart specializations*, *territorial dimensions of digital transitions*. We define 14 unique themes organized in the above topics.

Some of the smart specialization and smart city themes are discussed from the topic of *innovation of regions*. The innovative regions have 4 clusters of themes in our systematization. We find in the used conferences that the first approach to innovations for regions is from the perspective of *industrial and post-industrial restructuring*, *regional innovation system*, *age of digital transformation*, *social innovation*.

### 3.2.9. *Inclusive regions & Migrants and mobility*

The topic of *inclusiveness in regions* is discussed via *social and health care inclusion, inclusive regional/urban development & digitalization, inclusive growth & generations*. Three are the defined clusters here, but with varieties of subjects included. Not every unique variety can be mentioned, but social entrepreneurship and regional ecosystems, and inter-generational issues are from the concrete topics, which we have to underline specifically. They are included in the clustering above, too.

The general theme related to *social capital* is divided into two dimensions. The first subfield is *migrants*. This micro theme cluster includes topics related to *socio-cultural dimensions of migrants' behavior, international migrants, refugees and displacement, global demographic change*.

The *mobility* subfield is focused on *labor mobility and regional transformation, internal and regional mobility, student and urban mobility*.

All unique themes in both areas in the examined 20 conferences are 19.

## Conclusion

The outlined nine macro clusters of topics are umbrella subjects for 281 unique themes of interest proposed as a call for papers and conference sessions. As a preliminary result, this systematization has research potential. The problem in the results so far is that all 281 themes are grouped in the macro clusters in 4 to 6 other subtopic groups. Some themes like regional resilience and territorial development also have subtopic levels of clusters. More than 60 themes are still a unique area of research. Counted they are even 75, but the next level of grouping can finally organize a picture of 9 macro themes grouped in 40 stable micro thematic clusters. However, such a result is again fragmented. But is this a problem?

„Throughout its 50 years of existence, regional science has been actively (and often successfully) engaged in a balancing act involving fundamental and applied research. From almost the beginning, regional scientists have been committed to addressing spatial problems, including regional differentiation and national identities. Later came the locational analyses for new production facilities and service activities, regional development initiatives to deal with economic and social disparities, and enhanced spatial models to improve regional planning activities' efficiency and effectiveness. Theoretical research and applied research were well-articulated components in a regional scientist education. „Space matters“ became a defining slogan in the regional scientist community“ (Bailly and Gibson, 2004, p. 132).

The cited conclusion is confirming this confusing result of many-dimensional research subjects in the field of regional science. Nevertheless, this systematization is first the idea that the pool of topics of the academic debate in the area can be regularly systematized and evaluated. More important new researchers can follow such thematic clusters the variety of subjects in a concrete central theme. A more quantitative matrix is needed for such regular observations.

The controversies between regional science and regional studies as approaches to the regional topics are not included. „Space matters“ is keeping the importance for regional research but together with an interdisciplinary and policy-relevant approach to regional problems. With more than 60 specific thematic topics is difficult to conclude that only the space paradigm will organize this thematic puzzle. Space and policy relevance is a more directing and reliable perspective. This helps to answer some of the concerns regarding the future of regional research future area and usefulness for the academia and regional policy (Garettsen, McCann, Martin, Tyler, 2013; Polese, 1998).

Another preliminary result object of discussions topic identified not as main and general for conferences in the regional science but are constantly in the conference programs. These topics are related to themes from the geopolitics & geoeconomics field and questions regarding regional analysis methods. Finally, the last year, the subject of the COVID – 19 crises and post-crisis decisions occurs in regional science research. These three topics can keep areas of interest years forward and have to be an interest for monitoring.

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## INFLUENCE, RESEARCH AND COMPANY PARTICIPATION INDUSTRIAL CLUSTERS: CONCEPTUAL FRAMEWORK

Nikola Tanakov<sup>1</sup>

### ***Abstract:***

*Relevance and significance of the report is determined by the objective realities in the global economy and regional development (Николов, 2020). In search of relevant means to improve social and economic indicators in the regions, new, modern approaches and forms of regional policy are constantly being tested. The practical significance of the topic stems from the complexity of the symbiosis between individual companies, government agencies, and non-governmental forms of civic participation.*

*The purpose of this report is to review the literature and propose a conceptual framework that is related to industry clusters, trust, and training.*

*This study provides a conceptual framework that includes the firm's industrial cluster participation, trust, and learning. Based on the literature, there may be between organizational trust enhanced due to reduced proximity and better information flow within the cluster. In addition, industrial clusters encourage coevolution and collaborative adaptation, which stimulate effective learning practices for cluster companies.*

*Keywords: Cluster analysis, Competitive strategy, Trust, Learning organizations, Industrial clusters*

### **Introduction**

Economic development on a regional scale is becoming an increasingly complex phenomenon to analyze easily. The accelerated globalization of economic activity has clearly made the region the most important place for competition. Many studies claim that industrial clusters, such as Silicon Valley in the United States, are becoming important centers of the global economy.

However, the successful development of such clusters can be problematic in many regions. Porter (1998) argues that the basis for creating and maintaining a regional

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competitive advantage depends on a highly localized process. That is, the local development of support facilities, educational institutions, a high-quality labor fund, trade opportunities and a shared culture and industrial atmosphere are the foundations of a successful cluster. Through a network within an industrial cluster, companies can take advantage of resources and opportunities that are not otherwise available and stimulate continuous cycles of innovation.

Knowledge is considered one of the most important resources for the strategic activity of the company. Inevitably, organizations need to start training practices in order to remain competitive. However, for many companies, learning is considered difficult because many companies are aware of the importance of their own knowledge and are reluctant to share it freely. This challenge is especially true for companies in smaller countries, which may not have the necessary resources for growth, an internal resource fund, and for companies in developing countries, which have weaker information capabilities and limited support industries (Niu et al., 2008). Recognizing this weakness, many countries have encouraged the development of regional clusters where companies can develop their competencies and competitive advantage against the best competitors in the world by sharing knowledge, resources and innovative opportunities.

In order to improve between organizational training, certain levels of trust need to be developed in the companies involved in the training cycle. As such, trust is becoming an important factor in the emerging phenomena of industrial clusters. At the individual level, trust helps people cope with environmental challenges as well as various diverse social interactions (Zucker, 1986). Trust is therefore a valuable social capital that facilitates cooperation and coordination in both social and economic interactions. Trust is also important to the organization (Williamson, 1985).

At the macro level, trust can further improve the core competencies of organizations and maintain their competitive advantage through coevolution and mutual learning (Shapiro et al., 1992). This is done through the development of group collaboration, collaborative relationships, and learning networks (Nooteboom, 1996).

Due to the success, as well as the current trend of industrial cluster research, this study aims to introduce a conceptual framework that includes industrial cluster, trust and learning. This study is divided into three parts. The first part provides the theoretical basis of the industrial cluster, trust and learning. This was followed by the introduction of a conceptual framework. The last part ends with a study and application of management practices and some suggestions for future research.

## **1. Theoretical foundations**

A cluster of companies is likely to facilitate effective collaboration and the use of different resources and competencies held by each company (Lawson, 1999). Porter (1998) argues that clusters are the result of improved business in the surrounding world. It defines an industrial cluster as a socially and geographically close group of

interconnected companies and associated institutions in a particular field related to commonalities and complementarity (Porter, 1998).

Clusters affect the competitiveness of firms in three main ways (Porter, 1998). First, clustering can increase competitiveness by increasing the productivity of member firms. First, cluster members are encouraged to specialize in technology, information, and resources and thus develop unique opportunities that can lead to profitability (Barney, 1991). Second, clusters increase the capacity for innovation and increase competitiveness. The cluster rivalry that forces firms to develop dynamic capabilities (Teece et al., 1997) that support innovation. In addition, the differentiation that is evolving in companies in a cluster is likely to increase diversity and thus improve training and innovation. Third, clusters encourage and enable new business ventures that support innovation and the further expansion of the industrial cluster.

The term cluster is widely used by both practitioners and academics. However, this has an undesirable effect, making its definition flexible. To further define the cluster in a later analysis, it is important to clearly identify the value estimate associated with the cluster definition. From many studies related to industrial clusters, Alfred Marshall is considered one of the pioneers of the theory related to the industrial cluster, which first introduced the term „industrial neighborhood“. He published two influential works, *Principles of Economics* (1890) and *Industry and Trade* (1919), which are thought to have had a profound effect on the progress of industrial cluster research. He views industrial clusters as „many in one and one in many“ (Marshall, 1919). That is, the companies are located in an industrial cluster. One of them specializes in a unique economic activity, which leads to the creation of a series of interconnected economic operations and social dependencies between this particular company and others, in order to create a network supply chain in a reduced geographical proximity.

The collectivity of specialized firms and social interdependence represent the general concept of industrial clusters in Marshall's research (1890). He further argues that the determinants of a region's economic development depend on cross-border international trade, which improves local industry research and attracts a group of skilled workers who gather within the reduced geographical boundaries of a group of producers or a „densely populated industrial district“. „(Marshall, 1890, 1919). Following Marshall's point of view, Markusen (1996) defines industrial clusters as an economic network inhabited by small and medium-sized enterprises (SMEs) and these companies specialize in specific value-added activities related to economic transactions, long-term useful relationships, and strong social connection with the geographical location. Markusen's definition of industrial clusters seems to coincide with the claims of many researchers that industrial clusters can develop and maintain a so-called „regional competitive advantage“ (Porter, 1998; Saxenian, 1994, 2001).

Marshall argues that there are four determinants that make the region specialized in a particular supply chain activity. They are transport infrastructure, opportunities for international trade, physical conditions, and state support. Good transport infrastructure refers to products from a specific industry cluster that can be easily trans-

ported to markets where there is a demand for products. International transactions involve achieving economies of scale and scope that can lead to the exploration of new markets through growing regional industrial clusters. Physical conditions refer to actual resources and support, such as buildings and physical infrastructure, that are offered in an industrial cluster. Porter (1986) proposes similar characteristics, which he calls diamond factors, and argues that achieving these factors is crucial for the region to build a competitive advantage.

In recent years, Tallman et al. (2004) narrowed the scope of the study of industrial clusters by distinguishing between two types of competitive characteristics that can be further developed into a competitive advantage for the cluster:

- (1) those based on traded interdependencies; and
- (2) those based on non-traded interdependencies.

Traded interdependencies exist in the economic sphere and involve a formal exchange of value for value. These include licensing, alliances, acquisitions or technological know-how through which official exchanges take place (Tallman et al., 2004). The existence in the economic sphere presupposes that the traded interdependencies reflect the rational participant principle of work in terms of efforts for the most efficient allocation and efficient use of resources. Storper (1997) notes that traded interdependencies easily dissipate with the development of the industry. This can be attributed to a better understanding of the processes surrounding economic transactions in an industrial cluster.

Non-traded interdependencies are „based on shared knowledge for which market mechanisms do not exist or are limited“ (Storper, 1997). They exist outside the economic sphere. Non-traded interdependencies include customs, cultures, beliefs, and institutions that lead to the creation of „manufacturing worlds“ that represent trajectories of action for companies in an uncertain world (Storper and Salais, 1997). The non-traded interdependencies reflect the „knowledge in the air“ associated with what Marshall (1890) calls the „industrial atmosphere.“ These specific competitive characteristics exist in an industrial cluster that runs parallel to the economic system. Tallman et al. (2004) state that this parallel system works to reduce the transaction costs of exchanges related to traded interdependencies.

The importance of tradable and non-tradable interdependencies has changed over time. Initially, the economic benefits received the most attention, for example, in the economics of transaction costs, agency theory, and the resource-based view of firms. Identified the traditional economy of the agglomeration advantages associated with lower production costs, development of joint suppliers, specialized working groups, and dissemination of technological know-how (Krugman, 1991; Piore and Sabel, 1984; Starkey and Barnat, 1997). The emergence of globalization is expected to reduce the importance of proximity in achieving these benefits. As clusters continue to be able to maintain a competitive advantage, the focus of research is gradually shifting to non-traded interdependencies. These competitive advantages are due to the interaction and the resulting trust, which enables industrial clusters to develop what

Matthews (2003) calls „learned adaptation models“. In essence, the importance of the 'industrial atmosphere' or 'knowledge in the air' is growing in the form of collective competitive advantages. Table I shows the characteristics of the company's participation in the cluster.

## 2. Trust

Trust has been identified as an important prerequisite for the development of inter-organizational relationships (Fukuyama, 1995). Gambetta (1988) defines trust as the subjective probability by which a person:

- expects that another person can be trusted; and
- performs an action on which human well-being depends

**Table 1.** Summary of industrial participation of research clusters

<b>I construct</b>	<b>Theoretical focus</b>	<b>Variables/components</b>	<b>Selected research</b>
Commercial interdependence	<ul style="list-style-type: none"> <li>- Exogenous factors</li> <li>- Economic/transactional exchange</li> <li>- Resource efficiency</li> <li>- Distribution</li> <li>Intercompany cooperation</li> <li>- Technical specialization</li> <li>- Complementarity</li> <li>- Explicit knowledge Sharing</li> </ul>	<ul style="list-style-type: none"> <li>- Contractual agreement</li> <li>- Supply chain Partnership</li> <li>- Widespread product Imitation</li> <li>- Degrees of intercompany cooperation</li> <li>- Technical competence of member companies</li> <li>- Joint economic activities</li> <li>- Transaction network</li> <li>- Acquisition of knowledge</li> <li>- Technological licensing</li> </ul>	Brusco (1990), Pedersen et al. (1994), Schmitz (1995), Saxenian (1994), Zucker et al. (1998), Porter (1998), Tallman et al. (2004)
Unsold interdependence	<ul style="list-style-type: none"> <li>- Endogenous factors</li> <li>- Social culture relationships</li> <li>- Synergically silent knowledge creation</li> <li>- Local advantage</li> <li>- Supporting institutes</li> <li>- Shared marketing/ orientation of the operation</li> <li>- Specialized workforce</li> </ul>	<ul style="list-style-type: none"> <li>- Geographical proximity</li> <li>- Joint social history</li> <li>- Culturally shared background</li> <li>- Supporting Institute Laboratory</li> <li>- Government support</li> <li>- Transport Infrastructure</li> <li>- Social network</li> <li>- Creation of knowledge</li> <li>- Collected human resources</li> <li>- Research University</li> </ul>	Piore and Sabel (1984), Starkey and Barnatt (1997), Porter (1998), Marshall (1919), Storper and Christopherson (1987), Tallman et al. (2004)

McAllister (1995) defines trust and argues that it allows people to take risks. Deutsch (1958) argues that trust is based on the expectation that one will find what is expected, not what one fears. Luhmann (1979) views trust as a willingness and faith to take action with a certain degree of risk.

Trust is a social phenomenon that makes working in organizations easier and co-operation between organizations possible (Nooteboom, 1996). In a world of growing uncertainty and complexity, trust is seen as a more appropriate mechanism for controlling collective organizational action and reducing transaction costs than hierarchical force or direct monitoring as a method of control (Hosmer, 1995; Zaheer and Venkatraman, 1995). In addition to trust within organizations, closer and more frequent collaboration between organizations (as in the case of joint research and development, timely production, or relationship marketing) requires a higher degree of trust between different organizations (Dodgson, 1993).

In inter-organizational cooperation, trust is considered to have several external economic advantages. Trust can serve as an alternative control mechanism in inter-organizational relations, where it can replace or at least complement market prices and hierarchical power, especially since remedies or contractual relations are considered weak institutional substitutes for trust. In addition, inter-organizational trust is likely to increase collective efficiency (Schmitz, 1995) when it encourages the sharing and disclosure of organizational information and knowledge and reduces transaction costs (Sako, 1992).

Once established, trust stabilizes exchange relations, which in turn significantly increases the chances of increasing trust over time. In modern organizational forms, such as an intercompany network (Powell, 1990), trust is purposefully seen as an important control mechanism and it is generally accepted that:

- Supporting the formed and collective strategy.
- Facilitate the coordination of economic activities.
- Promoting open exchange of information and knowledge and inter-organizational training.
- Reduction of inter-organizational conflicts.
- Contribute to a significant reduction in transaction costs.
- Support for organizational change and adaptation.

In the literature on inter-organizational relations, trust is mostly considered to be an integral feature of cooperative relations (Kumar, 1996). However, trust is always associated with a certain risk on the part of the relying party (Mayer et al., 1995).

The willingness to take such risks and accept vulnerabilities reflects an organization's confidence in the reliability of other organizations with respect to a set of expected goals and outcomes agreed to by both the trustee and the trustee (Nooteboom, 1996). To reduce such a risk, the receipt of information or „signals“ to make a decision on trust is considered unavoidable. The more information or knowledge is exchanged between potential trustees and trustees, the better understanding can be achieved regarding the intentions and desires of the parties involved.

Organizational training involves finding a balance between developing, transferring, and accessing information within a company, which makes it easier for each organizational unit to apply appropriate knowledge to its existing knowledge base and create new additions (Pfeffer and Sutton, 2000). The development of structures that include appropriate techniques and tools, the circulation of continuous human contributions, and the appropriate ability to make quick decisions become necessary precursors to organizational learning (Raisinghani, 2000). Wilson and Asey (1999) define organizational learning as the firm's effort to actively create, transfer, and mobilize knowledge so that it can adapt to a changing environment. Organizational training is also seen as a management action, including control and planning within a company, aimed at achieving strategic goals through the creation, capture and internalization of knowledge. Based on the literature, it is clear that organizational training has a strong prescriptive element, which is to „manage information“ in order to have a positive impact on results.

Before the knowledge can be effectively used to achieve the goals of the organization; however, knowledge must be learned. New knowledge can be learned externally from the environment or developed internally in the organization (Duffy, 2000). The process of acquiring knowledge from external sources is called acquiring knowledge. Organizations often assess their current situation to identify gaps in current operations and then try to identify exceptional practices from well-positioned competitors and/or partners. Once these differences are identified, organizations can capture knowledge of internal use to improve performance. Gaining additional knowledge from partners and external sources can significantly improve a firm's ability (Porter, 1998).

### **3. Knowledge**

The process of knowledge creation in an organization is called knowledge creation (Zucker et al., 1998). The process of knowledge creation focuses on the hidden nature of knowledge that is in the minds of different individuals or groups in the organization. Typically, organizations need to initiate a process of transformation from tacit knowledge to explicit knowledge to improve the applicability of knowledge. Collaboration between employees, teams from numerous projects and the research and development department are common means of creating new knowledge within the organization. However, organizations have unequal opportunities to integrate and reproduce knowledge acquired from external sources and to create new knowledge (Duffy, 2000). This ability is widely referred to as the absorbing ability. The idea is that the company should have at least a minimum level of existing knowledge within a given area of them should be able to create new extensions and / or recognize the potential value of external information. suggest that the ability to evaluate, acquire and use external knowledge is often associated with investment in research and development, innovation and efficiency.

In addition, interaction with other companies is likely to increase the organization's absorption capacity (Duffy, 2000). Intuitively, people generate knowledge by comparing unknown ideas, facts or tools with familiar ones. Cohen and Levintal (1990) further argue that learning abilities involve the development of the ability to absorb existing knowledge, while problem-solving skills represent the ability to create new knowledge. Therefore, creative capacity and ability to assimilate are similar and complementary. As Nonaka (Nonaka, 1998) points out, knowledge is usually both acquired and created through the interaction of explicit knowledge and tacit knowledge and can be facilitated through social interaction within the firm, as well as through trade and other interactions with other organizations.

#### **4. Conceptual framework**

Organizational training is a management discipline that considers knowledge as one of the most important organizational resources, as well as a strategy to obtain, improve and put knowledge into action so that it circulates and develops continuously. Knowledge transfer is a specific strategic action due to either:

- personal purposes (eg for personal gain);
- to shared goals and values (eg organizational goals);
- to role obligations;
- finally, to habits and routines (Nonaka, 1998).

In all these different motivational groups, some form of either implicit trust or explicit determinants of trust is always needed (Nooteboom, 1996).

From the previous sections, learning is both a state arising from a process or activity (acquisition of knowledge) and a process or activity itself (creation of knowledge). Two main decisions and actions are needed to start the learning process:

1. to transmit and retransmit part of the knowledge and
2. to accept a given knowledge.

In many cases, either a degree of trust is required to transmit or receive knowledge (Nooteboom, 1996). Schein (1985) argues that trust helps people overcome the security and insecurities that arise when people are presented with unfamiliar data. When gaining knowledge, trust evokes a feeling of confidence that the risk associated with the knowledge gained will be reduced. Thus, trust can be considered a prerequisite for learning, as well as an influential factor in the process of knowledge management. Usually, the relationship between trust and learning is circular (Nooteboom, 1996). To learn knowledge, one must have confidence in some attributes of others, such as ability and value congruence. To trust a person also needs a significant amount of understanding and knowledge from others. This study suspects that there may be a strong link between trust and knowledge management.

The industrial cluster is widely considered to be a networked industrial system (eg, Silicon Valley) in order to adapt to rapidly changing markets and technologies as an organized whole (Saxenian, 1994). Industrial clusters can also be seen as functional

performers that can reduce the uncertainty associated with transactions, which would otherwise increase the transaction costs of small, individual firms (Camagni, 1991). One example of this reductive feature is collective information gathering and screening in cluster setup. The informal exchange of information and the effects of cooperation in successful selection can create a function for collective sharing and filtering of information in the cluster. Gathering information and screening is the same as training and organizing knowledge, which are the steps outlined in the previous literature review section. The on-screen feature can also help companies overcome the challenges that smaller companies often inherit in investigating and monitoring the quality and hidden characteristics of raw materials or key devices and the necessary equipment for technological progress. This statement is consistent with the Porter (1998) factor in his diamond model.

From a network perspective, interactions between firms within an industrial cluster have cooperative relationships and even strategic alliances that cannot be viewed solely as market transactions, nor are they administered by the agencies of any organization. Instead, firms demonstrate the characteristics of an antisocial network that has its own special economic properties that are socially driven (Niu et al., 2008). These characteristics of social networks facilitate the flow of knowledge between clustering firms and transform the declining returns faced by isolated organizations into increasing returns (Bearman, 1997). Both cluster and network theory often link the external economies enjoyed by companies in an industrial cluster, not only with the benefits of flexibility and specialization, but also with the creation of an alternative business environment that promotes cohesion, coordination, collaboration and trust. In particular, industrial clusters often show a greater degree of mutual trust than other environmental conditions. It is therefore suspected that there may be a link between the involvement of an industrial cluster and trust.

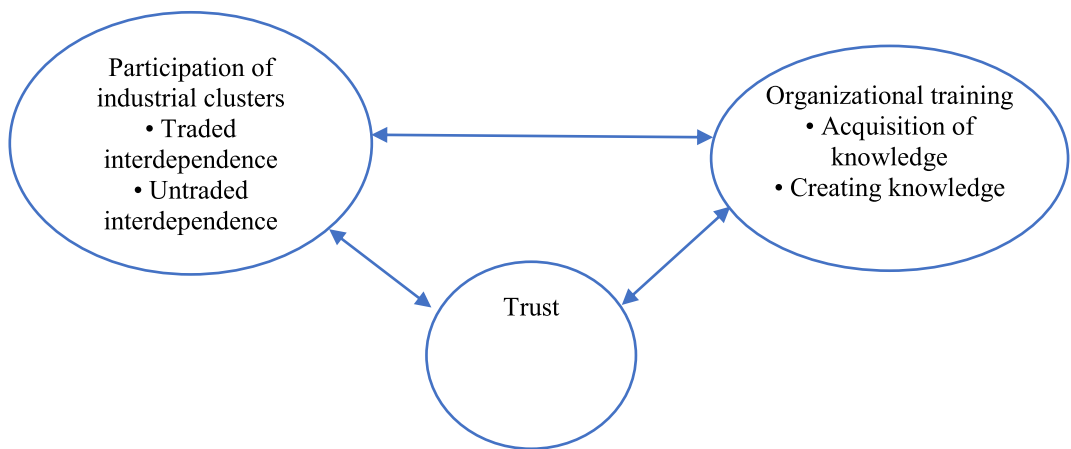
The globalization of today's business and the rapid pace of technological breakthroughs allow today's competition to be increasingly based on knowledge of first-class commitment to innovation and early awareness of changing environmental conditions. The network of companies in an established industrial cluster is recognized as one of the effective ways of collective learning. Thus, it is suspected that the industrial cluster and knowledge management have a strong connection. Figure 1 shows the conceptual framework of trust, industry cluster and organizational training. The industrial cluster is recognized as a network system that contains many small and medium-sized companies closely interconnected (Saxenian, 1994). This type of networking is also characterized by connections between actors that are created in a time or half-time way, usually centered on a problem (Schmitz, 1995). Actors in a network system have more access to learn from each other and integrate their knowledge until the problem is solved or the goal is achieved. In a cluster such as Silicon Valley, the whole region is organized to adapt to ever-changing markets and technologies through a frequent and synergistic flow of knowledge within the cluster. The decentralized structure of the cluster encourages the pursuit of multiple technical capabili-



ties through spontaneous exchange and regrouping of skills, technologies and even capital investment. This flexibility encourages the process of collective learning and knowledge sharing, which reduces the gap between large and small firms and between industry or the service sector in the supply chain (Porter, 1998; Saxenian, 2001).

Industrial clusters also support a decentralized process of experimentation and learning, which promotes positive interaction between organizations due to easier access to other own knowledge and other types of resources. Industrial clusters are in fact a combined resource and knowledge in close proximity; they literally provide a portal to an abundance of complementary assets that can directly benefit cluster companies. The characteristics of the cluster, namely trade and non-trade interdependence, companies form a complex network structure within the cluster, which further develops and even strengthens many inter-organizational relationships that offer companies many portals for access to foreign resources and knowledge. The following proposal is therefore proposed:

P1. The active participation of a company in an industrial cluster gives the company the advantage of having an effective ability to learn (ie acquiring and creating knowledge) due to easier access to resources of other companies through traded and non-traded interdependence.



**Figure 2.** The conceptual framework of trust, the industrial cluster and organizational training

Industrial clusters represent regional agglomerations, which consist of a number of network companies; significantly reduces social proximity and increases the sharing of social similarities between cluster companies. Based on the literature on trust, lower social proximity and higher social similarity are considered important signals for building trust. Once clustering companies are engaged in inter-organizational relationships, they have a greater chance of getting to know each other due to the unique environment within the industrial cluster. This implies that companies within an industrial cluster learn and become acquainted with an ongoing process of transactions

over time in reduced proximity and shared culture. As discussed earlier, a successful industrial cluster can usually develop a reputation and can also act as a cooperative advertisement and a form of quality certification, which can be considered an important reference for establishing trust. Cluster companies can also develop a social identity due to the reduced proximity to other cluster companies, which can also serve as another reference for building trust. The following proposal is thus made:

P2. The industrial cluster encourages and evokes trust between the participating companies due to the reduced proximity, social similarities and the shared historical situation through the interaction of traded and non-traded interdependence.

Learning is a specific action, either for personal purposes or for shared goals and values in the network. In all different motivations, some form of implicit confidence or explicit assessment of trust is usually required. Schein (1985) argues that trust is necessary for communication, knowledge exchange, and information sharing and is common for teamwork. It also emphasizes the circular link between trust and learning. If trust helps the flow and outflow of knowledge, people tend to trust people or countries that share knowledge more than others. The following proposal is therefore made:

P3. Organizational learning, which includes the acquisition of knowledge and the creation of knowledge, has a positive relationship with trust due to a more open channel of communication and enhanced mutual understanding in the participating countries within a training cycle.

## **Conclusion**

However, this conceptual analysis seems to have several managerial implications for both scientists and practitioners. First, within clusters, the local concentration of quality human resources, necessary raw materials and related services facilitates the creation of new companies (Porter, 1998). In addition, working with existing companies can provide opportunities that are not otherwise available. In general, the development of the capabilities of individual companies, as well as the potential for cooperation, give companies in the industrial cluster more strategic opportunities in terms of synergies of resources, organization training opportunities, capacity building and innovation. As a result, cluster members are likely to achieve levels of competitive advantage unattainable for individual firms. In principle, a firm can access the built-in benefits of an industrial cluster of traded or non-traded interdependencies, or both, by being located in an industrial cluster.

Second, the industrial cluster consists of companies that are geographically close to each other and usually share and absorb a common social background, which can facilitate the formation of trust. The relationship between companies in an industrial cluster can be seen as a complex network form. The companies in the cluster can work together for joint development in order to increase competitiveness. Because the

sum of the benefits of the cluster has a greater value than any individual company or institution, industrial clusters cause synergies.

Third, from an economic point of view, industrial cluster firms are better able to derive economies of scale, increase market power and increase global competitiveness that would not be available to an individual firm. In addition, there may be investments in assets or technological know-how that are too expensive to obtain from a company in the industry. Industrial clusters offer a relatively favorable environment that allows participating companies to more easily pool the resources, investments and knowledge needed to make companies competitive on the world stage.

Fourth, to the extent that specialization can increase the comparative advantage, an industrial cluster can concentrate firms and industries in regions dedicated to a particular product or competence. The cluster may also offer local benefits (eg natural, market and social benefits) that are not available elsewhere.

Fifth, the industrial cluster can better manage and disseminate relevant information and knowledge accurately and in a timely manner due to its close geographical proximity and shared cultural environment. Therefore, the industrial cluster provides a favorable environment for training companies.

The value of this research lies in the development of a holistic framework for empirical testing. It is clear what is needed for the future. The next step to continue the present study is to validate the newly proposed structures as well as the scale. Once successful, the scale can be applied to international data collection clusters.

The results may reveal interesting discoveries due to different cultural backgrounds, technological complexity and national economic development. In summary, this study offers initial experience for trust, learning and industry clusters and offers new directions for future research.

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## SPATIAL DEVELOPMENT OF THE SETTLEMENT NETWORK AND AGGLOMERATION AREAS IN THE SOUTH CENTRAL PLANNING REGION

Kamen Petrov<sup>1</sup>, Tsvyatko Tolev<sup>2</sup>

### ***Abstract:***

*In the present exposition, an analysis of the agglomeration areas in the South Central planning region is made. The peculiarities in the development of the agglomeration areas Plovdiv, Pazardzhik, Haskovo, and Kardzhali through the prism of their socio-economic development are outlined. The main focus of the study of these agglomeration areas is based on the methodology of the network approach, the taxon, and the comparative analysis in accordance with the data from the regional statistics. To a large extent, the agglomeration areas in the South Central Planning Region define the necessary centrifugation and are integrated into the spatial development policy of our national territory. In addition, these regions have their own challenges and peculiarities, which determine the nature of their regional economic development and the model of functioning of the regional systems.*

*Keywords: area, development, management, region, space, economy, vision, agglomeration*

### **Introduction**

The ongoing socio-economic processes in Bulgaria over the last quarter of a century have led to the structuring of a new spatial-territorial model of the country. This model is characterized by clearly defined regional differences and formed imbalances in the socio-economic condition of the regions. Thus, the main centers of economic development in Bulgaria are the urban areas. Based on the concept of the spatial development of the country we can assume that in spatial and territorial terms these centers should be built as agglomeration cores that can have an impact on the surrounding settlements in the range of 100-110 kilometers. An agglomeration is also called a

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settlement formed as a result of the merger. Moreover, from a historical point of view, urban agglomerations are spatial forms of urbanization. Inherent in urban agglomerations is the greater increase in population in the periphery than in the center. In our country, however, the processes develop differently. First, urban agglomerations are limited in size compared to those in Europe. They develop on the basis of cities located among flat and fertile lands, which limits their growth. Secondly, the formation of agglomerations is accompanied by restrictive settlement measures in large and largest cities (Mercader-Moyano. 2017). Inherent in urban agglomerations is the greater increase in population in the periphery than in the center. In our country, however, the processes develop differently. First, urban agglomerations are limited in size compared to those in Europe. They develop on the basis of cities located among flat and fertile lands, which limits their growth. Secondly, the formation of agglomerations is accompanied by restrictive settlement measures in large and largest cities. Conditions for the process are the territorial proximity and the existing various production, transport, and cultural connections. The emergence and development of urban agglomerations are mainly based on two main models. In the first model, the dynamic development of the city forms a need for new territories and new infrastructure, and within the city limits, almost all possibilities for this are exhausted. The city is growing at the expense of urbanization of neighboring territories by building new satellite settlements or turning previous independent settlements into satellite ones (Brown, Dixon, 2014). They are a place for localization of various activities – industrial enterprises, production and commercial warehouses, science centers and technology parks, new residential areas, new recreation areas, etc. In the second model, independent neighboring settlements, through their expansion and involvement of new territories, are brought closer and connected into an interconnected whole, in which a new core is formed.

### **Formation of urban areas in Bulgaria**

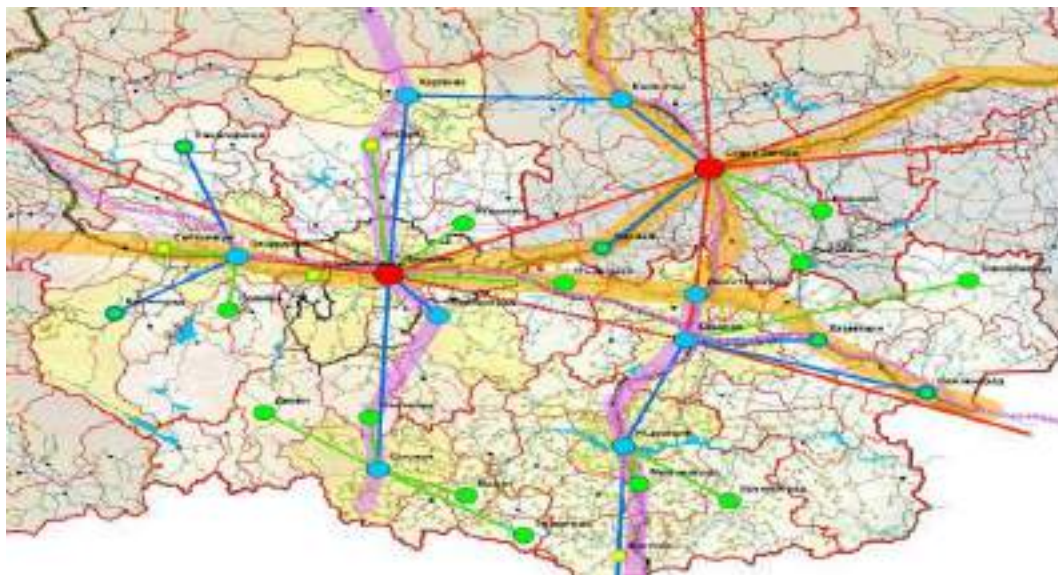
The main prerequisites for the formation of urban agglomerations are different, but most often these are: uniform construction; the built-up areas are more than the agricultural lands; there are mass daily trips from one settlement to another in the agglomeration (trips to work, study, trade, culture, etc.). In Bulgaria, the most urbanized areas are the regions around the largest cities. Such are the Plovdiv-Pazardzhik field, the Sofia valley, the Pernik valley, the Stara Zagora field, the Burgas and Varna bays, and others. Ludogorie, Strandzha, Sakar, Kraishteto, the Rhodopes, and other agricultural regions are poorly urbanized. In Bulgaria, according to the Environmental Noise Protection Act, the Minister of Regional Development and Public Works is expected to organize the creation and maintenance of a register of agglomerations. The latter is made in order to document the main characteristics of agglomerations. According to this law, settlements with a population of over 100,000 are considered agglomerations. Currently, the settlements meeting this requirement are Sofia, Plovdiv, Varna, Burgas, Ruse, Stara Zagora, and Pleven. In practice, however, at least an-

other 30 municipalities, combined in two and three, form an agglomeration area of at least 100,000 or more. This is because almost 72% of the population of Bulgaria is concentrated in 36 large cities. This percentage is fully comparable to the urban population in the EU. This requires agglomerations to be approached scientifically by defining criteria according to which to determine the territorial scope of urban agglomerations. These criteria could be the following. First of all, the agglomeration area is a network of stable settlements with a population of not less than 50 thousand people. The population of the individual settlements retains their place of residence, but the connections between them are intensifying. The settlements in the agglomeration area are located within a 60-minute isochrone around the center of the agglomeration. This will enable the larger cities of the country to strengthen their ties with the surrounding settlements. On the other hand, it will displace the natural boundaries of cities and impose a new system of infrastructural connectivity. The geo-economic effect should be sought mainly in the direction of the formation of settlement systems as forms of urbanization, and not as grassroots administrative units (Stoychev, 2009). When they are united, functional urban areas (FURs) are formed. The third level of this structure (FUR) is revealed on the basis of daily labor migrations, population density, the structure of economic employment, the intensity of social travel, the degree of construction of the housing stock, and the settlement area, the level of service, etc. The more developed functional urban areas have the character of settlement agglomerations (Nikolov, Vasileva, 2018)

### **Structures and development of agglomeration areas in the South Central Region (SRC)**

The main potentials for territorial development of the South Central Region (South Central Region) are considered in several main directions. First of all, opportunities for the development of the road, railway, communication, and infrastructure networks through forthcoming large infrastructure projects at the national level. In this regard, it is necessary to achieve a rational use of the insufficiently realized potential of environments with preserved biodiversity, with a concentration of cultural values and mineral waters of the region as a resource for the development of cluster tourism. This means that regional development should focus on the model of territorial systems. This can be complemented by stimulating the development of urban centers of the second and third and some of the 4th levels as major generators of growth. Thus, for optimal development of agglomeration areas, it is important to establish targeted support for the development of urban centers of the fourth level and their stabilization as a support network for the development of peripheral, border, and mountain areas, to reduce intra-regional disparities.





**Image 1.** The territorial-urban structure of the South Central region

*Source:* Following the model of the National Center for Territorial Development (NCTR)

An indisputable strength of the region is the cultural values, which are a stimulator for economic growth. In addition, it is important to look for innovative solutions. Innovative actions, however, are more than just project coordination, dissemination of results, and the formation of alliances. They are carried out through cities and local authorities so that the Member States can achieve their national adaptation and mitigation targets. For this reason, local and regional authorities must realize their full potential in adapting to the change of climatic conditions and adopt innovative techniques (Nikolov, Vasileva, 2018). The integration of heritage with tourism links this process with infrastructures and the polycentric network of settlements. In this sense, even at level 2 Plovdiv, Pazardzhik, Haskovo, and Kardzhali can be considered not only as large cities in the region but also as a portal to the network of regional economic development. Mainly the cities of Pazardzhik, Plovdiv, Haskovo and Kardzhali form the real agglomeration areas in the planning region, and cities like Smolyan, Karlovo, Parvomay, Peshtera, Velingrad, Rakovski, Panagyurishte as regional centers with a population of fewer than 30 thousand people, which categorizes them into another type. settlement formations. Only the town of Asenovgrad has the potential for an agglomeration area, but due to its proximity, it falls in the sphere of gravity of the Plovdiv area. Spatially, two of the cultural corridors of Southeast Europe (the Diagonalis Road) and the Eastern Trans-Balkan Road intersect on the territory of the South Central Republic. Thus, the three cities will be competitive because their population potential will be about 200 thousand people and will have a higher competitive environment.

### **Role of the agglomeration direction**

#### **Pazardzhik-Plovdiv-Haskovo-Kardzhali**

Moreover, when moving to level 3 – Plovdiv district – as the most developed district in the South Central region is the territory with high consumer potential. According to statistical data, by 2020 9.3% of the country's population live in the Plovdiv district. According to this indicator, it is in second place after Sofia district (capital). The population of the district is distributed in 19 municipalities. The largest in terms of population is the municipality of Plovdiv, in second and third place, are the municipality of Asenovgrad and the municipality of Karlovo. All other municipalities have a population of less than 5% of the district's population. The population of the district lives in 18 towns and 197 villages. Nearly half of the district's population (49.5%) lives in the district center (NSI, 2018). Second in importance is the area covering the territory of a municipality with the administrative center of Pazardzhik and the 31 small settlements (villages) entering it. The territory of the area is 637 sq. Km, which is 0.57% of the country's territory. The average annual population for the period is 117 thousand people, of which men are 57,500 and women – nearly 60 thousand. Their relative shares are 49 and 51% respectively. The population of the area is 1.6% of the country's population. The population density is 184 people per 1 square kilometer. The city center is home to 73,000 people or 64.4% of the area's population. The ratio between men and women in the city is approximately the same as in the area – men are 35,400 and women – 37,780. The average birth rate for the three years is 9.80 ‰, which is higher than for the country – 9.68 ‰. The total fertility rate is 1.57 children. The overall mortality rate is lower (10.07 ‰) than the overall rate for the country -14.72 ‰. For the three years, the average annual natural population growth is negative with a size of minus 2.89 ‰. On average, about 760 people settled in the area annually and 1,260 people emigrate. The intensities of the two migration flows are 6.51 and 10.78 ‰, respectively. As a result of migration, the area decreases its population by an average of 500 people per year, or the mechanical growth is minus 4.27 ‰. (NSI, 2018).

Third, in importance is the agglomeration with the leading town of Haskovo. It is the twelfth largest city in Bulgaria and is located in South Central Bulgaria. It is located not far from the borders of Turkey and Greece, which determines its key geographical location. The town of Haskovo is an important economic core of the South Central Region with established industrial traditions and potential for new development. Even more important is the importance of the city for the economy of the municipality and the district. The city determines the economic results of the municipality of Haskovo by forming over 95% of the revenues from activity. The municipality of Haskovo and in particular the town of Haskovo are characterized by the development of a diversified economy. The main economic sectors of development in the district are industry, services (more than 50% of the registered small and medium enterprises working in the trade sector), and agriculture. For the most part, industrial pro-

duction is concentrated in the town of Haskovo. The city of Haskovo does not have an approved General Development Plan and no General Communication and Transport Plan. The current and future development of the regional center is closely related to the state, trends, and opportunities for the development of the communication and transport infrastructure of Haskovo. To this end, it is necessary to implement an integrated approach, looking at the transport sector as a whole and in conjunction with the urban development of the city. By improving and developing the transport and communication infrastructure, as part of the urban environment, not only the economic parameters of its functioning and operation will be optimized, but also the sanitary and hygienic conditions for the inhabitants of the city will be improved (Regional development plan..., 2020).

By improving the organization of traffic in general and its individual components in particular, the number of traffic accidents will be reduced, the parameters of noise load and environmental pollution will be improved. The Pan-European Transport Corridor № 9 „Ruse – Veliko Tarnovo – Stara Zagora – Haskovo – Kardzhali – Makaza“ connects the countries of Northeast Europe through Romania and Bulgaria with the port of Alexandroupolis on the White Sea. In the section of the town of Haskovo from corridor № 9 to the Greek border, two branches are formed: one is towards Svilengrad – Kapitan Petko Voyvoda quarter, the other – through Kardzhali to the Makaza pass. The intersection of this corridor with the direction of Corridor № 4 provides a direct connection to the markets in the Middle East and Asia. It will play an increasingly important role in restoring and stabilizing economic ties between Eastern European countries and is a priority. Its future development in the Dimitrovgrad-Podkova area depends on the opening of a new border crossing to the Hellenic Republic in the Makaza region. The first class road I-5 (E 85) „Ruse – Veliko Tarnovo – Haskovo – Kardzhali – Makaza“ has a two-lane gauge 7.5 / 12 m in the Haskovo region, and the section from Dimitrovgrad to Haskovo is a highway with two separate lanes. The area includes only one municipality with the administrative center of Haskovo and the other 36 small settlements included in it. The territory of the area is 740 sq. Km and makes up 0.67% of the country's territory. The average annual population for the observed period is 94,560 people, of which 45,422 are men and 49,137 are women. The relative shares of men and women are 48 and 52%, respectively. The population of the area makes up 1.3% of the country's population. The population density in the area is 128 people per 1 sq. Km. 76 thousand people live in the town of Haskovo, or 80.5% of the population of the area (NSI, 2018).

The fourth agglomeration area is formed around the town of Kardzhali. The municipality of Kardzhali is located in the northern part of the eastern Rhodopes, occupying an area of 624 km<sup>2</sup>. Administratively, the municipality is part of the South-Central region, and the town of Kardzhali is the administrative center of the Kardzhali district. To the northeast and east the municipality of Kardzhali borders with municipalities from Haskovo district – Stambolovo and Haskovo. The urban structure of the municipality is characterized by 1 city center and 117 small, scattered settlements.

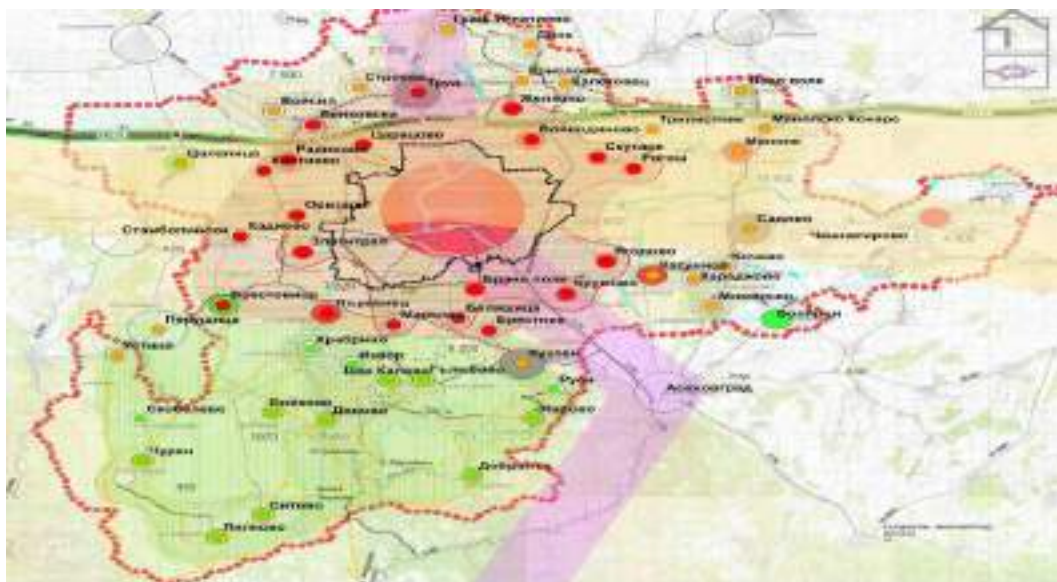
Urbanized territories occupy 5.01% of the territory of the municipality. The urban population in the municipality is 64.94% (NSI,2018), and the distribution of the population by population places shows that more than one-fifth of the population in 2019 live in settlements with a population of 101 to 500 inhabitants. The predominant part of the settlements is located on the three exit arteries from the town of Kardzhali to Haskovo and on the road to Ardino. The administrative center of the municipality is the town of Kardzhali, where the administrative structures of the central government are concentrated. The city is a center of economic development, combining different industries and services. The town of Kardjali is a settlement of 2- and category, with a population of 43 880 inhabitants. The total area of the city according to the urban plan is 1078.71 ha. Areas near the Kardzhali dam are actively used for recreation. A key role for the unification is played by the urbanization of the water-green diameter of Arda and the related park and open spaces and communications, the spatial orientation of the different parts of the city towards the river. The villages are small, with a significant part having a population of fewer than 200 people (NSI, 2018).

In practice, all four urban areas fill the content of the spatial structure of the South Central Planning Region. By 2020, so far only the agglomeration area around the city of Plovdiv is undergoing significant development. The other three areas near Pazardzhik, Haskovo, and Kardzhali lag behind in terms of their infrastructure construction and development. This gives us reason to present only the trends in the development of the area around the city of Plovdiv because it is emerging as a leading agglomeration area in the South Central Planning Region.

Development and centrifugation of the agglomeration area around the city of Plovdiv. By crossing the three trans-European corridors, Plovdiv dominates and controls the main urbanization triangle in the Plovdiv-Stara Zagora region and the Haskovo-Dimitrovgrad agglomeration. The Plovdiv agglomeration is becoming increasingly important for the regional development of the country. It is formed by several urbanization nuclei, which are Plovdiv – Asenovgrad – Kuklen, Sadovo, Maritsa, Rhodopes, and gravitating to Pazardzhik – Belovo – September. The urban model of Plovdiv district is a combination of the national urban model of the type „extreme polycentrism“ and the factors determining the agglomeration area of Plovdiv municipality. The micro-regional level is an intersection zone between the spatial development of the municipality of Plovdiv and the group of municipalities treated in the Regional Development Scheme, especially of the municipalities of Maritsa and Rodopi. This level also covers the strategies of the General Development Plan of Plovdiv, insofar as it contains a scenario involving territories in these municipalities in the spatial model of Plovdiv. The micro-regional level also includes components of the Regional Development Scheme, which is an intermediate spatial concept between the micro-regional level and the district level. The General Development Plan of Plovdiv defines the „urban gravitational field“, which covers the territory in which the urban system Plovdiv operates, these are the boundaries within which the life cycle is closed daily: „work, living, recreation, and service“. These limits are determined in compli-

ance with the following criteria: 10-12 km/20-25 min. Transport isochron; over 50 thousand labor and cultural trips daily; demographically stable settlements with a population of around and over 2,000 people and available intensive economic relations with a high degree of economic interdependence (Regional development plan..., 2020).

When applying these criteria, the „urban gravitational field“ of Plovdiv includes 32 settlements from the municipalities of Maritsa, Rodopi, Kuklen, and the village of Katunitsa (Sadovo Municipality). Their residents receive services (education, healthcare, culture, sports, recreation, trade) in the city. A significant part of their jobs is also in Plovdiv. The communication and transport connections of these settlements with the city are provided by car and g. n. transport. Transport areas are becoming axes of urbanization – new economic zones are being formed around them. This deviation of the national parallel urban axis of development causes expansion and linearization of the industrial complexes in the northern part of the city and creates conditions for economic zones common to the municipalities of Plovdiv and Maritsa. In fact, the parallel axis passes through a ring of settlements, in the center of which is the city of Plovdiv, and stabilizes this ring, which is sustainable both demographically and economically. On the secondary axis of urban development at the micro-regional level is the international airport near Krumovo and the future intermodal terminal (reserved compared to the currently proposed terminal near Zlatitrap). The airport also specializes in servicing charter tourist flights to Bulgarian alpine ski resorts during the winter season. Thus, Plovdiv is a portal not only for cultural routes in the micro-region, but also a portal for other types of tourism. (Mihailova, 2019). Linking the airport with the planned passenger rail transport will further strengthen the physical realization of the southeastern section of this secondary axis of urban development. Regarding the polycentric model at the micro-regional level, the intra-regional urbanization axis Sadovo – Plovdiv – Pazardzhik – Septemvri – Belovo, brings Stamboliyski as a settlement falling within the micro-regional network, without at this stage falling into the agglomeration area. The proposed agglomeration area and its zoning divide the settlements around Plovdiv into three stages. In the zone with the strongest urban connections (20 settlements): Rogosh, Skutare, Trud, Zhelyazno, Voyvodinovo, Tsaratsovo, Benkovski, Radinovo, Kostievo, Orizari, Kadievo, Zlatitrap, Yagodovo, Brestovitsa, Parvenets, Markovo, Brani Pole, Brestnik and Krumovo. In this area, formed by the most sustainable urban areas of the municipalities of Maritsa and Rhodopes, there is an expansion of three of the functional subsystems of Plovdiv – high-category housing, economic activities and recreation.



**Image 2.** Location of the agglomeration area of Plovdiv

*Source:* Following the model of the National Center for Territorial Development (NCTR)

Although there are functions that these settlements use from Plovdiv, the predominant urbanization process is precisely the expansion of functions from the compact city. In the area with predominant gravity to the central core (19 settlements): Graf Ignatievo, Dink, Yasno Pole, Manolsko Konare, Manole, Trilistnik, Kalekovets, Krislovo, Stroevo, Voysil, Tsalapitsa, Ustina, Perushtitsa, Sadovo, Katunitsa, Karadjovo, Kochevo and Mominsko. Bilateral functions such as second homes, services, education and labor are implemented in this area. The area is characterized by a comparative balance of bilateral connections with a predominance of connections to the compact city. This and the previous area are also attractive destinations for moving micro-enterprises from the compact city to the agglomeration area. In the area designated mainly for recreation (13 settlements): Hrabrino, Izvor, Dedovo, Boykovo, Skobelev, Sitovo, Lilkovo, Churen, Tsar Kaloyan, Galabovo, Dobralak, Yavrovo and Ruen. Future planning should offer joint municipal projects within the agglomeration area, as well as synchronization of the general development plans of the municipalities of Plovdiv, Maritsa and Rodopi, Asenovgrad as a close goal, and subsequently of the municipalities of Kuklen, Perushtitsa, Sadovo and Stamboliyski.

## Conclusion

Overcoming regional imbalances requires the mobilization of serious institutional and organizational resources aimed at optimizing housing policy, urban plans and infrastructure. In the considered period the process of settlement agglomeration intensi-



fies. Daily migrations of a labor and service nature are becoming more and more important. A rational allocation of local infrastructures and services is needed to ensure balanced growth in the regions. The functions of cities are growing, and intercity transport must also find its balance. This means improving connectivity and traffic management. In the current period, more and more features of the urban way of life and culture are being introduced in the Bulgarian village, especially in the South-Central region, which is an important characteristic of the spatial course of urbanization. This in turn leads to the development of sustainable, dynamic local centers, interconnected and contributing to the well-being of the less urbanized areas around them. In practice, a high level of agglomeration can be achieved in the South Central Planning Region, which will promote the complex and integrated planning of the territory, but also to encourage the regional development of the main agglomeration areas. The better functional characteristics of the agglomeration areas in the South Central Planning Region allow the development of new economic activities that diversify the local economy and reduce the risk in terms of unemployment and income and improve the basic conditions for economic activity.

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## COMMUNICATION NETWORKS AND CONNECTIVITY OF REGIONS

Nikolay Tsonkov<sup>1</sup>, Tzvetelina Berberova-Valcheva<sup>2</sup>

### ***Abstract:***

*Regional communities and communication networks are evolving within the constraints of the real national geographical area. In this sense, we could not consider the development of communication networks without the construction of transport and communication infrastructure, urban and agglomeration settlements. The development of communication networks and technologies goes through various stages. We could identify basically three groups of technologies. These include primitive, electrical, and electronic technologies. Communication networks are based on transport and communication systems. These systems, on one hand, play the role of a material link that mediates communication, social and economic relations between regions. At the heart of integration as a process are communication networks, which develop diverse relations between the regions. These tools include clusters, business incubators, business networks, cross-border cooperation programs, European Territorial Cooperation Groups, and others.*

*The main goal of the research is to analyze the development and practical dimensions of communication networks in the context of regional development of communities related to specific territories and how communication networks find expression in interconnectivity between regions.*

*Keywords: communication networks, regional entities, connectivity, regions, regional development*

### **Introduction**

The evolution of communication networks goes through different stages in its development. Their base is built by the developed infrastructure in and outside the settlements, cities, and agglomerations. The built infrastructure is the material base mediating the development of the communication networks. Because they also have their

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own strong digital expression. The infrastructure creates the conditions for the development of transport and communication systems (Tsonkov, 2019).

The space is structured in accordance with the built infrastructure, the formation, and the development of the settlements from the different hierarchical levels. The space, divided into regions, is directly connected with the communities. Regional communities inhabit the territory (space) (Regional Development Act, 2008). Regional communities could not function properly without the availability of infrastructure and established communication networks between them. They structure the national space. The element of the national space is communication between regional communities (Dokova, Tsonkov, 2013). Along with them, there are other key components and systems that determine the structure of the national space. At the same time, they represent the basis for the formation of regional development policy. They determine the approaches for making the best use of the comparative advantages, as well as the utilization of potentials and resources (MRDPW, 2016).

The aim of the study is to analyze the stages and degree of development of communication networks, outlining the prospects. To achieve this goal, the authors use a set of different approaches and methods, and research tools. It includes approaches such as historical, systematic, territorial, and analytical, descriptive, deductive, inductive methods, causal analysis, and reference to expert opinion.

The practical results and conclusions of the present study show that communication networks are the basis for the development of regional communities. That is why both concepts are deeply interconnected. Communication networks are characterized by material and digital expression. They include the infrastructural elements that are in the individual spaces, determined by geographical, economic, administrative-political and other criteria in the space. The various formal, informal, digital, and infrastructural channels support and ensure the connectivity of the regions and the homogenization of the regional communities. The originality of the research lies in the fact that the author offers a different approach and view of the connectivity of the regions, analyzing the communication networks and their connection with the regional communities.

## **1. Development of communication networks and regional communities**

Regional communities and communication networks are evolving within the constraints of the real national geographical area. It is three-dimensional (3D), representing a system that includes the subsystems territory, water area, subsoil, and airspace within their boundaries and volumes (MRDPW, 2016). Therefore, the gradual absorption of the potential and resources of space and individual territories is carried out simultaneously with their urbanization, the development of communication networks and regional communities, as well as technology.

In this sense, we could not consider the development of communication networks without the construction of transport and communication infrastructure, urban and

agglomeration settlements. We must emphasize the importance of technical progress and the role of economic development in the national space. Therefore, the urbanization of the territory creates conditions for the expansion of the transport and communication network and the regional communities.

Technological development has the strongest influence on the formation of communication networks in regional communities. They are virtually and geographically separated from the administrative boundaries of municipalities and districts. Technological advances have the greatest impact on communications and virtual communication networks (Tsonkov, 2016).

Settlement formations are the main element for organization and active anthropogenic assimilation of space, which presuppose the development of communication networks in and between regional and local communities. As stated in a key document of the Ministry of Regional Development and Public Works: „From a spatial point of view, the settlement network is a system of linearly connected locations in which there is the highest degree of anthropogenization and transformation of natural landscapes into artificial“ habitats“ (settlements). These organized anthropogenic „habitats“ include: ... connectivity between sites through artificial „corridors“ („communication channels“), concentrating technical facilities for communication and transport activities, and the movement of flows of different nature. „(MRDPW, 2016). These „communication channels“ essentially overlap to a large extent with communication networks. But speaking of the virtual space and the virtual expression of communication networks, they owe their rapid development to new information and communication technologies, which also change the nature of communication.

Communication technologies can be divided into two groups – conventional and wireless. Compared to conventional communication technologies used in industry, wireless networks are increasingly successfully positioned in a variety of tasks. In modern conditions, their initial specialization related to the transmission of small data packages has expanded with the implementation of a wide range of monitoring, regulatory, and management functions. New communication technologies must be viewed through the prism of the trend towards higher economic efficiency, reducing the cost of cabling, materials, testing, and verification.

The development of wireless networks leads to increasing penetration of the so-called hybrid platforms used for communication and information transfer. Increasingly, we are seeing virtual platforms that are a kind of virtual regional communication communities. The main disadvantages of wireless communication technologies and networks are the low level of security and reliability in the transmission of information and communication in the networks. Analyzes show that both wired and wireless networks deteriorate over time.

The development of communication networks and technologies goes through various stages. We could identify basically three groups of technologies. These include primitive, electrical, and electronic technologies. To the primitive, we include a sign and postal systems. The group of electrical technologies includes – telegraph and tel-

ephone. And to the electronic ones – radio networks; television networks; satellite networks; fax; computer networks; local networks; global networks; internet, etc.

The development of communications and networks dates from 1844, when the telegraph was invented, to the year 1999, when the use of metatext semantic networks began. The invention of computers came much later. The early '50s are associated with the emergence of a network with a single CPU and a line to each terminal. Since 1991, the Internet has been open to all users around the world. WWW has established itself as a leading service used by users of the global network. The pace of development of the Internet exceeds even the boldest expectations.

Cyberspace is associated with the development of the Internet. This is a mental construction that each person forms in his activity with computer networks and the use of their common resources.

It can be classified as a computer-based facility of communication, interaction, and information delivery under the name information superhighway. Cyberspace includes many and different global networks, as well as network systems for communication and interaction.

The concept was introduced by M. Gibbons (Gibbons, 1994). It describes worlds in which computer users operate an imaginary global network of information services and resources. In 1962, scientist John Licklide in his publication described a galactic network of globally interconnected computers that provided access to data and programs from anywhere (Licklide, 1973).

## **2. Role of communication networks for connectivity of regions**

Communication networks are formed based on transport and communication systems. These systems, on the one hand, play the role of a material link that mediates communication, social and economic relations between regions. On the other hand, based on them and their expansion, information and communication networks are formed through their digitalization. The various instruments of regional policy create additional conditions for the development of communication channels and their connection in networks that integrate the regions. Part of the communication process in regional entities is the Communication plan for information and publicity of the European program „Regional Development“ 2007-2013 (Communication plan for information and publicity of the European program „Regional Development“ 2007-2013).

At the heart of integration as a process are communication networks, which develop diverse relations between the regions. These tools include clusters, business incubators, business networks, cross-border cooperation programs, European Territorial Cooperation Groups, and others. Here we can also talk about initiatives at the level of the European Union, such as the formation of European regions such as the Baltic, Scandinavian, Danube, or the Black Sea. From a purely economic and regional point of view, the Three Seas initiative, for example, helps to develop communication networks between European countries. All mega-regions in the European Union are

characterized by the potential for development based on common infrastructure projects and improving connectivity within and between them.

The Three Seas Initiative was established in 2015, bringing together 12 EU countries covering the Adriatic, Baltic, and Black Seas. The idea of this initiative is to promote transport, energy, and digital connectivity in the region through joint projects. It is therefore necessary to form a platform for communication and dialogue. It is based on the communication networks that connect the regional communities of the three seas. The improvement of the dialogue and the cooperation based on the well-established communication networks mediate the formation of conditions for economic and social development in the countries of Eastern Europe. The communication networks built in the context of the initiative provide greater connectivity in all dimensions – transport, digital, energy. The connection between the three regions is digital, which mediates transport and energy cooperation. Here, of course, it is necessary to emphasize the geopolitical dimensions of this initiative. Because this connectivity project could lead to a deterioration of European and regional security and Russia's secession from Western Europe by creating a sanitary zone that would impede East-West communications and connectivity, speaking of Eurasia. In other words, all initiatives which are different than the goals of economic development and infrastructure connectivity, which are positive, are characterized as a hidden political aspiration of countries that are not directly involved in such projects. These circumstances can lead to tensions and specifically for Bulgaria to have losses rather than economic and other benefits. That is why an initiative can improve the connectivity of the Balkans, which will support the development of all countries in the region.

Digital transformation is a unique opportunity for socio-economic growth and innovation. In this process, the interconnectivity of the individual regions becomes paramount, because digitalization is an opportunity, but also a risk of more social exclusion, a risk of more poverty, and more peripherality of the regions.

## **Conclusion**

We must continue developing communication networks in order to improve connectivity between regional communities and regions. Today, around 80 million Europeans have never used the internet, and we are talking about blockchain and artificial intelligence. Moreover, 37% of the workforce in Europe has basic digital skills. According to the Europe 2020 Strategy, 90% of jobs will require such digital skills (EU, 2013). There is a significant difference between urban and rural areas. 76% of households in urban areas have good connectivity, while it falls below 40% in rural areas.

In 2019, the WiFi4EU project for free wireless internet of municipalities across Europe with a budget of 120 million euros was launched. Such a project creates a basis for the development of the digital society and digital communication networks, of digital connectivity.

This means that between 6,000 and 8,000 municipalities can be covered. But here the principle „first-come, first served“ will be important. That is why the activity of Bulgarian municipalities will be important for attracting financial resources from the EU. Thus, once registered in one of the points, the municipality is automatically registered in all the others that will be in Europe. This is a good opportunity for small settlements to create a favorable communication environment to improve the public image and attract investment. There is a significant problem speaking of municipalities in the Northwestern Bulgarian region. These municipalities are poor. We observe a lack of human resources. The regional communities are not developed enough in this region. That is why we can conclude that there is no good connectedness and high-level developed communication channels (Dokova, Tsonkov, Nikolov..., 2018).

In practice, the global network is changing the nature of communications and the media. They acquire a different scope and role. They are connected to the communication networks that structure cyberspace. It has its physical, administrative, and territorial features, which are expressed in the different cultural and political regional communities.

The interconnectivity of the regions presupposes the effective functioning of the communication networks and channels between the regions. They are in fact the connecting link that carries out the transfer of information, technology transfer, know-how, goods, and services. At the same time, these networks are a tool for the implementation of regional policy and socio-economic development.

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## SYNERGY OF THE SPECIAL ECONOMIC ZONES, INDUSTRIAL PARKS, EXPORT PROCESING ZONES AND LOGISTIC CENTERS

Dragan Kostić<sup>1</sup>, Aleksandar Simonović<sup>2</sup>

### **Abstract:**

*Free zones are a very effective instrument of regional development. At the moment, there are more than ten thousand of free zones in the world, different types, through which almost thirty percent of world trade takes place and in which nearly seventy million workers are employed. The ability of free zones to effectively attract direct investment is key to their success.*

*The fourth industrial revolution (Schwab, 2015) will lead to a complete change in the way of business activities through the automation of production, the use of artificial intelligence, robotics, 3D printers and clean energy sources. Many changes are happening nowadays, the beginning of the 4.0 industrial revolution faced the effects of the Covid 19 pandemic. Time will show what impact the pandemic had on the development of 4.0 technologies, but it seems that key areas have accelerated.*

*It puts before the free zones the inevitability of changing the current organization and way of working. The transformation brought about by the new industrial revolution requires the adjustment of the entire economy, especially in terms of labor employment. The new way of production will inevitably lead to the closure of a large number of jobs in classic production companies. This will have an impact especially on production free zones.*

*Free zones must be transformed and modernized in accordance with the demands caused by the changes brought about by the new industrial revolution. The direction of change should be sought in the combination of good features of all types of free zones with synergy with logistics centers.*

*Special economic zones, export processing zones, industrial parks and logistics centers are very intertwined and at the same time have many points of contact but also enough diversity. By combining all of these concepts, especially those in which they differ from each other, it is possible to create a universal model – which will allow the use all incentives in one specific and limited area in order to attract modern industrial production.*

*In the area of modern free zone 4.0 – user companies should be provided with all possible benefits, but also to create conditions for providing a set of services that would allow manufacturing companies to engage in their core business – while all other jobs for them in their name and for their account was performed by someone else – through the services of a logistics center.*

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*Logistics centers should also, in parallel with the improvement of free zones and industrial parks, carry out modernization, as this is required by changes in global supply chains. Mainly due to competition between modes of transport, the transport system has been highly segmented and non-integrated for a long time. The introduction of container transport and its diffusion within transport systems (especially within the maritime transport system) lead to the integration of different modes of transport through intermodality. Modernization should be analyzed through costs, pollution reduction, reliability, and safety of each mode of transport.*

*Keywords: Free zone, Industrial park, Special economic zone, Logistic center, Intermodal hub, Industry 4.0*

## 1. Industrial Revolution 4.0 and Free Zones

Many changes are happening nowadays, the beginning of the 4.0 industrial revolution faced the effects of the Covid 19 pandemic. Time will show what impact the pandemic had on the development of 4.0 technologies, but it seems that key areas such as artificial intelligence have accelerated (Artificial Intelligence (AI), Internet of Things (IoT), Robotics, Cloud Computing, Cognitive computers (CC), Cybersystems (Cyber-Physical system – CPS), Big Data, Virtual reality, Advanced security systems, etc.

Robotic automation is a rapidly evolving technology. In just a few decades, industrial robots have become a common occurrence in factory settings around the world and are only continuing to gain popularity due to their productivity and profitability.

Robotics will continue to transform manufacturing in a number of ways, through connectivity with IoT and BD technology, the implementation of an open automation architecture, and the growing impact of virtual solutions over physical ones. Complex machine robots that are able to work hand in hand with human beings so-called collaborative industrial robots will support human operators in a joint work process.

3D printing represents a huge potential for mass production. This way allows the creation of products that traditional technologies cannot produce. Traditional production technologies are not able to produce extremely complex parts, but 3D printing is. Also, traditional production technologies require the production of tools before the start of production, which increases costs (European Commission, 2020a).

There is no doubt that the 4.0 industrial revolution will change the world and with it the way it works and produces. This development can potentially increase income levels and improve the quality of life of people around the world. On the business side, it drastically changes customer expectations and improves products through constant innovation.

This will certainly affect both the business and the concept of free zones. The question justifiably arises: where is the place of free zones in the fourth industrial revolution? This issue imposes the need to prepare free zones to monitor the development of new technologies. It is also necessary to prepare the development of a NEW MODEL of free zones and to harmonize the legislative framework for its implementation.



## **2. Actual situation of existing free zone models**

In the 21st century, the convenience of zero customs duty and taxes, which free zones offer, is no longer enough.

As the trend of reducing tariffs in the world is on the rise, the exclusive role of free zones in enabling businesses exempt from paying customs duties is becoming less and less a key factor in investors' decision to operate in zones. Far from the users having no interest from the exemption from paying customs duties, but this benefit is beginning to be equal to other benefits offered by the states in the zones. Exemption from paying various types of taxes is a generally accepted principle in all zones of the world. In this procedure, there is no great damage to state revenues, because, after a certain time, the state will indirectly provide revenues, which it gave up when it could not have them (because there is no business in those areas now).

At this moment, there is a need to apply a new model of free zones that will respond to the challenges of the new industrial revolution 4.0. The necessary flexibility can be guaranteed by a model that will perform a synergy of positive features of all existing free zone models.

In practice, different names for free zones are often encountered (export processing zones; free port zones; trade free zones; non-custom zones, etc.). These names do not represent different names for the same thing but indicate different concepts of free zones depending on their purpose and the types of benefits they provide in business.

The general principle on which the idea of free zones is based is very simple: to provide benefits in the field of fiscal policy in combination with additional incentives at the state and local level. In this way, create attractive places for capital investment, spaces of accelerated development, and employment.

## **3. Special Economic zones**

A special economic zone is a separate, uninhabited part of the country's territory where business activity may be conducted under preferential conditions defined in the Act on Special Economic Zones. Special economic zones (SEZs) are areas that are used to attract foreign and domestic investment into a specific part of a country with a view to concentrating economic activities in that area. Farole defines SEZs as follows:

- „Special economic zones are spatially delimited areas within an economy that function with administrative, regulatory, and often fiscal regimes that are different (typically more liberal) than those of the domestic economy. Operating through a variety of different forms – such as export processing zones, economic processing zones, free zones, and foreign trade zones – SEZs aim to overcome barriers that hinder investment in the wider economy, including restrictive policies, poor governance, inadequate infrastructure, and problematic access to land“ (Farole, 2011, p. 17).

- SEZs are different from the other parts of a country and this is reflected most strikingly in the impact on individuals who move across their borders. Outside the SEZ, the individual occupies a situation relative to the law that is the same as any other person; inside the SEZ, the individual suddenly becomes subject to a different legal regime, one in which capital is privileged above labour.

In East Asia, as well as in some other parts of the world, an additional level is added to this situation through the spread of advanced capitalism to areas that had been organized according to pre-market modes of living. This great transformation is uneven in nature because of the original unequal distribution of resources according to first nature and then the recreation of nature under human development known as second nature. The term ‘exceptional space’ has also been used to describe a category of areas of physical space in which the legal regime is different from other domestic areas and may be different from international norms and SEZs are part of a subset of this.

Special Economic Zones are widely used in most developing countries and many developed economies (OECD, 2017). Within these geographically limited areas, governments facilitate industrial activity through fiscal and regulatory incentives and infrastructure. Today more than 500 new SEZs are planned. The SEZ boom is part of a new wave of industrial policy and a response to growing competition for international mobile investment.

Many new types of SEZs and innovative zone development programs are emerging. Some focus on new industries, such as high technology, financial services or tourism – that move beyond the trade and labor-intensive production activities of traditional SEZs. Others focus on environmental performance, the commercialization of science, regional development, or urban regeneration.

**Illustration 1.** Shanghai Pilot Free Trade zone / Public Republic of China



There are several types of SEZ (FIAS, 2008). Basic free zones aimed at facilitating trade logistics are most common in developed countries. Developing countries tend to

employ integrated zones focused on industrial development, which can be multi-industrial, specialized or focused on developing innovative opportunities. The degree and type of specialization is closely related to the level of industrialization of countries, following the ladder of SEZ development.

**Illustration 2/3.** SEZ Katowice<sup>3</sup>/Poland



International cooperation on the development of zones is becoming more frequent. Many zones in developing countries are being built through bilateral partnerships or as part of development cooperation programs (Great Stone – Belarus and Chinese SEZ in Minsk). Regional development zones (Kostic, 2011) and cross-border zones comprising two or three countries are becoming a feature of regional economic cooperation (Austria/Hungary cross-border Industrial Park Szentgotthárd).

SEZs can make a significant contribution to growth and development. They can help attract investment, create jobs, and increase exports – both directly and indirectly, where they manage to build links with the wider economy.

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<sup>3</sup> Katowice special economic zone website [www.invest-ksse.com](http://www.invest-ksse.com)

SEZs can also support global value chain participation (GVC), industrial upgrading, and diversification.

The 2030 Agenda for Sustainable Development Goals (SDGs) provides an opportunity to develop a completely new type of SEZ: the SDG (Sustainable Development Goals) model area. Such zones would aim to attract investment in activities relevant to sustainable development, adopt the highest levels of ESG standards and compliance, and promote inclusive growth through linkages and spillovers.

#### 4. Industrial Parks

An industrial park, business park, or industrial zone is a modern urban and organizational form of concentration of industrial and other plants in a city. It is a part of the city space intended for industrial production in which a large number of plants are built, which often have a common infrastructure (railway, roads, gas pipeline, electricity, transmission line, water supply, sewerage, telecommunications, airport, etc.). Therefore, the industrial park is not just a functional, larger spatial concept.

Due to the above, industrial parks are planned outside the city zones, or at least on their outskirts, with good traffic connections, both road, and rail. If the other traffic junctions are closer, the location is better, and those are airports and (in our case, river) ports.

It is necessary to follow several principles in order to form an industrial park in the new location.

The main infrastructure should be shared, large capacity, and be accessible to all users of the space (usually there are more), in order to reduce their costs. This refers to access roads, sources of electricity, and, possibly, gas, communication cables, supplying larger amounts of water.

**Illustration 4.** PIISA<sup>4</sup> Industrial Park / Dominican Republic



<sup>4</sup> Piisa Industrial park website <http://piisa.com>

The integration of infrastructure means that everything is in the same place and that the use by some does not hinder others in meeting their needs. The benefit of all participants should be unambiguous, pre-designed, and significant.

The space, as we have stated, should be outside urban areas, in order to reduce the impact on the normal functioning, communication, and social life within residential or residential-business units.

Environmental impact control (all environmental parameters) should be performed in the most modern way. It is normal and expected that different industrial parks meet these criteria to different extents, but it is necessary to prescribe in advance the rules that must be followed and the limits that must not be exceeded.

Today, modernly designed and realized industrial parks have become very attractive for some large companies and societies, interconnected because they do not have to worry about going out on the field and making urban plans because the offered zones already provide for that. This is especially important when it is known today that an increasing number of industrial companies have been forced to move from urban areas of the city by various measures of the administrative authority. Thus, the development of cities is accompanied by the creation of industrial parks, as one of the most powerful means of municipalities, for better and healthier organization of life of their citizens, but also a good marketing move of cities and regions to attract industry to their space, of course if they want.

**Illustration 5.** Great Stone<sup>5</sup> Minsk / Belarus



Throughout history, until the grouping of certain production activities in the same geographical position, it aimed to satisfy numerous needs of producers and traders, such as the presence of raw materials, labor, transport, customers or other related industrial activities. Historically, this type of regrouping of the same or related activities

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<sup>5</sup> Great stone industrial park website <https://industrialpark.by/en/home.html>

in a geographical locality is very old, and the main place of regrouping was often a city, which benefited from this economic activity that sometimes created it.

The factors that triggered producers in the same geographical location were very different:

- The presence of a workforce and a large consumer market were essential.
- Transport routes, which were of special importance, both in terms of supply of raw materials and in terms of marketing production. Roman roads, for example, enabled the city at the crossroads to thrive by concentrating production activities.
- Sea or river ports, as an important factor for the concentration of production activities and transportation of raw materials and export of finished products
- The region's wealth of raw materials, which could be channeled to the city by road or river transport network, where the raw materials were transformed into finished products or semi-finished products used on-site, are transported to the region. surround or export further.

In modern times, these parks have become an important shift in the concentration of production activities, mainly for quantitative reasons, is increasing the volume of production, in relation to the work invested. The emergence of industrial parks was influenced by technical innovations.

The development of the transport network also enables the beginning of a significant specialization of cities or regions around several customized and profitable activities.

At the end of the 20th century, the concept of industrial parks (Kostic, 2008) or zones with numerous newly established industrial plants was developed, especially for the needs of industry. These locations were created as a result of political will and appropriate planning development of the territory. For this purpose, large land areas are usually selected at an attractive price near road, rail, or sea and river transport. In these parks, favorable tax provisions are introduced to attract users.

In general, these large industrial parks are most often built around the main type of activity, for example, petrochemical products or the automotive or aerospace industry, but the advantages of the location also attract industries focused on other products. Concentrations of skilled labor and highly educated researchers engaged in the development of the zone are increasingly participating in the development of such an industrial area.

The post-industrial economy, which is increasingly turning to service industries or high technologies, and large industrial production sites are sometimes abandoned after a significant drop in activity or relocation to more attractive countries, has changed the appearance of some industrial parks. leading to the creation of a large technopolis.

When choosing a location for a park, you should compare several possible locations and make a direct choice based on a set of different criteria. Sometimes site selection criteria may already exist in the form of state regulations and guidelines, although these criteria may be specific (based on specific requirements for planning and arranging space for industrial use). Laws or regulations that protect certain vulnerable



areas or resources serve as limiting factors and must be included in the criteria used to select the site. Finally, there are general principles for land use planning in ecologically protected areas.

## 5. Export processing zones

Export processing zone (EPZ), an enclosed part of the territory of the state that provides special benefits for production companies, is a means of economic policy (Kostic 2007) used by the Government to create areas of accelerated development. Foreign direct investment and the development of new technologies have an increasing impact on the international economy. Countries are turning to market economies and struggling for foreign direct investment (European commission, 2020).

**Illustration 6.** Free Zone Pirot/Serbia



The essence of EPZ is contained in their basic and simple characteristic: that, by providing special benefits – business without custom duty and Vat, for production activities, attracts foreign direct investments, which enable the increase of labor force in the economic and geographic space of the host country.

At the beginning of the new millennium, the role of EPZ in the world economy is growing. At the current moment, the global financial and overall economic crisis of the EPZ plays an important role as an instrument for the fastest attraction of investment in certain areas.

EPZ can be used as an effective tool in certain areas within the area covered by the economic zones to increase business efficiency, attract foreign direct investment, and increase employment.

## 6. Logistic centers

In area of EPZ it is possible to create one logistics centers (Kostic, 2012), are no longer just storage places, but today they are part of the supply chain (Supply Chain Management) that extends from suppliers to end customers. Their advantage over

other logistics centers (terminals, logistics parks, freight transport centers, distribution centers, freight willage, etc.) is reflected in simplified customs procedures and activities exempt from customs duties and direct taxes (VAT) in the international transit of goods.

**Illustration 7.** Logistic center BILK/Hungary



Today, logistics in EPZ goes beyond their borders and is included in a network of complex activities that include the organization and execution of all phases of movement of goods between the sender and the recipient. It includes the organization of transport, storage, customs brokerage, preparation of goods for further shipment, and distribution to the final recipient in the country and abroad.

Users of modern EPZ remove logistics activities from their activity and direct their business activity to the main activity. Entrusting logistics activities to specialized centers to zone users brings a number of advantages such as lower costs, reduced investment, and faster and safer services in the international supply chain.

There are numerous services in the Logistics Center that are directly related to the entry/amount of goods to/from EPZ. Services that in practice take place in particular within zones and in this regard can be considered services directly related to the entry (import) or amount (export) of goods to/from EPZ are activities related to transport:

- measuring the means of transport before and after loading/unloading;
- loading-unloading of goods into the means of transport (truck/wagon/container);
- control of packaging and labeling;
- activities during shipment – delivery: terminal; forwarding; customs clearance; insurance of goods and means of transport, storage on a means of transport;
- activities in the port: port agency, communication with shipowners, collection of containers, removal of containers from the ship, forwarding and customs clearance, loading of containers on a means of transport – truck or wagon;
- activities during transport: parking; unloading in case of unforeseen circumstances;
- freight forwarding services: truck registration, storage of goods, entry of goods for processing, production and filing of customs documents, regular customs



clearance, filling in forms, control of loading and unloading, organization of loading/unloading,

- analysis of the condition of the user's goods, keeping records, registration, and distribution of the received goods, and preparation of accompanying documentation;
- services provided to users in the zone: freight forwarding services related to import, export, and entry of goods into the zone; international transport organization services, mediation in domestic and foreign transport;
- services of storage of goods to users who have and who do not have production in the zone, fee for performing activities in the zone, services for one-day storage in a freight vehicle/wagon within the zone;
- It is very important and extremely convenient for users that all activities within the logistics center take place without paying customs duties and VAT.

We can categorize logistics terminals into three types: port terminals, rail terminals, and distribution centers. All three have road and rail access. Port terminals have also maritime or/and inland water access.

Within the port terminals, we can distinguish the most substantial terminals in terms of size, traffic, and capital requirements. Port terminals are composed of two groups of intermodal terminals (maritime container terminals and barge terminals).

Maritime container terminals – is the most prevalent form of the port terminal. It provides an interface between the maritime and inland systems of transport. The terminal is used mainly as a buffer while containers wait to be loaded on another ship. Besides its buffer function, the terminal is hosting a wide array of logistical services.

Barge terminals – are the result of the spreading process of containerization of inland river systems. This type of terminal is linked with major deep-sea terminals with scheduled barge services. In the maritime container terminal, barges usually have specially designed areas in order to avoid congestion.

Port terminals are linked at the start of the inland intermodal chain with rail terminals. This kind of intermodal terminal can be a satellite terminal – a facility located at a peripheral and less congested site that often performs activities that have become too expensive or space-consuming for the maritime terminal. The terminal is linked to the maritime terminal through rail shuttle or truck transportation services; load center – an intermodal rail terminal servicing a regional market area; transmodal terminal – an intermodal terminal that is servicing more than a rail network. In this case, the terminal is hosting only a series of transmodal (rail to rail) operations or it can hosts also the usual logistical services.

Distribution centers are also a category of intermodal terminals, performing an array of value-added functions to the freight, with transmodal operations dominantly supported by trucking. They could be grouped in (Rodrigue et al. 2013): Transloading facilities – mainly transfers the contents of maritime containers into domestic containers or trucks. Shipments could be palletized as part of the translating process; Cross-docking – the contents of inbound loads are sorted and transloaded to their final destinations. This type of terminal is to be found in the last segment of the retail sup-

ply chain; Warehousing – a standard function performed by the majority of distribution centers. This acts as a buffer and point of consolidation within the supply chain.

Because port terminals, besides rail and road access have also access to maritime and/or inland transportation, the performance indicators used to measure this type of terminals are composed of those used for rail terminals and distribution centers plus a specific category suitable to maritime and/or inland transportation.

## **7. New model – Synergy and optimal free zone model in 4.0 Industry**

The universal model does not exist, so it is necessary to apply one's own – the one that provides the greatest benefit. Drawing on the experience we have had with free zones since the 1970s and the growing number of locations that can be industrial parks, the best result would be a symbiosis of special economic zones, industrial parks, export processing zones, and logistics centers. Potential investors are offered all benefits in one place – special economic zones to offer in one part, space for industrial activities (industrial park) with a free zone regime equipped with a multimodal logistics center. This will give additional attractiveness to the space, while the rest of the industrial park will be intended for business and production for the domestic market.

In free zones, business intended primarily for foreign markets is exempt from customs duties and VAT. A free zone can be formed within the industrial park, where only import/export production programs will be installed. In this way, spaces of accelerated economic development are created, existing facilities and infrastructure capacities abandoned in the transition process (intended for brownfield investments); infrastructurally equipped land for greenfield investments intended for export-oriented production programs with a free zone regime – Free Zone; infrastructurally equipped land intended for greenfield investments intended for production programs oriented to the domestic market and which use several types of business opportunities:

A. SEZ (Special Economic Zone) with state incentives, financial support for investors, zero tax, national employment grants, and possibilities offered in national free trade agreements;

B. IP (Industrial Park) with cheap and infrastructure equipment land and municipality incentives (zero municipality tax, facilities for the construction of production facilities, etc.);

C. EPZ (Export Processing Zones) exempt from customs duties and VAT;

D. LC (Logistic Center) with intermodal terminal.

This combination of different purposes and the concentration of all benefits that can be provided (state, local governments, and entrepreneurs) provides a flexible system that meets all the potential needs of potential investors where everyone can find for themselves what suits them.

On the current phase of development of free zones, it is possible to perform a New free zone model – all benefits and services in one place 4 in 1 = 4.0



**Figure 1.** A new free zone model (authors image)

At the time of the fourth industrial revolution (European Commission, 2020b), the new free zone model should summarize all the good features of these three free zone models. Such a model could have the working title „4 in 1“ and would imply a synergy of the existing three models.

### ***7.1. Combining business benefits***

The condition for the concept of free economic zones, industrial parks and free zones to effectively attract new direct investments is to offer maximum incentives and benefits. In addition to the duty-free and VAT-free business regime, investors can also be offered a set of attractive benefits and facilities at pre-determined locations (all in one place):

- fiscal benefits – exemptions from tax burdens on labor and capital such as taxes:
  - Income Tax — a percentage of individual earnings filed with the federal government,
  - Corporate Tax — a percentage of corporate profits taken as tax by the government to fund federal programs,
  - Sales Tax — taxes levied on certain goods and services,
  - Property Tax — based on the value of land and property assets,
  - Tariff — taxes on imported goods imposed with the aim of strengthening internal businesses,
  - Estate tax — rate applied to the fair market value of the property,
  - on salaries and corporate income tax, tax credits; existing tax exemptions; accelerated depreciation of fixed assets;

- existing financial benefits – direct financial support to small and large investors; subsidies from the National Employment Service intended for employers;
- special benefits for users of free zones and industrial parks – low prices of services of zone and park operators; unified services of logistics centers (customs brokerage, organization of transport, transshipment, storage ...), low prices for space and land lease, etc.;
- benefits of the local community – offering of municipal land and infrastructure at prices more favorable than the market; exemptions from municipal taxes and duties for the construction and operation of facilities; offering facilities for brownfield investments free of charge, etc.

**Illustration 8.** Dubai Airport Free Zone/UAE



Integrating all amenities into one-stop services creates a modern type of free zone that can meet the demands of Industry 4.0. In one place, investors are offered unified business benefits:

- Subsidies: a combination of state, regional, and local government subsidies;
- Unified business services (free zone, industrial park, and logistics center);
- Unified benefits in one place (zero customs and VAT, infrastructurally equipped land, zero city and municipal taxes, financial incentives, etc.);
- Networked zones;
- Efficient administration and diversity of business benefits.

The symbiosis of special economic zones, industrial parks, export processing zones and logistics centers is reflected in the overlapping of all types of benefits, state and local, in one place, which makes the whole concept an attractive space for capital investment.

The development of the environment will be influenced by the attraction of new technologies as well as the education of the workforce. Everywhere in the world, free

zones contribute to technology transfer. Direct contact with world knowledge promotes the most important factor of development – the human factor. Thus, the development of human resources is achieved through contact with technical, marketing, managerial and other advanced achievements through various types of know-how arrangements. At the same time, logistics operations monitor production activities, which leads to the development of other segments in the services sector. Higher employment activates broad consumption in the region and enables the development of all types of service business and trade activities.

### ***7.2. Networking of free zones in the world***

Free zones are an important part of the global supply chain. Almost a third of world trade passes through free zones. At the moment, there are more than ten thousand different types of free zones in the world, which employ close to seventy million people. Connecting free zones with an interactive e-Platform will allow free zones to be part of Industry 4.0. Current, direct access to potential investors and existing zone users to databases, with minimal costs, are benefits that can be exploited by free zones. In this way, it is possible to connect the zones with logistics organizations and ports, so that end-users would receive all services in one place – from the organization of delivery of raw materials and organization of production to the delivery of finished products to the end customer. New digital tools reflected in cloud computing and big data can create the potential for potential investors to make decisions faster and free zone users to expand and improve their business by using efficient delivery services by providing direct, near-instant access to end-to-end services. users, all with negligible transaction costs.

**Illustration 9.** Networked free zones of the world



Direct the development of networked services intended for users of free zones in the direction of:

- Business services (consulting services, marketing, legal and financial services, customs brokerage);
- Support services (support centers for business activities of users);
- Raising the level of knowledge (education and training, cooperation with higher education institutions through various programs, research, and development);
- Development of logistics centers (bimodal and trimodal);
- Development of specific services related to free zones (representation in customs procedures in the process of doing business in free zones).

With an integrated approach, all activities, as well as the results of these activities, are currently available to the user through direct access. The status of raw materials, production activities, and finished products of the users of the zone is known at all times, from the departure of raw materials from the supplier's warehouse to the delivered finished products to the customer, as well as the results of these activities,

By applying the technologies of the 4.0 industry, networked free zones of the world should provide this type of service to both users and potential investors.

### ***7.3. Integration of logistics centers with free zones and industrial packs***

The first stage of the integration of transport modes leads to the creation of maritime container terminals. This is a specially designed area where container ships are loaded and unloaded of their cargo. Because of the difference in the transport capacities of the modes of transport (maritime on one side and all others on the other side), a maritime container terminal acts primarily as a buffer zone, enabling a continuous flux of merchandise to leave or come from/to the hinterland and foreland areas.

The second stage of the process of the development of intermodalism leads to the spreading of container terminals in inland areas. This resulted in the development of the bimodal and trimodal inland terminals as a new part of the transport system. These terminals have a major role in the transport system, integrating maritime shipping networks and port terminals with the inland freight distribution systems. An inland terminal acts like an inland port. Most frequently, inland terminals are linked to maritime terminals by a regular rail or barge transport service. These terminals act like distribution centers, depots for containers, warehouses, and logistical services providers.

The European Commission defines intermodal freight terminals or transshipment points as locations equipped for the transshipment and storage of Intermodal Transport Units (ITU) like containers and swap bodies. They connect at least two transport modes, which usually are road and rail, although waterborne (sea and inland waterways) and air transport can also be integrated. The efficiency of intermodal freight terminals significantly affects the entire intermodal freight transport chain (EC 2006).

In the last stage of the process, that of the propagation of the intermodal and transmodal operations, the accent is put on the reduction of the number of times a container is handled, as well as the velocity at which intermodal operations are per-

formed. This stage is focused on improving the overall efficiency of the entire inter-modal process.

The role of logistics centers from the aspect of environmental protection is of great importance. About 20% of greenhouse gases are the result of transport activities. These emissions contribute to global warming resulting in various effects like sea-level rise, agricultural impacts (due to changes in temperatures and rainfall), health impacts (increase in heat stress, reduction in cold stress, expansion of areas amenable to parasitic and vector-borne disease burdens (e.g. malaria, etc.), ecosystems and biodiversity impacts, increase in extreme weather effects, etc. The main greenhouse gases with respect to transport are carbon dioxide (CO<sub>2</sub>), nitrous oxide (N<sub>2</sub>O), and methane (CH<sub>4</sub>).

The issues and opportunities are nevertheless presented here for awareness building and to help the decision-makers of the project to understand the emerging additional significant economic benefits that can be derived in Serbia from the fostering of carbon emission reduction in transport projects with the EU.

The tentative estimation of the economic benefits below is based on (i) the number of TEU that are estimated to contribute to enhanced combined transport compared to a no project scenario (incremental approach), (ii) the expected carbon emission reduction that such combined approach would contribute in avoided emission of tons of CO<sub>2</sub> / TEU equiv., (iii) the economic benefit defined as an economic cost saving to be attributed to the avoided emissions. The expected TEU traffic is as presented earlier and the other two elements are discussed below.

According to a specialized EU study (Assessment of the Contribution of European Combined Transport to Environmental Policy Goals: Reduction of the Transport related CO<sub>2</sub> Emissions to hamper greenhouse effect, 2003, by the International Union of Combined Road-Rail Transport Companies (UIRR), Brussels, Nester, Gentilly, SGKV, Frankfurt and Lugmair, Roitham) using a combined transport chain (road-rail-road) instead of a road only transport can in Europe in average reduce CO<sub>2</sub> emission by around 45 % and that the rail part is reducing the consumption to 40% (rail km compared to road km in combined transport. This means a CO<sub>2</sub> savings of 60% per combined transport facilitated by the logistic center.

To monetize the economic benefit of CO<sub>2</sub> emission reduction a base value per ton of CO<sub>2</sub> emission avoided the need to be considered.

A relevant benchmark for this estimation is the current value of a ton of CO<sub>2</sub> emission avoided under the European Union's Emissions Trading Scheme (EU ETS) as EUA (EU Allowance) or CER (Certified Emission Reduction).

The current price level is around 8 EUR/ton a price partially depressed by the current poor economic outlook of the EU zone. However according to market intelligence companies specialized in the field (Point Carbon or similar), the price of an EU Allowance (EUA) or CERs could rise to around 25 EUR / ton in 2016. The rationale for such an expected increase of price is the estimation that the EU will adopt a 30% reduction target and that new cap-and-trade schemes in the US and in other regions have become more likely, potentially linking up with the EU ETS.



The EUA or CER value is a good indicator for the case the logistic center could somehow in future phases of the ETS monetize its effort to promote CO<sub>2</sub> emission reduction through credibly documented proactive facilitation of combined transport.

For the estimation of the economic benefits of the center, another approach may also be considered based on the estimated environmental cost of emitting in Europe one ton of CO<sub>2</sub>.

## Conclusion

The new model of free zones should be designed and developed so that it can follow the requirements of the 4.0 Industrial Revolution. The ideal free zone should synthesize all the benefits in one place.

In addition to zero tariffs and taxes, which are implied, modern free zones should offer investors and users integrated services, connectivity via cloud computers with all free zones in the world as well as relevant state institutions and international organizations.

In one place, zone users should be provided with all non-core business services directly and instantly, from marketing information (in the early stage of making an investment decision through obtaining a building and use permit directly to consulting, customs, logistics, security, health, and all necessary services).

Free zones thus become a necessary service to their users that connects them with the local community, the state, and the whole world.

From a general standpoint, as a logistics base, due to its position, Serbian Logistic Centre Pirot is a good place for a company to locate its operations if wanting to closely and most efficiently serve its EU, SEE, or Middle Eastern customers.

Free Zone Pirot can be effectively served by rail from the Black Sea ports, especially Burgas, which is exhibiting a significant trade increase in recent years. Furthermore, Thessaloniki can be also reached by rail, with a slightly less effective connection, and in perspective, the resolution of the current issues in the Nis and Beograd railway stations will lead to effective rail connections also with the Adriatic ports (e.g. Rijeka, Koper). This might have importance in increasing the supply of future regional distribution centers.

Possibilities of intercontinental and international supplying of the Pirot intermodal center will increase in the future, together with a substantial increase of its accessibility in the Balkans. Therefore, Pirot can be an ideal candidate for regional distribution in the area. This possibility will be subsequently explored in a detailed feasibility study which will identify potential customers, starting from the supply chains of the customers already established in the Free zone.

The Logistic Center Pirot has the potential to lower greenhouse gases emission and it stimulates greater use of a „combined transport chain“ (road-rail-road instead of only road transport) for goods either shifted from road to rail at the logistic center or exported out of Pirot industrial sites.



Precisely the traffic infrastructure is a general condition for the development of the state and the development of traffic has an impact on the development of the economy, on attracting new foreign investments, on better living conditions of citizens. The intermodal terminal will encourage the transport of goods by rail, which will affect the improvement of the railways and railway transport in Serbia, as well as the better connection of the railways with the surrounding railways.

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## ROLE OF THE INTEGRATED APPROACH FOR IMPLEMENTATION OF MODERN REGIONAL POLICY IN BULGARIA

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### ***Abstract:***

*The publication examines current trends in regional policy by applying an integrated approach to the development of the strategic framework. Its theoretical and methodological aspects are analysed, as well as the specifics of practical implementation in the thematic areas of influence in the implementation of regional policy. The subject of evaluation is the planned implementation of an integrated territorial approach in Bulgaria for the period 2021-2027 as a guiding principle in the development of the regional development program and the strategic framework of sectoral policies.*

*Keywords: regional policy, integrated approach, strategic planning*

### **Introduction**

Initially, the main objective of cohesion policy was to reduce disparities between European regions in the 1970s, 1980s, and 1990s. Numerous mechanisms and tools were involved in the process of its implementation. The positive results achieved in the different programming periods not only reduced the disparities between the regions but also increased their competitiveness.

At the same time, interest in the urban dimension has increased, in particular in the integrated approach, which has become particularly relevant. As a result, cohesion policy is slowly transforming from its original 'traditional' approach – based exclusively on infrastructure investment – to its new version, which focuses on the social dimension. In addition, cohesion policy has begun to respond to new challenges, such as climate change, digitalization, and ICT technologies. Smart cities began to spread rapidly, and regions realized that they needed to develop their own smart specialization strategies to increase their competitiveness.

The challenges of territorial cohesion, which remains a key objective of the European Union, justify the need for Community policies for the next programming period 2021-2027 to pay more attention to their territorial impact. Because the object of re-

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gional policy – the territory, is still complex, dynamic, difficult to study, analyze and regulate/manage. It intersects many dimensions of social development (political, economic, social, environmental, etc.), is subject to the constant influence of a diverse and contradictory set of factors of the internal and external environment. (Tsolov, 2019, p. 191). The experience gained so far shows that sectoral cooperation is possible only at the regional level, i.e. within a specific limited area (settlement or set of such). It is for these reasons that an integrated approach is particularly appropriate.

The research interest in the current theoretical and applied research is dictated by the growing need to clarify and systematize the features of the integrated approach to action applied in many areas of economics and management., as well as the specifics of its practical implementation in the thematic areas of impact in regional development. Subject to analysis are numerous scientific publications, normative and methodological documents of the European Commission, and the national institutions involved or responsible for the implementation of regional policy in Bulgaria.

## 1. Theoretical and methodological aspects

Despite some nuances and specifics, in the general case, the definitions of regional policy undoubtedly define it as a complex, multifaceted set of decisions, measures, and activities of a complex nature. Through the combination of these economic, legislative, administrative measures of state and local governments, the aim is to accelerate regional economic growth and overcome negative imbalances in regional development.

Evidence of the universal and fundamental (at this stage) nature of these multidimensional goals of regional policy can be found in their current definition in the Regional Development Act (SG, no. 21 of 13 March 2020)<sup>2</sup>. What makes an impression is that the legislator adds three new ones to the „classic“ goals of the regional policy, among which:

- providing a territorial basis for sustainable regional and spatial development and implementation of integrated territorial investments;
- improving the condition of the territories with unfavorable socioeconomic, geographical and demographic characteristics;
- adapting to climate change and reducing the risk of disasters.

After 2010, the discussions on the modern European cohesion policy focused on its advantages to be realized through the so-called *integrated approach*. In practice, this is associated with the application of an approach that links several components (Андонова, 2011, p. 47):

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<sup>2</sup> [Regional Development Act] Закон за регионалното развитие, обн. ДВ, бр.50 от 30 май 2008 г., в сила от 31 август 2008г., изм. и доп. ДВ, бр. 21 от 13 март 2020г. (Zakon za regionalno razvitie, obn. DV, br. 50 ot 30 may 2008 g., v sila ot 31 avgust, 2008, izm. I dop., br. 21 ot 13 2020 g.)

- *strategic planning* aimed at meeting a limited number of key long-term and medium-term development goals and priorities;
- *results-oriented interventions* with clear logic and quality of implementation of the set goals through the use of a system of criteria and indicators for specific products, results, and impact;
- *clearly fixed territorial address* – with a focus on areas with development deficits (in need of socio-economic restructuring, areas in industrial transition, backward rural areas, mountainous and border areas, etc.);
- *identification of interrelated problems and goals*, formulation of complex solutions and actions for solving the problems in the development, respectively, and achievement of the goals.

The integrated approach emphasizes that promoting development requires closer coordination of public policies (Panorama inforegio, issue 34/2010). For example, both investments in infrastructure and investment in education and innovation can contribute to development. However, such coordination is only possible at a regional level, as growth factors vary considerably between regions. As a result, cohesion policy relies mainly on integrated regional development strategies.

In recent years, the European cohesion policy has adopted a new model in regional economic development. It has evolved from a policy aimed at compensating regions for their shortcomings to a policy designed to improve regional growth and competitiveness. In this regard, the integrated approach also proves to be extremely valuable.

Experts and politicians, such as Jan Olbricht, Member of the European Parliament and coordinator of the European People's Party in the Committee on Regional Development (REGI), commented on the need for change: „In recent years, the role and importance of cohesion policy have evolved. Over time, its tasks have increased and it has become one of the EU's main investment instruments“ (Panorama inforegio, issue 69/2019).

How does the integrated approach correspond to a territorially based policy, such as European cohesion policy? Through close cooperation at European, national, regional and local levels, European cohesion policy can increase coordination and synergies between different policies. The territorial approach also emphasizes the need to work with a more flexible sense of geography, which can be on a small scale when it comes to islands or urban neighborhoods, or on a large scale, as is the case with metropolitan regions or macro-regions such as the Danube macro-region.

Last but not least, the integrated approach is a challenge for those who work locally. Adopting an integrated approach to regional socio-economic development requires policy actors to use programmatic strategies that provide a framework for real needs, without succumbing to the temptation to spend resources relatively easily on individual sectors. This requires the definition of goals and objectives based on an analysis of the challenges facing the specific region.

## **2. Applied aspects of the integrated territorial approach in the implementation of regional policy**

The main goal of the regional development policy in Bulgaria is to create vital, economically strong, and sustainable regions in response to unfavorable demographic trends and deepening interregional and intraregional disparities (Regional Development Program 2021-2027). Specific objectives supporting the achievement of the main objective include:

- tackling negative demographic trends and reducing regional disparities in population;
- increasing the economic growth of the Bulgarian regions;
- promoting balanced territorial development through a polycentric network of cities supported by integrated investment.

The above objectives are expected to be achieved through a significant change in attitudes, views, and prospects for regional development, which will be realized through the application of an integrated territorial approach (Strategic consultation report, 2019, p. 25)<sup>3</sup>. The focus of the integrated territorial approach is the effective use of the potential of each territory in close dialogue and cooperation between institutions working at different levels of government, as well as other stakeholders operating in the respective territory.

The need to strengthen policies based on local specifics to meet local needs and specific potentials of each territory is also based on the experience of the last two programming periods in Bulgaria. For example, in the period 2014-2020, Bulgaria focused its efforts on integrated territorial development through the use of the community-led local development tool, as a special mechanism for supporting local communities, which allows the connected and integrated use of several of the Structural Funds for the implementation of local development strategies (Жечева-Радева, 2014).

The evaluations show that the approach used so far to determine EU funding based on sectoral priorities and to divide urban and rural areas has led to unhealthy competition between municipalities and to deepening interregional, intra-regional, and even municipal inequalities and imbalances. The change of focus, which is set in the methodological guidelines and the developed strategic documents, is from the support of the settlements to the support of territories and from sector-oriented investments to

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<sup>3</sup> [Regional Development Program] Програма за развитие на регионите 2021-2027 г. Доклад за стратегическите консултации, Международна банка за възстановяване и развитие/Световна банка, (Концепция за нов интегриран регионален подход – с. 24-29), (Programa za razvitiie na regionite 2021-2027. Doklad za strategicheski konsultatsii, Mezhdunarodna banka za vastanovyavane i razvitiie/Svetovna banka – Kontsepsia za nov integriran regionalen podhod, s. 24-29 Available at:[http://documents1.worldbank.org/curated/en/436981617102223315/pdf/Strategic Consultation-Report-Program-for-Development-of-the-Regions-2021-2027.pdf](http://documents1.worldbank.org/curated/en/436981617102223315/pdf/Strategic%20Consultation-Report-Program-for-Development-of-the-Regions-2021-2027.pdf)

□ Accessed 15 December 2020

integrated territorial investments. In this regard, the objectives of sectoral policies as part of the integrated territorial approach are also modified and upgraded, providing for:

- *Economic measures* to build a strong and competitive economy of Bulgarian regions with a focus on revenue-generating investments;
- *Investment in education*. Existing regional disparities and the need for a skilled workforce should be addressed through support for increasing the flexibility of the education and training system. The stimulation of the vocational training in the professions sought on the labor market and the degree of the qualifications, according to the degree of development of the regional economy and the stated investment intentions.
- *Healthcare support* to create preconditions for increasing life expectancy in good health through a developed healthcare system that functions satisfactorily and ensures equal access to healthcare;
- *Support for social inclusion* in order to reduce social inequalities, including investments in the development of early childhood development;
- Continuation of structural changes conditioned by local potentials and their development, as well as support for new industrial development (Танаков, 2020, p. 488). This implies accelerating R&D, innovation, digitalization, economic change, and support for small and medium-sized enterprises and requires systematic and consistent support and increased funding by diversifying the schemes and tools applied.;
- *Building strategic transport and digital networks and infrastructure* for technological research and innovation are imperative;
- *Development of the basic infrastructure* and provision of access to adequate housing, which will contribute to raising the standard of living of the population in all regions and support the regional economic growth.

Investments in regional development must be concentrated through a more individualized approach, taking into account the level of development and prosperity achieved. They should be better linked to the local context, potential, and problems, to support both developed and peripheral and lagging regions, in order to create better connections between settlements and cities (Nikolov & Botseva, 2018, p. 35).

Territorial approach and territorial coordination are needed in the work of almost all state bodies in order to achieve governance that effectively supports territorial cohesion. At the same time, it is important for each sectoral policy to become acquainted with the territorial structure and problems of its area of influence, to take into account its territorial effects, as well as to determine its own territorial priorities and links with other sectors and regions. The creation of a national set of territorial development objectives, which formulate national priorities in relation to the different regions and types of areas to which the sectors can adapt, is a key aspect of territorial coordination.

### **3. Planned implementation of the integrated territorial approach in Bulgaria (2021-2027)**

The Regional Development Program focuses on the territorial objective of the „Europe closer to the citizens“ policy. In accordance with Article 22 of the draft Regulation on General Provisions, the Regional Development Program (2021-2027) will be implemented through the implementation of integrated territorial development instruments, including integrated territorial investments, in order to achieve a better investment focus, more effective and efficient interventions, enhanced cross-sectoral dialogue between different stakeholders and the approach to integrated territorial development. The program includes two specific priorities – one for integrated urban development and another for integrated territorial development of regions at the NUTS 2 level<sup>4</sup>.

The integrated territorial approach in Bulgaria is implemented on the basis of two types of integrated territorial strategies:

- For urban development: integrated municipal development plans for the target urban municipalities. The planned period of their action is 2021-2027. The supported operations will be selected by the relevant responsible territorial authorities.
- For the territorial development of NUTS 2 regions: integrated territorial development strategies for NUTS 2 planning regions. The planned period of their action is 2021-2027. The Regional Development Councils will function as territorial bodies responsible for the implementation of these strategies and for the pre-selection of projects and measures to be financed.

The scope of the program „Development of the Regions“ 2021-2027 includes all urban municipalities in Bulgaria. The ten largest urban municipalities will be supported under Priority 1 for integrated urban development, and all other 40 urban municipalities will be supported under Priority 2 for integrated territorial development of the regions.

The Integrated Territorial Approach at the regional level (the 6 NUTS 2 regions) supports concepts for integrated territorial investments financed from different sources. In this context, the analysis also requires clarification of another category that is used: „integrated territorial investment“.

The concept of integrated territorial investments defines them as interconnected and complementary projects, including a combination of resources and measures to be used to achieve the goals and priorities of the respective strategic document at the level of regional planning or municipality. The type of projects included in such a common conceptual framework may vary according to the type of investment, the beneficiaries, the territories covered or the sources of funding. Experts outline several key characteristics and requirements (Regional Development Program 2021-2027, p. 19):

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<sup>4</sup> Nomenclature of territorial units for statistical purposes, applicable to the Member States of the European Union

- Integrated nature of project ideas – at least two interconnected and complementary projects;
- Compliance and contribution to the implementation of the relevant strategies of the Level 2 planning regions;
- Coverage of different types and scales of territories based on specific needs and potentials;
- Partnership and cooperation, through the participation of at least three partners;
- Priority inclusion in the concepts for integrated territorial investments of projects with economic orientation and partnership with economic operators;
- Combining different sectoral measures;
- Existence of wide public support and ensuring maximum publicity and awareness.

Each concept includes a set of interconnected and complementary (integrated) projects/project ideas targeting areas with common characteristics and/or development potential, including the most appropriate combination of resources and measures to be used to achieve a specific goal or priority of an integrated territorial strategy. The type of projects may vary depending on the type of investment, beneficiaries, or sources of funding.

At least one of the projects must be economically oriented, implemented by an economic operator(s), and lead to economic benefits and results for the target area. Exceptions to this rule are allowed in the case of important sectoral infrastructure projects with a social dimension. It is envisaged that most of the sectoral operational programs will contribute at least 10% of their budgets to the implementation of this approach. This implies ensuring coherence and complementarity between different types of investments.

Another key feature of the integrated territorial approach is the application of the partnership principle: cooperation between different stakeholders and actors in the socio-economic life of a given territory. The concept of social innovation is applicable. Social innovations are interpreted as an instrument for societal changes and for the upgrade of the stakeholders' dialogue at various levels of governance (Lyubomirova, 2020, p. 266). In addition to the requirement for cooperation between different organizations for the purposes of project preparation and implementation, the partnership principle also reflects broad public support for funded projects. The project objectives, target needs, and expected results must be recognized by as many stakeholders as possible and discussed with the general public.

The methodological framework for the development of strategic documents for the implementation of regional policy (MPPБ, 2020) introduce the use of an integrated approach as a basic requirement for all documents from the strategic planning system<sup>5</sup>, but with regard to the plan for integrated development of a municipality for the

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<sup>5</sup> The National Strategy for Regional and Spatial Development, the integrated territorial strategies for the development of the planning regions, the plans for integrated development of the municipalities in the period 2021-2027.



period 2021-2027, its effective implementation is of utmost importance for the close coordination of the various public policies on the basis of local specifics.

The use of an integrated approach to planning the regional and spatial development of the municipality requires the goals and priorities to be coordinated and to provide the interaction with the factors, conditions and potential for the specific development of the municipality, the network of settlements and individual sectors (industry, transport, environmental infrastructure, tourism, agricultural activities, etc.), included in the development plans for the development of the territory.

The integration of different sectoral impact activities is a component of site-specific policy development. Housing, transport, employment, the quality of the environment and many social elements interact to influence economic development. Developing common priorities for these areas is not easy, as each has its own goals, priorities and budgets. However, the integrated development approach needs to determine how these institutionally separate elements interact.

The principle of the integrated approach should guide the development of the strategy paper and be applied to each part of its structure. Based on the analysis of the strengths and weaknesses of the municipal territory, as well as the potentials for development, the so-called „priority areas for impact on the territory of the municipality“ are determined, in which the implementation of the measures envisaged in the program for implementation of the plan (MPPБ, 2020, p. 12). Such zones can be parts of the territory of the municipality with a specific functional purpose (zones with predominant administrative/public functions, industrial or business zones, zones for culture, recreation, and tourism, zones with predominant residential functions, zones for transport activity, etc.), as well as other specific separate territories with identical characteristics or own development potential (for example, areas with potential for cooperation with neighboring municipalities).

The purpose of defining priority areas for impact is to achieve maximum effect with the limited resources available to municipalities. In practice, by choosing the most appropriate combination of resources and measures (projects, investments, policies) to be used purposefully to achieve a specific goal or priority, it is expected to effectively implement the integrated approach to the development of the municipal territory.

## **Conclusion**

The current global social, economic and environmental context implies a periodic rethinking of the nature of regional policy in terms of its content, approaches, and tools for implementation. In recent decades (2000-2020), the orientation of European regional policy has been gradually abandoning the universal approach and aimed at providing the appropriate framework for integrated solutions that best combine the experience gained with the current regional development guidelines specific to the contemporary political, economic and social reality in the EU member states.

In the process of strategic regional and local planning in the period 2021-2027, the integrated projects are the basis of the new territorial approach, through which a transformation and transition from sector-oriented investments to integrated territorial investments is expected. And this requires working with spatial data and changing the focus of planning – from supporting settlements to supporting areas that need to synchronize impacts to get the desired synergy effect from completed projects.

In order to establish and succeed, the integrated approach to the strategic planning needs to be actively recognized and implemented by all responsible institutions that develop and implement public sectoral policies. Each sectoral policy should take into account and take into account its territorial effects from the planned interventions, as well as determine its own territorial priorities and links with other sectors and regions.

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## CONTEMPORARY DEMOGRAPHIC DEVELOPMENT OF EUROPE AND OPPORTUNITIES FOR IMPROVING REGIONAL SOCIO-ECONOMIC PROFILES

Desislava Botseva<sup>1</sup>

### ***Abstract:***

*In many European countries, the demographic policy has gained enormous importance in the 21st century. Part of the explanation for this is the increased awareness of the challenges, the consequences of which are visible today and will intensify in the future: aging of the population, reducing birth rates, diversifying family forms, etc. But not only the EU's social protection systems are affected differently by these processes, even in the face of common challenges, but national responses also differ significantly. The demographic policy has been integrated into the social protection system, but developed countries „have not borne the burden of family care after World War II.“ The demographic policy was developed later and more hesitantly than most other social policies. Traditionally, they are much more normative, and sometimes this is an obstacle to adequate policy reforms.*

*Keywords: demographic change, population, Europe*

### **Introduction**

The demographic policy has been integrated into the social protection system (Schubert, Klaus/Hegelich, Simon/Bazant, Ursula, 2009), but after World War II, developed countries „did not take on the burden of family care“ (Esping-Andersen, Gosta, 1999).

The potential for impact on demographic processes in society is confirmed by the demographic policies pursued in some countries. Policies in France, Austria, Romania, Hungary, Germany and, to a certain extent, Bulgaria, are examples of this (Щерионов, Мучинов, Александров, 2015).

Until 1989, these countries implemented a socio-demographic policy aimed at raising birth rates. Measures taken in these countries help reduce the tendency to lower birth rates and increase the number of second and even third children in families, in-

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crease the prestige of motherhood, reduce morbidity and mortality and increase the material well-being of families with children.

Both the European Union and Europe (48 countries and geopolitical entities) have completed their demographic transition. They are currently facing a post-transition situation and meet three significant demographic challenges: population fertility, aging, and migration. Despite the lack of adequate demographic development policies in many European countries, several governments have developed public programs to address some crisis issues. However, approaches to increase fertility and tackle the challenges of an aging population have mixed results. The current problem in Europe is the management of a large number of immigrants, especially refugees. On this point, the European Union (EU) countries have not yet succeeded in reaching a solid political consensus.

## 1. Conceptual perspective

Europe is the first region in the world to begin the demographic transition. Today, the European population has reached a 'transitional' stage. In this sense, the population of Europe is characterized by low mortality rates, which lead to a high life expectancy. In addition, Europeans have low and sometimes critical birth rates, which causes Europe to face a significant aging population. In addition, some essential processes of migration are currently underway. Although a large part of the European population emigrates, the proportion of migrants who are international migrants and refugees, mainly from the Middle East, Asia, and Africa, is preceded by the ratio of immigrants. In this line of thought, the three main demographic challenges that the region needs to address are population fertility, aging, and immigration.

The demographic processes that have taken place in Europe over the past centuries are shaped by several factors, including socio-economic advances, advances in medicine, science and technological progress, trends in urbanization, changing ideology, and political change. More recently, mainly since the Second World War, population policies have also contributed to changing demographic trends in some European countries. However, some of the more pressing population problems often remain on the periphery of these policies, as neglected as political leaders and the public.

Population policies are prepared in the interest of the public good and are designed to mitigate and, if possible, regulate perceived population problems by adapting population size and age structure to people's rights, needs, and aspirations. They are defined as actions taken either explicitly or indirectly by public authorities to prevent, delay or overcome imbalances between demographic change, on the one hand, and to achieve social, economic, environmental, and political goals on the other. Population policies can be explicit or implicit, which means that the proposed interventions are either clearly defined or implied.

The proposed policy interventions can target one or more components of demographic change, i.e., mortality, fertility, population aging and/or migration. However,

in industrialized and European countries, population policies tend to focus on one demographic issue. Policies are implemented through policy levers, which are entry points or policy instruments. Policy interventions are either direct, for example, vaccination programs, or indirect, such as incentives for raising and giving birth to more children.

Good population policies require awareness of the issues involved and a consensus on the actions to be taken. They also need sufficient availability of data to represent the actual status of the study. These data are not always readily available, especially concerning international migration. Population issues, especially immigration, are sensitive and can provoke political passion among the general public, stakeholders, and lobbying groups. In this context, public debate on the future direction of population policy is complex and often results in stakeholder polarization and public opinion. The implementation of population policies requires adequate institutional conditions, good coordination across sectors, effective monitoring and evaluation, and strong political will.

## 2. Substitute fertility

Like most industrialized countries, European countries are characterized by overall fertility rates that are lower and sometimes critically low for generational replacement levels. The average number of births per woman is 1.6 and 1.8 in Europe and the EU, respectively, with Southern and Eastern Europe having the lowest birth rates, with 1.4 and 1.6 children per woman. Only one European country, Kosovo (predominantly Muslim), has an overall fertility rate above the replacement level, with 2.3 children per woman. Some countries, such as France and Ireland, are closest in their fertility rates to the 2.1 generation per female child needed to replace generations. The old Union of Soviet Socialist Republics (USSR) is also affected by low fertility, with a rate of 1.8 children per woman, with the Russian one increasing slightly in recent years (Population Reference Bureau, 2019).

European countries fall into two categories in terms of birth rates: the first is for countries with a CP of about 1.8, and the second is for countries with about 1.4 children per woman. In the first group, relatively higher birth rates will mitigate or delay the effects of population aging. Higher birth rates can maintain the structure and number of the population for a long time, which also depends on the starting position of the age structure. However, the countries in the second category will face more severe consequences of population aging. Given the limitations of their age structure, they may experience an inversion of their pyramids and be at high risk of entering a state of negative trends in which the depopulation process cannot be stopped, even if the birth rate rises again (Jean-Claude Chesnais, 1995).

Several factors may explain the low birth rates in Europe.

**First**, social values, economic patterns, and life cycles have fundamentally changed the traditional gender roles. These tendencies increase by the desire and aspi-

ration to pursue and achieve a better standard of living and equality. That is why European women spend a more extended period of their lives in education and the process of professional realization and career building. In terms of education and work indicators, they often precede their partners. Uncertainty about the future (e.g., unemployment) and the lack of comprehensive childcare in some countries (e.g., Germany) may also lead European women to postpone the reproduction decision.

**Second**, family structures have undergone significant changes, including challenges to the traditional authority of the „father figure.“ Because women have the right to make reproductive decisions, they have their first child later, and women are likely to make the final decisions about the total number of children they want.

**Third**, the immediate determinants of fertility are also affected. As many women delay their first birth for many years, the contingent of reproductively disabled couples increases. To some extent, modern anxieties and existential fears explain the delays in delivery and its postponement. The average age at birth is rising sharply in European countries.

The challenge of public policies to increase fertility is to develop effective measures and programs to counteract the factors that cause a decline in birth rates. The reasons why a woman or a couple has or does not have heirs are numerous, and these include, but are not limited to:

- Marital status (including divorce and cohabitation);
- The cost of raising children;
- Opportunity costs for women (for example, inability to continue their education or obtain a higher education degree and/or to obtain a prestigious, well-paid job and career development);
- The economic household situation and the childcare availability and their compatibility with the woman labor force participation;

To counter some or more of these factors, European countries have offered benefits or incentives as follows:

- 14 weeks leave for mothers, with parental leave up to 36 months; (Germany);
- 26- and 14-weeks maternity leave (Ireland);
- a one-off payment of EUR 1000 for the second child (Italy);
- 12 months of work with 80% pay (or ten months with 100% pay) for mothers; fathers must take four months to leave (Norway)
- EUR 258 for mothers, for each new birth (and double for poor women); housing scheme (Poland)
- Free maternity hospitals and free vitamins and supplements for pregnant women; payment of the equivalent of \$ 9,000 for a second child or a child with higher parity, from 2007 (Russia)
- Payment of EUR 2500 for each birth, from 2007 (Spain)
- 18 months of paid maternity leave, as well as subsidized daycare and flexible and reduced working hours (Sweden);

- 6 months paid maternity leave and optional six months unpaid leave after that; free early learning centers (UK).

France offers an example of somewhat successful fertility policies, introducing the first paid maternity leave in 1913. Then, in 1939, France adopted a new Code de la famille. Today, the French rules of procreancy are among the most generous in Europe. These include, but are not limited to, maternity leave, child benefits, family allowances, single parent benefits, adoption benefits, and housing for families with three or more children. Couples receive significant maternity and paternity leave. Employed women are entitled to 16 weeks of paid and protective leave for the first and second child; the leave duration is increased for the third child. After the expiration of maternity leave, parents can take additional time until three and are entitled to reintegration into the workplace.

France has a vast network of public childcare facilities (one of the largest in Europe), which provides a full day's stay as soon as two or three years old.

Experts and experts are divided and support differing views on the possibility of public policies leading to an increase in the birth rate. Although demographic policies sometimes generate results (which are generally modest and short-lived), they typically fail to change birth rates significantly. The case of the Bulgarian demographic policy and strategy for demographic development is similar, which we can conclude that they do not work! Birth control policies can be adopted and then discontinued due to evidence of their ineffectiveness or high costs. For example, Spain initiated generous payments for new births, which later had to be discontinued due to a lack of financial sustainability. Romania, in the period of abortion suppression, a decision taken to increase the birth rate, generates rapidly distracting and unsustainable effects that lead to an increase in maternal mortality caused mainly by illegal abortions (Kligman, 1998).

However, there is growing evidence that some policies can have a significant impact, at least in the proper context, and that Bulgaria's regional demographic policies should focus on them. Paid family leave, especially when both parents are encouraged to share it, has to some extent maintained the birth rate in the Nordic countries, along with an excellent childcare mechanism. These countries seem to have achieved the ideal of their surrounding community for the development of childcare in the first years of their lives and their social and educational enrichment (for preschool and school children). Therefore, the policymakers could seek opportunities to overcome the demographic challenges in a policy that promotes the reconciliation of work and birth in the broader context of societal values.

### **3. Population aging**

The growing share of people aged 65 and over to the general population has become a feature of the development of the demographic trends of the European population, which is becoming increasingly irreversible.



A consequence of the demographic transition is that more and more people are living longer, and, as a result, the contingent of older people is becoming a larger share of the total population. Over the past century, the aging process has accelerated as European countries have seen rapid growth in this indicator, with the birth rate not reaching the required levels of demographic replacement associated with the fertility rates necessary. The presence of these two components is the primary driver of the aging process (David, E. 2019). About a third of the aging population is generated in a low birth rate scenario, combined with improvements in longer life expectancy, with declining birth rates being the main driver of these processes (Calot & Sardon, 1999). This is because lower fertility levels change the age structure and reduce the relative number of young people compared to older groups (United Nations, 2009).

The share of older people (people over 65) is 17% and 19% respectively for Europe and the EU (compared to much younger populations in Africa and the Sahara, only 3%). The trend of population aging will become even more pronounced with an increase in the number of individuals at a higher age or with an increase in the contingent of „older“ (75-84 years), „older“ .e. 85+), centenarians (100+) and super-hundreds (110+). Changes in age dependency ratios illustrate the economic and social consequences of population aging. As the population ages, the balance of active people to people aged 65 and over becomes increasingly unfavorable; they are currently 19% of people over 65 in the EU, compared to 65% in the 15-64 age group.

However, measuring the aging of the population by simply looking for the proportion of older people (however denominated) is not entirely satisfactory and comprehensive. The concept of „aging“ in the present is relative. Today, 65-year-olds are relatively young compared to the same age group as 50 or 60 years ago. Medical progress and improvements in lifestyle have pushed back the limit of old age, the definition of which remains subjective. To cover all dimensions of old age, the demographic policy must include an assessment of health and quality of life among older people (i.e., the concept of life expectancy without disability). Another way to measure old age is to consider the age at which a person becomes dependent on someone else. The new characterization of old age must combine physical, psychological, and social dimensions, not just endogenous demographic criteria.

The aging of the population has enormous consequences not only for the elderly themselves but also for formulating socio-economic policies, public spending, and family planning policies. How countries and their institutions need to adapt to a rapidly aging population while increasing economic performance is a dominant question that needs to be answered by population policies and social and economic development policies.

The phenomenon of an aging population raises concerns about pensions, care for the elderly, social security systems, macroeconomic and fiscal imbalances, and economic performance. In some countries with low birth rates, aging is also associated with fears of depopulation, e.g. in Russia (Kinsella & Phillips, 2005). The rapid spread of various diseases, such as Alzheimer's (Gourbin & Wunsch, 2001) and its

implications for health services add a grim note to this picture. Considering this, there is a debate about euthanasia in some countries (for example, Belgium, the Netherlands, and Switzerland), which is associated with increasing proportions of people with disabilities and individuals in vegetative health. In addition, the aging of the population evokes even more subjective notions of the vitality and survival of societies.

The consequences of an aging population are included in retirement decisions (e.g. retirement age and public or private pension schemes), savings and housing prospects for the elderly, etc. These decisions align with institutional incentives, including taxes, subsidies, laws, and economic policy. A significant consequence of the aging population is the imbalance in the social security systems, as the number of older adults entitled to benefits significantly exceeds the number of active adults in the labor force. This is a cause for concern, as most pension schemes in European countries are organized as payment systems.

Numerous studies show that an aging population can reduce the production capacity of an economy because the size of the contingent of future workers may shrink. Older people do not work and save as much as younger, more active people. However, some studies indicate untapped potential reserves, suggesting that it can maintain the workforce despite aging. One example is to include more women or encourage younger and more active adults to increase the accumulation and to save capital rate.

Declining birth rates can lead to a progressive economic recession and put entire sectors targeted at young people at risk (e.g. education, the leisure industry, etc.). When these young classes reach adulthood, the economic recession will only deepen. Older people need more care, and those over the age of 90 are rarely independent. Many of them require constant maintenance, medical care, constant presence and often need to be institutionalized. Family solidarity is scarce due to the declining birth rate and the significantly reduced number of siblings, and as a natural result, the responsibilities of the state and communities are increasing.

On the other hand, many European policies dealing with demographic development and the intertwining of socio-economic issues view the aging of the population more positively and speak of the strength of the „gray revolution“. They rely on socio-economic and political measures to enable older people to participate more fully in the economy. Relatively young people are often forced to take early retirement (in some European countries, the early retirement age was 55 or even 50, although the trend is towards later retirement). The rich experience of older people can bring significant added value to the economy. An example of this is Germany, one of the oldest European countries, which continues to dominate the international economic scene.

Population policies have identified the political levers to influence and mitigate their effects to deal with an aging population. They have taken programmed initiatives representing specific care for the elderly. An effective political lever is the modeling of retirement age. The policy can adjust institutional incentives and demotivating factors for retirement at a certain age to encourage later retirement. Other areas include more robust taxation of wealth among older people and wills, increased social

security, the promotion of healthier aging, and increased incentives for family care for more senior members (Population Reference Bureau, 2007).

The consequences of an aging population are multifaceted and can affect different population structures, such as exacerbating existing gender inequalities, as older women tend to face more difficulties. Policies to tackle an aging population are complex to design and implement and must include many different elements and aspects related to social security, public health, and economic strategy. They also have significant dimensions of financial and fiscal space. In summary, it can be said that European policies have contributed to mitigating the effects of aging, but the measures and programs have not achieved entirely satisfactory results to address the aging process as a whole.

#### **4. Immigration**

Unlike countries perceived as immigration-friendly, such as Australia, Canada, New Zealand, and the United States, European countries have traditionally been less open to migration movements. However, this statement needs to be qualified, as many countries imitating openness to immigration have recently tightened their immigration policies. On the other hand, some European countries have sheltered large numbers of immigrants in recent decades and now face vast flows of refugees. Since 1990, Europe and North America have been the two regions that receive the most from annual net international migration.

The rate of net migration for Europe as a whole (48 countries and geopolitical units) and the EU (28 countries) is currently estimated at 2 immigrants per 1000 population. Between 1990 and 2013, Europe received 23 million international immigrants, 22% from Asia, 18% from Africa, and 14% from Latin America. Europe's proximity to regions with higher birth rates (e.g. Africa) creates migratory pressures from these countries. Moreover, ongoing political turmoil in large parts of the Middle East and the region creates an additional impetus for migration.

Immigration is one of the most controversial issues of population policy in European countries. In the context of globalization, goods, services, and capital move more freely. However, the movement of people remains limited, despite the need for global labor mobility. Immigration issues often raise fears of changes that could result from the arrival of new populations. In many European countries, groups, organizations, and political parties oppose policies conducive to immigration. Common concerns relate to negative socio-economic consequences for the host country's population, such as loss of job opportunities and lower living standards (i.e. lower wages). Immigrants are often perceived as a threat to low-skilled workers. Another line of concern is the creation of societies with very different cultural and religious values from those of the host country.

However, many European countries need immigration to strengthen their shrinking workforce and sustain their economies (e.g. Germany). When considering low-skilled

work, it is generally acknowledged that immigrants are more likely to accept low wages and sometimes more dangerous jobs, which locals traditionally reject. In addition, immigrants provide a set of skills or cheap labor that contribute positively to the economy. Therefore, countries can target highly skilled and less-skilled immigrants, especially in low domestic work. Immigration is sometimes encouraged to replace population deficits (i.e. depleted cohorts) in host countries and counteract the effects of low birth rates and population aging.

There are many unresolved issues concerning European demographic development policies, including the design of the number of immigrants needed to counter population decline and how best to integrate immigrants into host countries. The debate on immigration is also significantly complicated by the links between immigration and national identity and how immigrants influence it. As immigration has become more visible, negative attitudes toward immigrants occasionally lead to hostility caused by the acceptance of large masses by the foreign population. EU studies signal that by 2060, 85% of the world's population will live in 600 cities and migration will be further provoked by the impending severe climate change. The study signals that more than 250,000,000 people will decide on migration provoked by the search for better climatic living conditions over this period. Man is the only being on earth that changes the environment around him to such a scale of the crisis. Overcoming environmental challenges is part of the problems of the „new age.“ All these migration trends direct the efforts of governments to preserve national identity (Nikolov, Vasileva, 2017).

European immigration policies are shaped by the specific economic and political context of the host countries. In recent decades, Europe has used various political levers to encourage or discourage immigration. Until the oil crisis in 1973, immigration levels were high, with many labor immigrants entering Europe. Labor immigration was facilitated in most countries because economies prospered, and more labor was desired and needed. At that time, European countries generally had a more accessible immigration policy. In Germany, the traditionally present guest worker and the „temporary“ immigrant system facilitate labor migration. In France, a policy of permanent migration includes integration and assimilation, especially for immigrants from the former French colonies.

The assimilation and integration efforts in Europe highlighted in recent years can be seen as policies to help immigrants adapt more quickly, but they can also make migration more difficult for many people. The idea of integration presupposes assimilation, for example, learning the host country's language, mixing with the economy and social life with minimal discrimination, accepting the social and political morals of the host country, and ultimately acquiring citizenship. Integration is carried out through institutions such as schools, professional groups, and public and neighborhood associations. If immigrants outnumber the local population, these institutions no longer serve as practical tools for migration. If immigrants remain isolated culturally, socially, or religiously and do not mix with the host country's residents, e.g. remain isolated in the ghetto, we can not talk about integration.

Interestingly, integration efforts have recently been symptomatic of European countries, which seem to be gradually abandoning a „multicultural“ identity, such as the Netherlands, where immigration policies currently concentrate on expectations that the costs and responsibilities of assimilation and integration are at the expense of immigrants. In Europe as a whole, there is pressure to integrate immigrants, which is much less pronounced in the United States, where ethnic or cultural niches coexist without much contact or need for assimilation. To some extent, highlighting a positive example to apply at the national level from Europe seems a difficult task because European policies face more problems in trying to solve them than, for example. Long-standing „immigrant“ countries such as the United States, Canada, and Australia.

Today, special status and programs for highly qualified migrants are present in EU countries (e.g. the 2005 Green Paper and the 2009 Blue Card). There are also some bilateral agreements between the countries to attract the necessary human resources. The problem of family reunification is serious, in which one partner is in the host country and the other in the washing region. In Ireland, for example, parents whose children were born in other European Union countries can no longer obtain citizenship. In the Netherlands, minimum age and wages have become conditions for spouses to immigrate. In Denmark, some European Union citizens have to prove their solvency if they bring their foreign spouses to live in the country.

Today, European countries face large numbers of refugees, in addition to traditional „economic“ migrants. The EU has failed to reach a broad political consensus on immigration and refugee issues. Political discussions will inevitably lead to immigration quotas in host countries and possibly in sending countries. At this stage, most European countries do not have immigration quotas and are unlikely to discuss them during the immigration policy debate. The European refugee crisis of 2015 emerged as a turning point in European immigration policy, and Germany, determined to accept more refugees, deviated sharply from these intentions.

### **Challenges and perspectives. Instead of a conclusion**

Due to the „explosive“ demographic transition in sub-Saharan Africa, Africa's share of the world's population will increase dramatically. Asia's population will also continue to grow, while Europe's population will decline slowly by 2050 and at a much more dynamic pace between 2050 and 2100 (UN, 2015). The change in demographic weight among the world's various regions will inevitably have significant geopolitical consequences for Europe, not least due to the potentially increasing migration flows to European countries. Europe is also facing the challenge of an aging population, which is already leading to labor shortages in some countries (such as Germany). From this perspective, European countries' fertility, aging, and immigration challenges are increasingly difficult to address.

However, the policy response to these demographic challenges will have important implications for the sustainability of the socio-economic performance of European

countries. In many of them, population problems have not yet received the priority they deserve. As mentioned, debate, if and when it happens, is marred by contradictions and passions (Demeny, 2003). Non-interventionists oppose those who wish to take action. Demographic issues are not analyzed pragmatically, without political or ideological goals. Too often, demographic problems are shaped by the traditional opposition between left and right. Another complicating factor is that the sources of information and relevant stakeholders are fragmented (ie public administrations dealing with population issues).

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## INFORMATION SECURITY. POLICIES AND PRINCIPLES

Valeri Dikolyovski<sup>1</sup>

### ***Abstract:***

*The development of the theory and practice related to information security as a global process is a relatively new scientific knowledge with high public utility and interest. The report aims to present the aspects of creating rules and regulations to synchronize its successful implementation. It is no secret that information is the most expensive commodity of our time, which is why its protection is so important. Information security technology in both government and corporate contexts includes various ways, methods, and means, including identification of key information that should be protected; the introduction of rules for its processing applicable to employees who have access to such information; employee training; building a system for monitoring the implementation of the rules; periodic testing of the information security system. All these processes are extremely important in terms of the digital transformation and digitalization of the economy and society in the context of Industry 4.0, as well as the development and implementation of 5G and the creation of modern financial control systems.*

*Keywords: Information security, financial control system, employee training*

### **Exposition**

The successes and failures of the regional policy in recent years in our country can be judged by the currently implemented projects for the development of space and the results of the various types of implemented infrastructure projects (Nikolov, 2020). Other information can be found in the national statistics data and the conclusions from the current national, regional policy analysis. The conclusions focus on two main areas: interregional inequalities and intra-regional differences.

The methods and means of information protection in each historical epoch are closely connected with the level of development of science and technology. The types of protected information and protection policies are determined by the interests of the state (in the economic, political, social, military fields), as well as by the interests of economic entities in corporate terms.

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At the present stage of the historical development of global society, „information acts as a form of ownership and therefore has a certain value“ (Vostetsova, 2019). In order to emphasize the role of information in society, it should be noted that economists around the world are unanimous that since the beginning of the new century, with the development of global connectivity in real-time, we already live in the so-called information society. Unlike the previous phase of development of society (19-20 century) – industrial society. According to Vladislav Lazarov, „information is an extremely important resource on which the future of entire nations sometimes depends“ and this is the case today (Лазаров, 2019).

The theory of information security is a relatively young science, the appearance of which has received its development in connection with the rapid advancement of information technology, radio electronics, and communications, necessitating the preservation of information resources. It now seems that everyone is convinced that „information is the most expensive commodity of our time, which is why its protection is so important“ (Лазаров, 2019).

Information security theory usually includes:

- information and its properties;
- threats to the security of information and its owners;
- security policies and security models;
- the ways, methods, and means for information protection;
- the classification of security systems;
- the requirements for the security of the information systems;
- the methodology for assessing the level of security of information systems and security design;
- the practical deployment of information security systems in different governing bodies, institutions, and enterprises with different forms of ownership.

## **1. Information security in a state context**

National security is ensured through the implementation of a unified state security policy, including the protection of information.

The protection of information in a state context is realized within the concept of national security through the policies of the National Assembly, Council of Ministers, Ministry of Interior, Ministry of Defense, Ministry of Transport and Information Technology, State Commission on Information Security, State Agency „National Security“, the State Agency for Electronic Government, the State Agency“ Archives“, the National Statistical Institute, the Council for Electronic Media, Bulgarian Posts and others.

## **2. Information security in a corporate context**

The information security of the enterprise is achieved through a whole set of physical, organizational, procedural, and technical measures aimed at protecting corporate data, information, technology.



The set of measures includes established written procedures and rules for access, storage, and handling of various types of information, identification and protection of production and trade secrets of the enterprise, IT services, use of hardware and software access control, leak monitoring, antivirus protection, firewall, protection against electromagnetic radiation, physically limited access to servers and network infrastructure, etc.

### **3. Basic principles of information security management technology (Крушков, 2020)**

Information security management technology is always an integrated solution that provides information protection, which includes the following elements:

- determining the systemic, hierarchical, and functional place of the competent authority (nationally), respectively of the unit or employee (in a corporate context);
- identification of information constituting a state and official secret (in the field of state security) or production and trade secret, intellectual property, know-how or other business information (in the field of corporate security);
- introduction of a set of rules and procedures for information protection (information security rules);
- acquainting all employees with access to such information with the rules and procedures for information security;
- initial and ongoing training of information security staff;
- systematic monitoring of the implementation of the rules and procedures at all administrative levels, analysis, and evaluation of the results;
- accountability of the activity for ensuring information security as part of the integrated security system;
- Periodic testing of the information security system and the staff with access to protected information through the so-called vulnerability tests, in order to upgrade it by eliminating the identified weaknesses.

### **Conclusion**

In conclusion, the development of new technologies and their increased impact on the digitalization (Боцева, 2021) of the economy and society, the increased turnover of online commerce require a systematic approach that allows control and monitoring. The development of e-government, both in the public sector and in the corporate context, also plays a very important role. This methodology would make it possible to synchronize the control functions of state bodies. In the last few years, the problems related to information protection has been a highly specialized activity, which is developed in a wide range and according to a model, which necessarily includes the identification of the key information that should be protected; the introduction of specific rules for its use; training of staff who have access to such information; monitor-

ing the implementation of protection rules; periodic testing of the established information security system.

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## **ECONOMIC DEVELOPMENT OF COOPERATION AND COMMUNE COOPERATION IN THE CONTEXT OF THE INDUSTRIAL REVOLUTION 4.0**

**Dinh Van Dung<sup>1</sup>**

### ***Abstract:***

*Industrial Revolution 4.0 is happening rapidly on a global scale, creating many positive changes in all aspects of the socio-economic life, creating new structures and operations for the economy based on the application of high technology, the Internet connecting things, artificial intelligence. They have become the basic advantages and opportunities for cooperatives in Vietnam to develop production, access new technologies, new markets. Cooperatives will develop quickly if they grasp opportunities, seize promptly technological trends and create products suitable to market demands; On the contrary, if they, the cooperatives, do not grasp and keep up with new technology, the cooperatives will have to narrow the business scale, narrow the market, or even be eliminated from the market. This is one of the factor variables for the author to have a basis to evaluate the impact on the analytical framework of the study on factors affecting the results of the livelihood development of poor ethnic minority households in mountainous areas of Khanh Hoa province.*

*Keywords: commune cooperation, industrial revolution 4.0, Vietnam*

### **1. Improve efficiency for cooperatives from applying science and technology**

With the non-stop and continuous development in both size and number of production and business establishments in the region, the cooperatives have made important contributions to the economic development of the country. At the same time, with its specific nature and social nature as organizations of mutual assistance and assistance of the people, it has played a very important role in the application of new scientific and technical achievements in production. business, reduce production costs, improve the value of agricultural products, maximize the benefits of members.

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Since 1997 onwards, especially after the issuance of Resolution No. 13-NQ/ TW dated March 18, 2002 of the 5th Central Conference, Session XI on „Continuing to innovate, develop and improve collective economic efficiency“, the cooperative sector has gradually overcome their weaknesses, has created new development steps. The Law on Cooperatives in 2012 was issued, creating a legal corridor, along with supportive policies, incentives such as: training and retraining of human resources; science and technology; preferential credit; trade promotion; land; infrastructure; taxes, fees, have created favorable conditions for strongly developed cooperatives.

Many cooperatives have been established in economic sectors and fields, with diverse organizational forms and modes of operation. In recent years, the number of cooperatives has increased year by year, has been developing fairly evenly across regions, and the performance has been improved. The cooperatives step by step operate in the right nature, focusing on supporting member economies by providing production services, life services or employment to members. The cooperative's scale, capital and fields of operation have been expanded, many cooperatives have the whole commune, district and province scale; Some new types of cooperatives have emerged such as environmental cooperatives, school cooperatives, medical cooperatives ... Income of workers as well as members, member households has been improved, contributing to solving jobs, ensuring social security in the area (Information and Communication...).



**Image 1.** Mushroom growing model at Vinh Ngoc Nha Trang Mushroom Cooperative generates stable revenue thanks to the application of science and technology in production

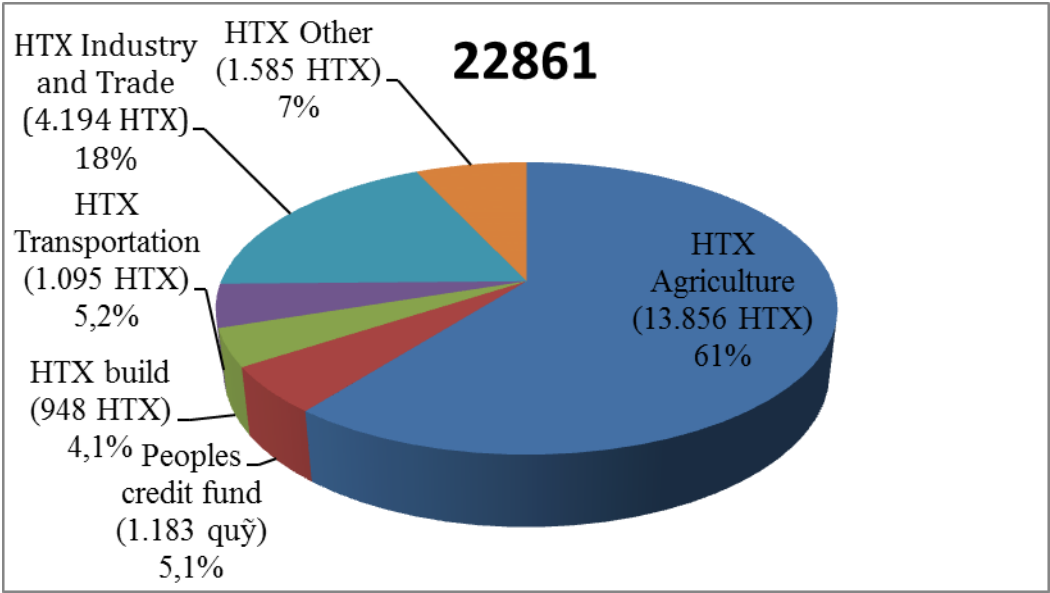
According to the Vietnam Cooperative Union (2019), there are currently about 27,000 cooperatives, nearly 100 cooperative groups and 115,000 cooperative groups operating in almost all fields of the economy – commune; attracted more than 7 million members; The cooperative's total assets are about 230 trillion VND, creating jobs for about 3 million people, the average income of workers is 51 million VND / person / year; The average revenue per cooperative reached 4.2 billion VND, the average interest was 309 million VND/ year. The total number of regular employees was 3 million workers, with the average annual income of regular employees in the cooperative at 45 million VN dong; Many cooperatives associate with supermarkets and large enterprises to expand domestic consumption and export markets, demonstrating their role as the core for the implementation of the National Target Program on New Rural Construction and the Program on National goal of sustainable poverty reduction ...



**Image 2.** The Vietnam Cooperative Union handed over machinery and equipment to the Mushroom Vinh Ngoc Nha Trang Cooperative

The cooperatives provide support services, provide inputs, consume output products, transfer production technical advances, support the restructuring of crops and animals towards commodity production for members, farmers. Of which, the most important stages in production, especially in the agricultural sector, are undertaken by cooperatives, such as: 80.5% of cooperatives provide irrigation services; 57% – plant protection services; 46. 2% – supplies and fertilizer supply services; 46.3% – agricultural extension services, 43.2% – electrical services, 38% – science and technology

services; 15% – consumer goods services products; 15.1% – internal credit services. Many cooperatives actively link with organizations and units to link technology and technology transfer, link on trainings to improve the quality of labor, improve management skills and improve labor productivity to reduce minimizing costs and losses caused by natural disasters, pests and diseases, and environmental safety.



**Figure 1.** Cooperative structure in sectors and fields in 2018

*Source: Ministry of Planning and Investment (2019)*

In particular, agricultural cooperatives have been operating in association with key products of the region, implementing chain links, many cooperatives linking supermarkets and businesses to expand consumption markets, contributing to improve product quality and competitiveness. Some cooperatives have actively researched and expanded markets, not only for domestic use but also for exported goods. These are important prerequisites for cooperatives to develop in the context of the industrial revolution 4.0.

However, the application of science and technology in production and business to improve the quality and value of products in cooperatives still accounts for a low rate. According to the Ministry of Science and Technology (Business Times, 2020), as of 2018, only 1.7% of agricultural cooperatives applied high technology in production out of a total of 13,856 agricultural cooperatives in the country. The Survey made by Vietnam Cooperative Alliance from the beginning of 2019 to March 2020 with nearly 350 cooperatives showed that only about 21% of the cooperatives, (equivalent to 74 cooperatives) used computers. The number of cooperatives with computers but con-

nected to the Internet is only about 70% (ie. about 52 cooperatives). Notably, less than 10% of the cooperatives (about 07 cooperatives) have websites to promote products and trade promotion. Only about 19% of cooperatives use social networking sites such as Facebook and Zalo to promote products and promote trade, which is clearly a low number in the context of global e-commerce competition at present. Especially, when the industrial revolution 4.0 has knocked on the doors of all countries, all areas of the world.

## **2. How to take advantage of the opportunities of the industrial revolution 4.0?**

In recent years, with the high integration of digital, physical, biological and artificial intelligence systems are fundamentally changing the world production. Therefore, to take advantage of the opportunities of the industrial revolution 4.0, creating a new resilience becomes even more urgent, requiring cooperatives to have a new direction:

First: Implementing the restructuring of cooperatives through the application of science and technology to optimize resource allocation, develop production and business in the collective economic sector, and more efficient cooperatives; cost cutting, market expansion, better value chain management; develop new products and services faster; improving the productivity of cooperatives in particular and the entire cooperative area in general; ensure the provisions of the Law on Cooperatives, on the basis of the voluntary and autonomous principles.

Second: promoting merger, consolidation and building a model of multi-function cooperatives of production and business associated with a large-scale commodity value chain, attracting many members; job creation, sustainable poverty reduction, improvement of material and spiritual life, environmental protection, economic development and political stability; to diversify types and forms of cooperation in industries, fields and people, especially in the agricultural and rural areas, suitable to the local conditions; Comprehensive provision of essential services to the community including education, religion, culture, social activities, youth movement, sports, health, parks, waste treatment, public lighting plus, roads and social utilities;

Third: cooperatives strengthen activities „joint venture“, „link“ between cooperatives with other economic organizations to both expand the scope of activities, scale of production and business, expand markets. and ensure sustainable development. Encourage the development of cooperatives in all branches and fields of the economy, in all territories; forms of membership expansion; to apply science and technology to production and business; value chain production, linking with enterprises; Guarantee membership benefits.

In addition, in the agricultural sector, to form large-scale cooperatives, provide input materials (seedlings, livestock, protection drugs), credit – banking, security. insurance, treasure, transportation and support services for members, such as: (1) Supplying agricultural materials to ensure members have enough essential supplies, on



time, cheaper market, quality; (2) Building modern infrastructure and equipment for processing, adding value to agricultural products; (3) Expanding the market, developing a network of services to transport agricultural products from production areas to consumers, helping members to produce according to the needs of the market, minimizing circulation costs, loss, loss exit.

Continue to consolidate, develop and replicate the new model of cooperatives associated with safe agricultural production and the value chain of key products and goods with potentials and advantages in the locality. Consolidation of small agricultural cooperatives into large-scale cooperatives at district, provincial, regional, national level of multi-sector production and business; improve the quality of services along the value chain from production, processing, storage to marketing, product sales, branding, and market expansion. Building and replicating the model of cooperatives applying science and technology.



**Image 3.** Khanh Hoa Cooperative Alliance organized a training class „Instructions on how to use accounting software in agricultural cooperatives“

For the non-agricultural sector, the Cooperatives produce and use green energy, bioenergy, renewable energy such as production and consumption of wind power, solar power, and biomass power. Develop traditional trade cooperatives associated with community based tourism, creating more jobs for rural workers, sustainable poverty reduction; to form and develop a model of satellite cooperatives to supply raw



materials and preliminary products for processing factories; develop cooperative membership support services, harmoniously combine traditional commerce with e-commerce.

To develop cooperatives in areas with strengths in large-scale production and processing of goods, especially in the field of processing agricultural and forestry products, consumer goods and exports; focusing on developing cooperatives in rural areas, focusing on developing traditional industry services, serving production of handicrafts, agricultural engineering, preservation and processing services for agricultural products and foodstuffs. . To associate cooperatives with programs on industrial promotion, rural industrial modernization, serving as a nucleus for and supporting the development of industry – handicraft in industrial parks; creating a premise for the formation and development of industrial villages for sustainable economic development of the locality. Continue to establish and develop cooperatives to provide living services for people such as: health care, healthcare; education; tourism... and Cooperatives owned by young people and women.



**Image 4.** Provincial Cooperative Alliance cooperates with Alfa Vietnam Trading Joint Stock Company to guide the process of using Eco-Grow microbiological fertilizer for crops

Over nearly 200 years of establishment and development of cooperatives in the world, it can be affirmed that cooperatives are an important part of the national economy and the agricultural and rural economy. Cooperative development creates a change in production methods of households, farmers, and smallholders from small, fragmented production to production of goods linked to the market; making the indi-

vidual production of members more competitive, the income of members and workers higher in increasingly fierce competition conditions; creating a coherent interaction of four types of benefits: interests of more than 26.87 million households, of which 17.2 million households live in rural areas, the interests of the State, the interests of enterprises and interests of nations trading with Vietnam. In the new context of the Industrial Revolution 4.0 poses many opportunities, as well as challenges for cooperatives, with the leadership and drastic direction of the Party, State, Government, and the participation of Boards, ministries, branches, localities and the cooperatives' striving efforts, we can trust that in the coming time, cooperation in our country will continue to develop strongly and firmly, contributing to important in the country's socio-economic development.

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## CURRENT TRENDS TOWARDS EXPANDING THE SCOPE OF REGIONAL MANAGEMENT IN BULGARIA

Georgi Tsolov<sup>1</sup>

### ***Abstract:***

*The regional authorities in Bulgaria are facing face to face with objective phenomena and processes that require continuous expansion of the scope of regional management. In our opinion, the achievement of this condition is key to the success of social transformations in a number of dynamic regional systems – health, ecology, education and science, culture and spirituality, economy, competitiveness, and others. In the conditions of transition, we became convinced that the strictly administrative approaches, and the attraction of the model of local government to the practice of political power, do not meet the needs of modern Bulgarian society. The EU's strategic orientation towards resources, technology, and communication development<sup>2</sup> is the prism through which we look at some specific moments in regional management and the related positive trends.*

*Keywords: regional management, dynamic systems, transformation, EU, public enterprises, municipalities*

### **Introduction**

The dynamics of processes in modern everyday life are characterized by constant economic and social transformations. They, in turn, urgently require innovations in the management of various human organizations and their attitude to available resources. At the end of the 20th century, systems theory in science and management practice was enriched with conceptual developments related to the advent of cybernetics. This achieves the effect of broad interdisciplinarity of the basic concept of „management“. It has acquired a number of new dimensions, including regional ones because we have begun to consider them as conditioned by the information process.

If we proceed to an in-depth analysis of European regional development policy, we will see that:

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<sup>2</sup> Official site of the European Union – [https://european-union.europa.eu/index\\_bg](https://european-union.europa.eu/index_bg)

- It is implemented vertically and horizontally in all areas and spheres where there is organizational activity and the relevant information processes take place;
- Its main goal is the „reference“ change of regional systems, in which the information process has the role of a key cohesion tool.
- Much of the management effort is aimed at achieving a synergistic effect of the interaction of individual systems, and this is possible only through the acquisition, storage, and sharing of new knowledge.

Over the past two decades, in the EU as a whole and in Bulgaria as an integral part of it, a number of socio-economic, cultural, institutional, and organizational transformations have begun to emerge, in which the systemic and cybernetic approach plays a key role and create current trends. of management, including the address of its regional application.

This report has been prepared in view of the need to implement the provisions of the Public Enterprises Act<sup>3</sup> and the Regulations for its implementation. The present development aims to determine the local potential, not only in terms of improving the mission, vision, and strategic management of Bulgarian municipalities. At the heart of the Report is our understanding that the scope of the above law lays the foundations for the creation and growth of business structures with complex nature of the ownership and not yet established internal and external relations, rules, tools, and mechanisms that have a specific contribution to the economic and social development of the regions.

## **1. Effects of the introduction of management in regional practices**

Bulgaria and its regions face three main and objective trends with different time horizons, but with the same transformative force, which will give additional dynamic impetus to our social development. We are first and foremost facing the threshold of the new Multiannual Financial Framework (MFF) 2021-2027, which redistributes resources at EU level<sup>4</sup>. Next, regions and local communities should be included in the Horizon Europe Framework Program for Research and Innovation<sup>5</sup>, designed to support breakthroughs in science, work for recovery from the COVID-19 pandemic, support green and digital transition and turn 100 major European cities into climate neutral by 2030.

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<sup>3</sup> law on public enterprises – Prom. DV. no. 79 of October 8, 2019; amended. DV. no. 100 of December 20, 2019; amended and ext. DV. no. 85 of October 2, 2020. <https://www.lex.bg/bg/laws/ldoc/2137196641>

<sup>4</sup> Interinstitutional Agreement of 16 December 2020 between the European Parliament, the Council and the European Commission on budgetary discipline, cooperation on budgetary matters and sound financial management and on new own resources, including a roadmap for the introduction of new own resources.

<sup>5</sup> <https://www.europarl.europa.eu/news/bg/headlines/economy/20210422STO02652/proghrama-khorizont-evropa-kak-es-investira-v-nauka>

At the same time, we face the challenge of the so-called Green Deal is a set of policies proposed by the European Commission, which must make Europe's society and economy climate-neutral by 2050. With this engaging perspective, Bulgarian citizens still find it difficult to find answers to their problems in the face of the EU. But we believe, that the success of our common mission is entirely possible, and it is only a matter of sharing and active action at the lowest levels.

To formulate effective management approaches with application in the field of development of administrative-territorial structures in Bulgaria is a particularly difficult task. If we turn to the theory, we can say that the gaps are in:

- The inability of the political elites to reach a consensus for the constitution of the second level of local self-government in our country even with the laying of the foundations of the democratic Bulgarian state at the forum known in our recent history as „The Round Table“;
- The process of „bureaucratization“ of state and local administrative structures, which fully fits into Weber's critique (Weber, 2017), which I will allow myself to quote:
  - a) Its ability to self-reproduce;
  - b) The desire to differentiate more and more of its activities, which is done on the basis of claims for closer specialization;
  - c) Cumbersomeness and slowness of bureaucratic procedures;
  - d) The spirit of bureaucracy leads to its self-promotion as a major factor in society.
- Governance as a projection of power in our country, united and placed under one denominator a number of complex dynamic systems – education, health care, science, spiritual sphere, regional development, and others. However, they have the ability to be constantly enriched, changed, and developed under the influence and in accordance with social trends and achievements of scientific knowledge. But more importantly, under certain conditions, when they feel an impact that is not in line with their mission and goals, they would react negatively – they would reject wrong decisions.

In our opinion, the problem is in practice and is rooted in the depth and consistency with which the administrative approach was imposed in our country in the transition period after 1990. Since our observations are conducted in the field, the conclusions made are not intended to enrich basic science, but to meet specific societal needs.

Therefore, in the tabular form, we present the comparative plan of some key characteristics of the administrative and managerial approach in the regions in relation to the identified needs and requirements for the implementation of the Multiannual Financial Framework (MFF) 2021-2027.<sup>6</sup>

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<sup>6</sup> Innovation, digitalisation and technological transformation are enshrined in key national strategic documents:

- National Strategy for Promotion of SMEs 2021-2027
- Innovation strategy for smart specialization 2021-2027
- Industry 4.0 Strategy

**Table 1.** Main comparative characteristics between the administrative and managerial approach in regional development

Identified needs	Administrative approach	Managerial approach
<i>Focus on regional and local development.</i>	A standard approach to the problems in the region according to the ability of the administration to generate financial or material resources for overcoming them. It works „ad hoc“. No causal links are sought.	The successful solution of the problems arising in the regions depends on the competence and the ability of the manager to identify the main characteristics of the specific situation..
<i>Focus on available resources</i>	The concept of „hierarchy“ reveals the way, the mechanisms for carrying out the management process, through successive administrative operations and procedures. The normative base (the law) is the instrument through which high efficiency is expected from the management of a given resource.	The term „process“ means a set of purposeful actions of the manager to achieve certain goals. In terms of resources, it has methodological, functional, social, organizational and informational content.
<i>Focus on local communities</i>	Institutional – most often defined and denoted by the forms of „organization“ that functions achieves pre-defined goals set before the administrative system. Or the success of the whole is a condition for the success of the individual elements.	Attributive – most often defined by the term „self-organization“, which means the features, properties of a system that determine its quality, stability of relationships and dependencies between parts and properties of the system.
<i>Focus on results</i>	Goal setting, planning of measures and activities, access to resources are conditions for achieving results.	The results are the basis of local development planning, and resources are a means to achieve them.

Source: Adaptation of the Author on the national strategic documents, included in the MFF 2021-2027

We all see the differences between the two approaches, but we realize that the precise proof of the need to strengthen regional management in relation to existing practice can only be done in Bulgarian. Here the problem is linguistic due to the ambiguity of the terms „upravlenie“ and „menidzhmünt“ (letter translation) used in Bulgaria, which are translated into English equally – „Management“.

We dare to emphasize once again that within the Report the practice is decisive and we believe that by joining the content of the concept of Management (administrative, state), regional management brings new potential to this activity, new behavior, and harmony. Because the manager enriches the regional process and upgrades the qualities of the administrator with the value, organizational, moral, social, communicative, and emotional-aesthetic values of his intellectual work. In addition, regional management brings more culture and respect to the behavior of society as a component of the regional system.

## **2. Expanding the scope of regional management**

A number of books have been written on key issues of decentralization, local self-government, administrative independence, and the autonomy of Bulgarian municipalities (Николов, 2016). But the administrative approach in creating financial mechanisms for the development of municipalities in one area or another is very limited. Local funding should be based on five main sources:

- personal income tax;
- real estate tax;
- fees for services rendered;
- direct access of the municipalities to international projects with the support of the EU for development of the local infrastructure, improvement of the ecological situation, the realization of specific projects;
- subsidies, which should not affect the fundamental freedom of local authorities to determine their policy within their powers.

As we justified the regional management through its active approach to society and resources, we turn our attention to a relatively new law – the Law on Public Enterprises. In its name, there is a certain contradiction with the practice (we will clarify it later), but the content of the law is in line with European trends. In addition to determining which are the „public enterprises“<sup>7</sup>, in Art. 1. (3) it is decreed that the municipal policies with regard to the public enterprises shall be determined and implemented by the municipal councils.

Typical of the management are the requirements set in the law for the introduction of standards for good corporate governance of public enterprises, as well as the obligations for disclosure and transparency of their activities and their management bodies. Of public importance is the established principle for the election of the directors and supervisory boards; lack of conflict of interest; creation and

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<sup>7</sup> Art. 2. (1) Public enterprises are:

1. the commercial companies with over 50 per cent state/municipal participation in the capital or in which the state/municipality otherwise exercises a dominant influence;
2. the subsidiaries of the commercial companies under item 1 and the enterprises under item 3, if through them the state/municipality controls more than 50 per cent of the units/shares with voting rights or otherwise exercises a dominant influence;

management in the interest of the citizens; introduction of the competition start and the expert selection criteria, etc.

The tendencies, which will invariably be developed through the wide application of the law, will stimulate within the framework of the regional management: the development of the municipal credit markets; the development of standards for opening the public sphere to the citizens; strict financial discipline according to international accounting standards; creation of a permanent monitoring system aimed at achieving results.

The managerial approach to the nature of local resources is not determined only by their economic element – the created material, technical and production base, the used innovations, the conquered markets and marketing niches, the positions in the so-called „Long (global) supply chains“ (Паковска, 2011), etc. An important structural part of local resources is their social element, and the political element must also not be forgotten. As objects of regional management, on behalf and in the interest of the citizens, public enterprises should take their place in the public system which has the following distinctive features:

**A) Dynamics** – is associated with a constant change of parameters and indicators that characterize the system as a whole and its structural elements. As such, public enterprises are already part of Development Strategies – for example, Integrated Municipal Development Plans (IDPs). At the same time, the available capital (provided municipal resources) requires for the purposes of its good management, to make independent analyzes and to prepare targeted proposals for the role of the enterprise in such local strategies. This approach is usually characterized as „pro-active“ and I think it has its place in regional management.

**B) Gradual development** – means that the social system passes from one state to another in order to achieve certain results. In this regard, public enterprises are part of the efforts of the central government to achieve deeper economic and social integrity within the membership of our country in the European Union (EU). For example, the share form of capital of such types of enterprises has a structuring function at the address of:

- the institutional interaction, requiring the establishment of effective relations with the Central Depository, the Financial Supervision Commission (FSC), the other participants in the regulated securities market, the newly established Agency for Public Enterprises and Control (APPC), and many others. etc.;

- the competitiveness of the Bulgarian economy, which requires more and more real innovations, application of the partnership principle, participation in wide access networks, the achievement of internationally recognized standards, etc.;

- the enrichment of the normative, functional, and systemic elements of the capital (corporate) management in the country with a view to the observance of the legal rules on an equal footing with the informal codes of ethics for „publicity“;

**C) Sustainability** – the structural elements in the social system do not change their behavior until the emergence of new functional relationships. Here, for their part,



public enterprises face a number of challenges as an object of regional management. For example, in the context of Bulgaria's accession efforts to The Exchange Rate Mechanism II (ERM II). One of the questions is how the shareholder relations will be structured, although the Bulgarian lev is fixed to the euro at the so-called „hard“ exchange rate. Transformations are all around us and purely private joint-stock companies rely on anticipatory strategies, while municipal joint-stock companies traditionally rely on a monopoly position.

**D) *Multivariate behavior*** of the social system. In this case, the policies aimed at regulating or stimulating business, continuing or refusing privatization and/or undertaking reprivatization, some macroeconomic actions – together or separately these conditions would optimize or hinder the current and future development of municipal companies.

### **3. Systemic and cybernetic challenges for public enterprises as an element of regional management**

The significant problems for the future development of municipal public enterprises are directly related to their two key characteristics. They are not an absolute novelty in the field of corporate management in our country, but they are unknown for the regional administrative practices:

- In the first place, this is the „consolidating“ nature, which is supposed to have this type of business entity, with the management of which the municipality is engaged. At the national level, such companies, in a short period of time and through state intervention, managed to form a broad holding structure. In such regional holdings, public enterprises will perform the functions of a „parent company“ and become in turn the owner (and rightfully manager) of a number of „subsidiaries“ – legal entities, as well as capital properties of different nature and economic purpose. The Municipal Councils should discuss and adopt a Concept for their management. And the consolidation process at the regional level is to be analyzed as an objective fact and a specific situation, through the prism of managerial conditions for the future development of the territory and the population.
- Secondly, this is the specific „public“ nature of these municipal companies. As joint-stock companies, they should develop a management policy (competencies, rights, obligations, and actions of the members of the Board of Directors), which should comply with the requirements of the Law, the Articles of Association of each company, and the standards of good, professional and responsible practice. Public management is realized not only through the principle of „good owner“ guaranteeing the interests of shareholders but also through building a positive public image capable of generating trust, support, and effective partnership with all audiences.

The concept for the development of each public enterprise should be focused on: overcoming real management deficits allowed by local administrations; designing alternatives for achieving economic and managerial sustainability; realization of maximum economic efficiency from the current state of the company's capital and its long-term increase; risk prevention and adaptation to the pressure caused by the dynamics of the external environment.

## Conclusion

Today, more than ever, regions need an assessment of the resources involved in the process of integration and transformation. This area is practically something beyond the traditional view and the efforts of administrators focused on the goals and not on the result as managers do. In our opinion, it is imperative to prepare a system of plans (project management) in the medium and strategic horizon (Александрова, 2021) regarding the necessary resources for:

- Digital transformation and digitalization of the business;
- Decarbonization of the economy;
- Successful inclusion of my country in the global „Green Deal“.

Significant personal and organizational efforts are required to achieve the expected results. The readiness for change is decisive both in the business environment and in the administrative structures, regardless of how it will be formulated – transformation, adaptation, optimization, reorganization, etc. Maximum responsibility and optimal use of expert capacity is needed, because the characteristics analyzed above, namely the „consolidating“ and „public“ nature of municipal enterprises will place ever higher demands on a number of elements of regional management: security; profitability; enhanced integration; competitiveness and many others.

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