



INVESTMENT POLICY IN STARA ZAGORA MUNICIPALITY - GUIDELINES AND REAL RESULTS

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ABSTRACT

Regional policy of the EU aims to draw closer the different regions on the national and supranational level. It has clear priorities for growth and more jobs for all regions and cities and is directed towards reducing disparities in socio-economic terms. Municipalities are a natural engine for socio-economic development. Their economic activeness can hardly be achieved without investment. Purpose of the study is to analyze the feasibility of municipalities to raise funds through project financing to address infrastructure problems. The emphasis is on study of this activity in one of the fast developing municipalities in Bulgaria - Stara Zagora. The main research results practically confirm the idea of the need for continuous investment in public-private infrastructure / industrial and social / as a warranty to generate higher regional socio-economic growth;

Key words: regional policy, socio-economic development, investment, infrastructure, project work

INTRODUCTION

Regional socio-economic growth is driven primarily by favorable balance between complex natural and human resources and the potential of the region's economy. In areas and regions runs the so called "Radar" process. It is associated with the deployment of production and activities in a given territory, including all the accompanying processes(1). The locational process involves several components, the most important is the object of deployment / enterprise / and deployment environment /area or settlement/. The site has a deployment requirements, and the deployment area has resources available.

The aim of the locational process is to create the most complete match between the needs of the facility location and capacity of the territory, expressed by the relationship REQUIREMENTS-RESOURCES.

The object of deployment analyses and tracks out the territory realities, which can be summarized in several groups:

1. Material resources and raw materials;
2. Labor resources and demographic potential;
3. Consumption of finished produce and services;
4. Transport network and connections;
5. Technical and social infrastructure.

These five groups could hardly cover all the conditions for investment activity in a region. However, they are a good basis for analysis and implementation of policies by local and central government.

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The local authority is directly related to the transport network and connections, as well as to industrial and social infrastructure.

RESULTS AND DISCUSSION

Municipalities are of great importance in order to attract investment at local and regional level. It consists of creating and maintaining a suitable environment for the conduct of business as one of the strands of this is the creation and maintenance of transport networks and links, as well as industrial and social infrastructures.

Elements of productive infrastructure are (2):

- Transportation and communication systems: roads, highways, port facilities, airports, waterways, etc..
- Transfer information systems: telephone equipment, radio, electronic, information, etc.
- Water storage, water supply and sewerage systems;
- Power supply and energy systems;
- Storehouse, garages and security systems;
- Repair and construction works sites.

The elements of social infrastructure are:

- Government institutions and money transfer
- Commercial services for the population;
- Housing Economy;
- Educational institution with an educational nature;
- Institutions dealing with health care;
- Material and technical base of the system for recreation, sport and tourism.

Depending on what is the source of funds for establishment and maintenance of infrastructure, it can be divided into private and public.

Private infrastructure is privately owned and serves to support the operations of a business entity to derive profit or benefit. The value of money for infrastructure, returns back in time, mainly by depreciation and generated profits.

Public infrastructure is financed by central government or local authorities, and public

funds at national and supranational level. It aims to assist the society or certain groups of communities. Unlike the private, in public infrastructure, making a profit does not have a leading role. The invested money can hardly be restored back as budget entities and agencies do not charge depreciation for assets acquired (3), unless they have created joint ventures with private individuals or entities.

Stara Zagora is a dynamically developing municipality. Over 175 thousand people live in the municipality, distributed in 51 settlements. This population is over 45% of the population of the whole region. The municipality is a natural engine of economic development of the region as well as of South-East planning region / NUTS II /. In 2008 in the municipality operated 7849 enterprises, which employ 53,278 people and which produced an output for BGN 2.5 billion (4).

This economic activity can hardly be achieved without investment incurred for the period 2000-2008, only in 2008 foreign direct investment in the area was EUR 419.2 million. This was a consistent trend both for the region and for the whole country and is direct evidence of how attractive the region is for investors, including the municipality. For the period 2004-2008 significant growth was carried both in foreign trade sector and in foreign direct investments in Bulgaria. With the development of global financial and economic crisis, the situation in the country has changed. In 2008 for the first time there was a decrease in the annual amount of investment. In 2009, the results were worse. For the period January-August 2009, direct investments in Bulgaria were only EUR 1,952 million, which is 40 per cent of direct investments made in the same period in 2008 (5).

The issue of exports is in a similar situation. For the period January-August 2009, the exports was EUR 7 422.5 million. This is only 61% of the exports for the same period of time, but in 2008, which means that export-oriented businesses have lost their permanent positions in foreign markets.

The largest decline is in Industry sector . For the first half of 2009, gross added value realized by the sector was reduced by almost 10 per cent. There was a marked reduction in agriculture sector too, but with 5.8 per cent. The overall decrease in BS is 2.3 percent, a reduction in GDP for the first half of 2009 was 4.2 per cent compared to 2008 levels.

In terms of industrial production, there was a significant drop in the index of industrial production in the early 2009, as the manufacturing shows a strong decline during the month of January 2009 . The decrease is in the production of food, beverages, tobacco, textiles, timber, medical substances and products, and plastics. The production of furniture and manufacturing of machinery and equipment declined by 25%, which was almost halfly reduced.

There are visible and adverse trends in the labor market. Once in 2008, it had some of the lowest levels in 20 years, a slight tendency of increasing the level of unemployment was observed in 2009. There are areas where this indicator is above 10 percent, such as: Blagoevgrad - 10.24 percent, Vidin - 12.11%, Vratsa - 11.16%, Lovech - 11.40%, Montana - 13.61, Pazardjik - 11.43%, Razgrad - 12.05%, Smolyan - 14.78% Targovishte - Shumen and 13.58% - 12.90%. Uneven distribution of unemployment indicators in the country requires measures for action to overlap the regional approach.

The crisis that affected the private sector continues today, as it is increasingly evident in the public sector. The maximum total public expenditure, including subsidies to municipalities has been limited.

This reduces the ability of municipalities to finance state delegated activities, which underpin the administrative and financial decentralization in Bulgaria, which aims to increase the efficiency of public spending. By reducing and streamlining of public expenditure the volume of municipal investments was reduced both in local activities and in delegated by the state activities realized by municipalities (6).

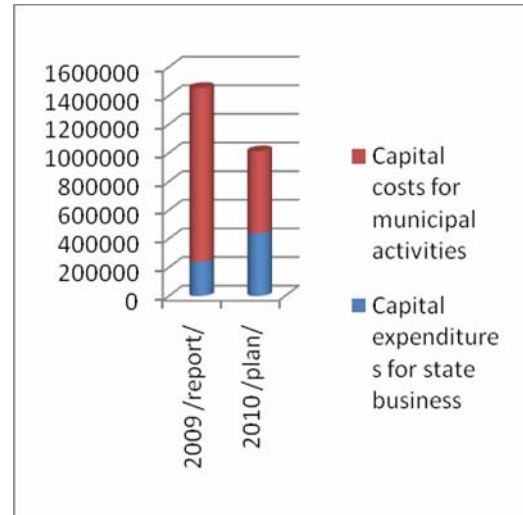


Figure 1. Target subsidy for capital expenditures from the Republican budget and its distribution by type of activity / state and municipal/. (7)

In 2009 the real cost of capital subsidy from the central budget to the municipality of Stara Zagora is estimated at BGN 1.45 million (**Fig. 1**), while the planned funds for 2010 were BGN1.01 million. Unfortunately, actual implementation of budget in 2010 is difficult to predict because it depends mostly on the central government policy to address the crisis and its consequences. It is very likely restrictive measures to be taken in respect of municipal finances and the money pledged to the municipality to fall below BGN 1 million. Generally the volume of planned capital expenditures in the municipality for 2010 was reduced.

The volume of the capital expenditure for 2010 (8) is BGN 9.12 million, with 2.59 million provided for the repair of existing assets, 4.64 million were provided for the acquisition of new fixed assets, 1.16 million for the acquisition of new intangible assets, 0.52 million for purchase of land and 0.21 million for capital transfers.

In the analysis it is clear that priority is given to function "Education" (**Fig. 2**) in the planned major repairs and in the purchase of fixed assets shall be given priority to functions "Residential construction, public works, utilities and environmental protection" (**Fig. 3**), Culture and Education.

Provided funds for major repairs of roads in 2010 are only BGN 0.53 million. Provided that the municipality has 51 settlements, which must have an adequate transport network, these resources are scarce.

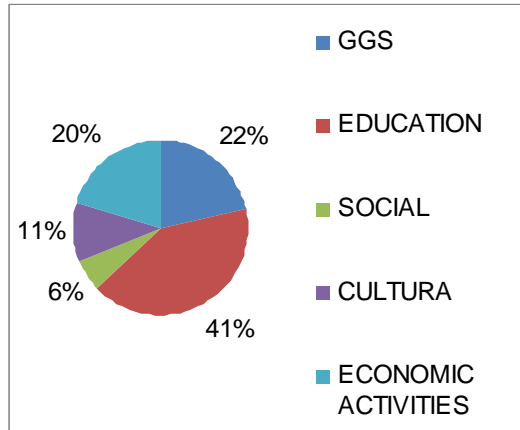


Figure 2. Distribution of costs for major repair by function.

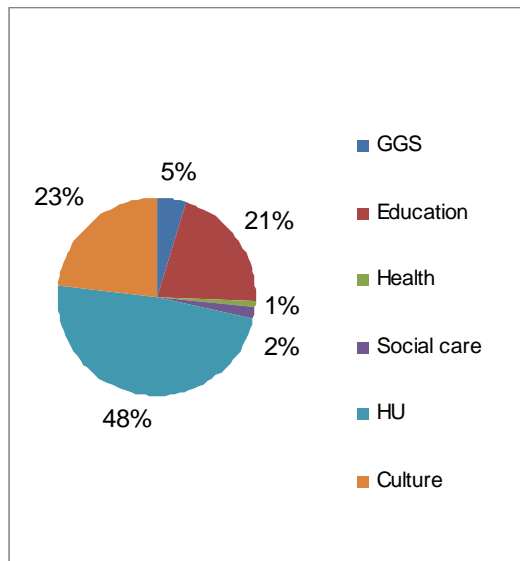


Figure 3. Allocation of costs for acquisition of fixed assets by function.

All this proves that the municipality of Stara Zagora, like all municipalities in the country, is working in conditions of extreme underfunding of municipal investments.

This necessitates the search for new opportunities to seek financial resources. One of those options is called Project Financing. Project financing consists of borrowing by developing projects that are

ranked competitively. In the "Art" in the development of the project it is right to formulate and justify the issues and to demonstrate that a certain problem is significant for the local community.

Members of the European Union have access to several major funds, including the European Regional Development Fund, European Social Fund, Cohesion Fund of the Community, the European Agricultural Fund for Rural Development and the European Agricultural Guarantee fisheries. All these funds are tools with which the European Commission carries out its policies. Funds are in the basis of the seven operational programs, acting in our country. Through them, the municipalities have access to resources that will top up their costs and investments in large infrastructure projects and in human capital.

Stara Zagora Municipality conducts vigorous action related to the development of projects. The campaign began before the entry of our country in the EU, through the use of pre-accession instruments - PHARE, ISPA and SAPARD, which were instruments of regional policy of the Union for the countries in pre-accession phase.

On 05 January 2005, we began construction of Urban Wastewater Treatment Plant. The funds were provided under the ISPA program. The value of the facility was estimated at EUR 13.6 million. Until now 95% of construction and assembly work was done. After completion of the station we will meet the requirements for sustainable municipality that will have means for the treatment of urban waste water ,which is now very pressing issue. To ensure the functioning of the purification process Principal collector sewer was built, which was also financed under the ISPA. The value of this infrastructure project is EUR 4.7 million .

An industrial zone in the village of Elelnino was built with the funds under the PHARE program. The zone is built on an area of 206 ha. Because of this external financing of large infrastructural projects, the municipality has the opportunity to refocus

its efforts on other sites, mainly to urbanization inside the city, as well as rehabilitation of various sites related to cultural life, education, health, conservation and more spheres of public life. With public resources the repair of the Opera House, which is a peculiar symbol of the city, is almost completed. After the vandal arson in 1991, today, citizens are again on the track to have a unique building, which repair works have continued for almost 20 years. There has been active investment in the facility during the last few years, and investments amounted to BGN 12 million. The construction of the Regional Historical Museum, which presents a unique architectural achievement, has been completed with public resources. The value of the investment was BGN 5.5 million. The municipality provided resources for reconstruction and modernization of the urban bus station. The Value of project was BGN 870, 000 .

To maintain the investment activity in the infrastructure of public importance we seek other partners. Such a partner is the central government. Supported by central government, the municipality reconstructed two boulevards, hoping that this will facilitate and optimize the traffic in the southern part of town, which is now a serious problem. With government support, a sewage system was built in two outskirt neighborhoods. The value of these two projects exceeds BGN 11.5 million.

After 2007, Bulgaria gets access to structural funds of the community by developing and operating approved programs.

Some of the major developed and won projects are:

- Project "Reconstruction of the municipal road Kaloyanovets village - the village of Lovets. The project is BGN 4.7 million and is funded under OP of Regional Development;
- Project for children in Stara Zagora - with responsibility and love. The project is BGN 5.8 million and financed under OP Regional Development;
- Project "Improving physical and vital environment in the district" Zheleznik"

Stara Zagora. The project is BGN 8.6 million, financed under OP "Regional Development";

- Project Municipality Stara Zagora - for better administrative services through eGovernment. The project is BGN 2.4 million and is funded under OP Administrative capacity;
- Project Electronic platform for an exchange of best practices and development of regional tourism. The value of project is BGN 276 thousand and is funded under OP Regional Development;
- The municipality has two projects aimed at upgrading, mainly on social infrastructure, but it lacks funding due to depletion of resources on these measures.

For the period 2008-2010, the value of approved projects under the operational programs is over BGN 34 million and the value of real funding is BGN 21.8 million. This is almost 5 times more than the granted funds for capital expenditure by the state for the same period. Project funding amounts to BGN 120 per inhabitant of the municipality for the period after the country's accession to the EU, while the subsidy for capital expenditures by country / 2008-2010 / is about BGN 26 per person. This comparison sufficiently shows the importance of the Structural Funds and of the activity on development of infrastructure projects by the municipal administration.

MAIN CONCLUSIONS AND RECOMMENDATIONS

As a result of the survey charges the following conclusions and recommendations:

- For a municipality to meet the criteria for sustainable development and better quality of life a continuous investment in public infrastructure / production and social / is necessary. This is a guarantee for generating high regional socio-economic growth;
- Local authorities and local administration could rely on greater efficiency in their work place if adequate and proactive local policy is

- pursued to stimulate investment and project business;
- For ranging issues and priority areas in infrastructure, which must be invested periodically can be made inquiries to the local community. Availability of adequate local infrastructure is essential for development of local economy and increasing attractiveness of the foreign private investment;

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GAYDARDZHIEVA V., *et al.*

