Europe changes people’s lives

Iliyana Tsanova

Deputy Managing Director, European Fund for Strategic Investments (EFSI)

On the New Years’ Eve of 2006, I was standing, together with thousands of Bulgarians, on the Battenberg square in Sofia. There was a magnificent concert taking place on the square with the map of Europe in the background. That concert was broadcasted live on all national TV channels. That evening was special – it was not just about welcoming the new year, it was far bigger than that. That evening was about Bulgaria joining the European family - a historic moment, probably the most significant event for Bulgaria since the fall of Communism in 1989. It was a very emotional moment for us Bulgarians and we were truly inspired. We had tears of joy as we knew that from that moment on, our country and our lives would change for good. After 45 years under communist regime, when basic personal freedoms were restricted, followed by a painful transition of 17 years, we went finally back to where we always belonged – Europe.

Twelve years later, we can reflect on a reality that is perhaps somewhat different to these great expectations.

Pre-accession - a period of intense modernisation

Joining the EU was a common goal of all former communist countries from Central and Eastern Europe (CEE). For Bulgaria, it was a national cause, which united all parts of society and the full political spectrum. The prospect of joining the European club of free and democratic societies, to adopt European laws, to reach Western standard of living, and to travel freely across Europe was something everyone understood and longed for. Membership of the EU was a strong stimulus for the reforms carried out by three consecutive governments in Bulgaria. Sadly, that was also the last clear unifying national and political cause.

The potential EU membership brought many benefits to the CEE. An influx of Foreign Direct Investments (FDI) were a major catalyst for growth, employment and innovation in the region. The conditions for membership gave a strong incentive for politicians to improve legislation, reform institutions and create a functioning market economy. A number of EU financial instruments, such as ISPA, Phare and SAPARD, were available to support investments in environmental infrastructure, rural development and administrative reforms. In summary, this was an intense period of modernisation of the CEE countries.

Some alarming issues also emerged. It quickly became apparent that the administrative capacity of these countries to plan, prepare and implement projects was insufficient. These capacity gaps

1 The views expressed in this document are solely those of the author and do not necessarily represent the official views of the European Commission or those of EFSI.
posed substantial risks to achieving the objectives and needed to be addressed as a matter of urgency. In response, many international institutions, such as the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the European Commission (EC), joined forces to help the CEE countries. At this time, I was working with the infrastructure department at the EBRD as a senior development banker. I worked closely with cities and governments to prepare and finance their infrastructure projects in the fields of transport, water supply, energy efficiency. Based on this experience, I believe that one of the most efficient approaches for promoting reforms and ensuring sustainability of investments was to blend investment grants with loans instead of pure grant support; the use of loans made the borrowers more financially responsible. Furthermore, the additional scrutiny by lenders ensured that the funds were used for investments that bring higher efficiency, improved service quality and long-term sustainability. Specific conditionalities in the loan agreements enforced good corporate governance and financial and operational management.

EU funded investments changed people’s lives

Once the countries became members of the EU, they received access to the EU Structural and Cohesion funds. These funds have been a major source of investment in infrastructure, environment, skills, culture, research and innovation – investments that improved the quality of our lives. During the global financial crisis, the EU support had a pivotal role in sustaining investment activity in the region and mitigated the impact of the crisis. EU structural funds boosted the investment ecosystem and kick-started venture capital investments. We have witnessed a significant boom of venture capital in Bulgaria, Poland and the Baltics, spurred on by cornerstone investments under the JEREMIE programme. These investments have had a very positive lasting effect on the innovation climate in the region.

A bittersweet reality

Without a doubt, the global financial crisis slowed down the convergence process between east and west. Although the performance from country to country widely varies, three common challenges emerged: First, the absorption of the EU funds became the primary focus. Although investment needs were far greater than the available budgets under Structural and Cohesion programmes, governments were not making enough effort to attract additional investment sources and thus reduce dependency on EU funding. Second, the pace of reforms significantly slowed down, while corruption proliferated. As a result, the EU-funded investments did not achieve entirely the original goal to reduce the economic, social and territorial disparities between east and west. This led to a widespread disappointment among people, who believed that EU membership would offer a quick fix to some of the long-lasting governance issues and raise living standards. Third, millions of workers moved from east to west to seek better employment opportunities. The labour exodus confronted EU with new serious challenges - severe shortage of labour in the east, and resentment against wage dumping and raise of nationalism in the west.
The future rests on core values

1. **Invest in human capital and innovation.** Looking ahead, the key question for us is how to succeed the transition towards a model that would ensure economic and social convergence with the west and tackle the issue with the loss of labour. Lower cost of labour, which was one of the building blocks of the region’s attractiveness as an investment destination, led to labour shortage that is now threatening its productivity and the economic growth prospects. Without a doubt, we shall continue to upgrade our infrastructure. However, if we want to catch up with the wealthier member states and narrow the income gap, we need to improve our productivity. That is why we need to focus on the critical underlying factors - invest in human resource and innovation. There is no “one size fits all” solution and each country would have to devise an individual development strategy that is based on its core competencies and competitive advantages. The most important task ahead of us is to become an attractive destination for talent and investments so that we are not only able to build and attract human capital, but also retain it.

2. **Good governance.** Brussels is often blamed for imposing bureaucracy and unnecessary standards for businesses. The truth is that the national policy- makers are in charge of implementing the necessary reforms and reduce red tape to make their countries an attractive place for living and investing. The negative impact on the economy from poor governance, low quality of public services and corruption cannot be offset purely with EU financial instruments. While responsibility rests with national governments, EU could further strengthen its policies and tools to ensure that no EU country deviates or lags behind.

3. **Adhere to core values.** A greater concern is that today member states make decisions based on short-term interests as opposed to common core values, i.e., human rights, freedom, democracy, equality and rule of law. This poses a serious risk to the integrity of the Union, which has remained united for 60 years thanks to these values. We must avoid a new divide between east and west. Therefore, the adherence to the basic values must be reinforced by objective and transparent EU policies. These need to apply equally to all, regardless of political affiliations of governments or the agendas of individual politicians.

Today the EU faces a multitude of challenges, with the further convergence of the CEE countries being one of them. When we contemplate our common future, a good starting point would be to move away from the mindset of “net payer” versus “net beneficiary” or “core” versus “periphery” member states but instead, focus on the fact that it is of our national interest to work for the prosperity and competitiveness of the EU as a whole. No European country alone has the critical mass to compete on the global stage.

Finally, thinking back to that New Year’s Eve in 2006 we can agree that the journey has not been as smooth as we hoped for, but I believe that joining the EU was the best thing that happened to
my country and remains the only alternative for our future. However, if we are to put the EU at a pole economic and political leadership position, we all need to agree on a grander vision to take us there.

Bulgaria, along with the other CEE countries are an integral part of the EU and as such should find their proper role in this critical process.