THE FUTURE OF INDUSTRIALISED CITIES AND REGIONS UNDERGOING
STRUCTURAL CHANGES

Bulgaria

Country report
draft

Prepared by

Julia Spiridonova
Maria Novakova
Rradoslav Guenchev

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1. GENERAL SITUATION OF OLD INDUSTRIALISED CITIES AND REGIONS

1.1 Development in the past

The historical and political peculiarities of Bulgaria's development have invariably determined the development of industry, the creation and development of cities and industrial areas.

Unlike a series of other European countries industrial production in Bulgaria came late and emerged in early 19 c. And by 1880 the first industrial centres had appeared like Plovdiv, Veliko Turnovo, Gabrovo, Ruse, Sliven and later Sofia. Enterprises are small and mainly in the field of the food industry: textiles, spirits, wine, leather articles.

By late 19 c. Industry waned because of competition from cheaper and better quality West European merchandise and the exceptionally low customs taxes. That prompted the state to impose a strong protectionism policy to boost local industrial production. Instead of merchandise Bulgaria imported capital from Germany, Austria, Belgium, Czech Republic, etc., invested chiefly in ore mining and the processing of agricultural produce. The 1900-1918 period is characterized by a visible upsurge in industrial development.

In the 1920s industry was dominated by textile, leather and food production. Some ore mining sectors were also developed (ore mining, coal mining, timber). Machine-building, metal working and the chemical industry were started. They were created mainly in regions with greater and more qualified manpower and natural resources.

Between the two World Wars, the number of industrial plants grew rapidly and totaled 3345 in 1939 with an average occupation of 30 people. Industrial plants were created in big cities: Ruse, Plovdiv, Varna, Sofia, Pleven, Stara Zagora, Gabrovo. The first more complex industrial formations appeared as well: regions around Sofia, Plovdiv, etc., the factors being chiefly economic: lower pricing of construction plots, cheap manpower, proximity to markets, etc. The industrial vs rural areas problem was emerging.

In late 1939, the processing industry accounted for 84.4% of industrial production, ore mining - 13.8%, power generation - 1.8%. The industrial production per capita in USD was almost ten times lower than Germany's and 20 times lower than the UK's. During the same period the city of Sofia had already concentrated 23.5% of industrial production, Plovdiv - 9.6%, Ruse - 5.5.%, Varna - 5.2.%, Burgas - 3.7%. (Donchev D, 1996)

In 66 years (1880-1945) the number of towns rose by 50 and of urban population - 2.3 times.

During the planned economy period (1946-1989), there were significant changes in the development and organization of industry, the size of enterprises, their number and sectorial structure. The process of accelerated all-out industrialization had major impacts on the transformation of the rural network, the formation and development of powerful industrial regions, the centre/periphery problem origination and deepening.

This country's industrial development chief sectorial characteristics during the period are:

- Exceptionally large-scale industrialization with a very high share of big industrial plants (employing thousands of people), investment which is initially at the expense of very low incomes in agriculture;
- Predominant development of heavy and strongly material-dependent industry which, with limited national energy, ore and chemical matarials necessitated their import mainly from the former USSR;
- Against the background of the emerging economic globalization, there was an exceptional dependence of the national economy on Comecon. In 1985, the country foreign trade within Comecon was 77%;
- Technological backwardness because of the relative isolation of the system and participation in the global competition;
- Ecological problems because of the concentration of mining and energy capacities in certain regions and insufficient ecological investment.

The country's industrial structure in the 1990s was relatively created, without significant structural changes and was characterized with low fluctuations. Only electrical engineering and computer manufacturing were developed at higher rates and from 9.9% in the early 1990s, their share reached 15.84 in 1989 as well as mechanical engineering which reached 17.6%. The food industry (21.1%) was also a decisive industrial sector.

A number of authors note that during the 1980s Bulgaria entered the stage of pre-industrialization, over-industrialization but lacked the necessary resources and markets for a sustainable and crisis-free development of the overgrown industry. Meanwhile the tertiary sector was in a rudimentary stage and was not to be seen at all in a number of sectors. This economic structure was much more vulnerable and did not endure the new requirements of the market economy, the slump was very strong and the country had to cover the whole way to the assertion of a post-industrial economic development model.

The territorial peculiarities of industrial production boiled down to the following:

- For a brief period (1952-1970) industrialization as an extensive process with a natural physical expansion ended. That caused a huge transformation of the rural network and especially of Bulgarian villages;
- This process was more or less countered by the 1959 administrative and territorial reform when 28 district centres were created. This administrative backbone which was artificially created, was later established as a natural "urban" network, evenly distributed across the country, forming the nodes of different types of industrial regions;
- As a result of the quick development of industry after 1948, urban population grew rapidly. The number of towns grew from 105 to 172 between 1948 and 1970, urban population grew from 24% to 50% (in 20 years the urban population grew 2.5 times). The link between industrial growth rates and urban population growth is almost functional. The 1948-1970 coefficient between the two phenomena is 0.89 (Bradistilov D., 1974);
- Parallel with the quantitative changes in human settlements network there were profound quality shifts for creation of major industrial centres and regions. Depending on the degree of territorial specialization, concentration and complexity of industrial production, there emerged different forms of industrial cities and regions: industrial nuclei, centres, production complexis, etc. The planned territorial specialization of these formations was in compliance with the country's Comecon specialization and Comecon's disintegration led to a collapse of all Bulgarian industrial regions (see Map 1);
- As a result of alteration during the period of industrialization, the human settlements network from a disperse structure after concentration and urbanization showed an inclination to territorial growth of big cities and violation of their compact form. The process intensified of creating a new type of settlement formation - agglomeration and conglomeration, on the base of industrial co-operation. The centre/periphery phenomenon also emerged. But the complex settlement formations of the agglomeration type with a few exceptions (Sofia-Pernik, Varna, Plovdiv, etc.) were not developed significantly (see Map 2).
- The infrastructure corridors turned into the main reason for a further stimulation of the development along two parallel axes in northern and southern Bulgaria which made regionalists speak about the so called "ring" - Sofia-Pazardjik-Plovdiv-Stara Zagora-Sliven-Burgas-Varna-Devnya-Shumen-G. Oryahovitsa-V. Turnovo-Pleven-Mezdra (Vratsa)-Sofia which in the late 1970s concentrated around 70% of fixed assets and the production share was over 75%.
- Distortion of the space along the borders for political reasons and deepening of the periphery nature of western and southern border regions. As a result of the import of raw materials mainly from the former USSR there was a shift in manufacturing facilities from the west to the east.

Table 1: Structure of output of the industrial enterprises and establishments by branch (in %)

Branches	**1939**	**1989**	**1996**
Production of electricity and thermal energy	1,8	3,6	7,5
Coal industry	-	1,3	1,9
Ferrous metallurgy	-	3,0	6,1
Non-ferrous metallurgy	-	2,3	6,2
Machine-building and metal-working industry	2,4	17,9	9,1
Electrical and electronic industry	-	16,7	5,1
Chemical and oil processing industry (incl. rubber)	1,9	15,2	26,4
Building materials industry	1,7	2,4	2,8
Logging and manufacture of wood and wood products	10,3	2,7	3,0
Manufacture of cellulose, paper and paper products	1,5	1,1	1,7
Manufacture of glass and glass products, china and earthenware	1,0	0,8	1,8
Manufacture of textile, knitwear and of wearing apparel	19,8	7,4	5,7
Leather, furriery and footwear industry	2,1	1,4	1,5
Printing industry	1,7	0,4	1,1
Manufacture of food, beverage and tobacco	51,2	20,5	19,7
Other branches of industry	4,6	3,3	0,3

Source: Statistical Yearbook. – Sofia: National Statistical Institute, 1990, 1997.

1.2 The present situation

Basic development trends

The transition process was strongly hampered by the historical legacy of the startup position, notably, a very high degree of dependence, compared to other CEE countries, with the former Comecon whose disintegration has dealt a shocking blow at the Bulgarian economy; artificial maintenance of high growth rates in the 1980s at the expense of drawing up significant external resources which placed the country at the beginning of the transition with a huge foreign debt (Bulgaria at the beginning..., 1995); belonging to a region considered "volatile and risky".

The transition was also very much hindered by delays and errors in promoting reform and the lack of a clear-cut strategy and corresponding policy of industrial and spatial development, an additional deterioration of the regional situation.

The basic macroeconomic indices characterizing the state and trends of the development of the Bulgarian economy since the beginning of transition have shown a serious slump in real GDP values irrespective of the positive fluctuations during certain periods.

After a brief period of a relatively low economic growth in 1994, 1995 and the first half of 1996, the financial sector underwent a severe crisis which had an overall economic impact. This prompted the introduction of a currency board in mid-1997. The main outcome of the currency board is the stabilization of the economic system but the anticipated rapid recovery of the economy was not attained.

The post-1997 GDP growth rates were lower than the projected ones. The reason was a series of external shocks which impacted on the Bulgarian economy. The 1997 Asian crisis, the 1998 Russian crisis and the 1999 Kosovo crisis dealt successive "blows" at the national economy and the high-growth outlooks.

The trends in the structural proportions of the categories of essential use of the GDP are an unfavourable premise of a sustainable upward development of the economy. The relative share of investment in GDP slumps from 18.2% in 1991 to 11.6% in 1998 which is insufficient to secure real opportunities for an economic restructuring. The investment/consumption proportion within the GDP lacks a perspective from the point of view of expanding and revitalizing production and is much worse as compared to other CEE countries. In Bulgaria this correlation has constantly waned and was 11% in 1998, it is 20-30% in other countries in transition (Cf. Bulgaria '98. Socioeconomic Development, 2000).

The highest-growth sectors during this period are communications, transport, agriculture and forestry. After a poor growth in 1995-1996, industrial development since 1990 has waned down to 50%. In the wake of transformations in the structure of industry there has been a rise in the share of ore mining sectors and power generation while structurally important productions in 1990 like machine building, computer and electrical engineering, the food industry have lost ground.

The private sector has played an important part in the GDP growth over the past two years or so. It accounts for about 2/3rds of the GDP growth.

Table 2: Bulgaria key convergence indicators

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Activity									
GDP (real %ch)	-1.5	1.8	2.1	-10.9	-6.9	3.5	2.4	5	6.8
GDP (Euro bn)	9.2	8.1	11	7.8	9	10.9	11.3	12.7	13.8
Per capita GDP (Euro bn)	1091	966	1312	939	1086	1324	1371	1544	1682
Per capita GDP (US$m) %ch	N/A	-11.4	35.8	-28.4	15.7	21.9	3.6	12.6	8.9
Composition of GDP %									
Manufacturing	32.7	29.9	31.0	30.6	25.3	25.5	23.4		
Agriculture	9.9	11.5	12.7	12.4	23.8	18.7	15.1		
Services	50.8	51.8	51.1	51.5	40.5	44.7	48.8		
Composition of employment %									
Agriculture	22.1	23.2	23.9	24.4	25.3	25.7			
Manufacturing	30.3	29.1	28.1	27.5	32	30.8			
Fixed investment (% of GDP)	9.4	14.4	13.6	11.4	12.8	15.1	17.1	19.6	
Fixed investment growth (%)	-14.7	1.1	10.5	-22	-22.1	16.4	20	1922	
Foreign direct investment - FDI (US$m)	102	211	163	256	636	220	755	1000	1000
Share of economy in private sector(%)		40	45	45	50	63	75	75	75
Trade									
Trade with EU (% of total)	28	34	37	37.6	41	46.5	52	53	54
Exports to EU(%)	28.1	35.5	37.6	39.1	43.3	49.7	55	56	57
Imports from EU(%)	28	32.1	36.5	35.1	37.3	45	50	51	52
Current account (% of GDP)	-10.4	-0.3	-0.2	0.9	4.3	-0.5	-5.7	-5.4	-5.4
Fiscal balances (% of GDP)									
Budget balance	-14.1	-5.5	-5.7	-11	-3.1	1.1	-1.3	-1	-0.5
Public debt	163.7	161.7	115.7	124.6	106.8	86.7	71	68.4	60.5
Prices									
CPI inflation(%)	73.1	95.9	62.1	123	1082	22.3	1.8	6.6	2
Proportion of prices liberalized(%)		58	54	47.9	83	84.2	85	87	88

Source: Bulgarian Foreign Investment Agency, 2000. All indicators are period averages unless otherwise specified Sources: Bulgarian National Bank, National Statistics institute, EU, EBRD, ING Banngs estimates

The lack of sustainability of most of the industrial regions because of the rapid quantitative growth during the period of industrialization has been further exacerbated during the period of transition as a result of the overall social and economic crisis.

The protracting crisis has sharpened regional disparities and polarized the nation. Their lasting worsening is due to the country's 10-year long withdrawal from regional policy.

The main trends of the changes in the economic base in regions and towns are characterized by:

- An overall slump in the industrialization level in all towns and regions and a narrowing of their economic base;
- The bulk of structural changes in the economic base of towns and regions has been generated by the different drop of individual sectors, and much less by an effective adjustment through new productions;
- Disintegration of past "planned" technological links and regional economic structures because of massive production close-downs coupled with a liberalization of imports and exports and the development of the private sector. This had an effect on a reduction of the importance and organizing role of industrial centres as concerns the adjacent areas and a constriction of the territorial range of industrial formations;
- New structural proportions: services/production. The increasing share of the tertiary sector shows the modernization of the structure of the economic base of industrial regions, but the low correlation between its growth and the effected industrial growth or the lack of such displays an insufficient efficiency of the sector;
- Contrast development of industrial regions and towns: continuation of the process of concentration of economic activities in big cities and a continuing decline of industrial activities in towns.

Studying the nature of the structural changes in industry and the development of industrial regions in Bulgaria a conclusion can be made that the losses in the economic base of the regions do not boil down solely to the predominant development in them of the so called „old industrial branches„ (as mining, metallurgy, steel production...). Actually, these industry are predominantly declining industries and are at the root of the emergence of "losing" regions and throughout the past ten years there have been substantial changes in their development through the closure of unprofitable mines, restructuring and privatization. (See Map 3).

Very topical for the country are also the processes in regions characterized by a monostructural or poorly diversified economy, in which industrial sectors marked as depressive predominate, as well as regions in which industrial depression has resulted from the accumulation of waning sectors , i.e., there is a decline of the economic importance of industry (output, workforce, value added).

The need of pursuing a regional policy facing the problems in those regions was declared by the Regional Development Act (1999). The law introduces as an object of specific support the so-called „regions for purposeful impact": regions for development, regions of growth, regions for transborder co-operation, underdeveloped rural regions and regions of industrial decline (see Map 4).

Organisation and role of spatial planning

The radical change of the conditions and the inadequate normative base did not help but deteriorated the conditions of organization of the territory and promotion of growth through spatial planning.

The lack of funds in regional authorities and the much delayed development and adoption of a new spatial planning law delayed the work on the development of new urbanization plans. The predominant part of existing town and country plans were developed with the lack of private property, absolute state rights to deal with realties and a centralized planning of investment. The industrial areas in them do not satisfy investors, which prefer "greenfields" than "brownfields" investments. A partial change or a piece-meal change of these plans for certain frequently most problematic territorial plots (and they are the most conflicting and pressurized structures) led to serious changes, and in some cases to an overall replacement of important and strategic urbanization decisions. In this way, the existing urban plans are rather a hindrance in managing spatial processes.

Another very important organizational matter is the urbanization management of investment. Unofficial data shows that the share of private investment (without those in infrastructure) was 70% (and even 90% in some areas) of all investment, i.e., they are a prime source of building resources. There are no mechanisms of linking the private investment with the construction of infrastructure element and the overall construction of the urban habitat.

The above main problems in spatial planning led to the drafting of the New Spatial Planning Act, adopted by the Council of Minister and about to be adopted by Parliament.

Perspectives for integration into EU

The invitation, extended by the European Union for negotiations on Bulgaria's admission to membership, has had a motivating impact on the development of the country and gave a push to more dynamic and goal-oriented policy efforts.

The assessment of the impact of the process of integration on the development of regions experiencing serious hardships in its development, gives grounds to draw certain conclusions. The anticipated positive changes relate to:

- Attaching new qualities to the regions located along the southern and southwestern border and encouraging their development through programmes supporting cross-border co-operation and the development of backward regions;
- Making the regions located along international transport corridors more effective and dynamic;
- Greater access to international funds and an intensification of investment in the country as a premise of successful restructuring.

On the other hand, the liberalization of trade with the EU and raising the importance of non-tariff barriers test the internationalization of Bulgarian industrial plants and prompts an adaptation of local manufacturers as concerns the quality, packaging and marketing of their products and an overall better competitiveness of production.

2. SPECIFIC PROBLEMS OF REGIONS IN INDUSTRIAL DECLINE IN BULGARIA

2.1. Identification

For the purposes of the Regional Development Act in Bulgaria „the regions of industrial decline" are municipalities or groups of municipalities characterized by a monostructural economy with a high degree of declining industrial sectors, production slump and surging unemployment which are undergoing or have to undergo an economic restructuring which entails an emergence or a risk of the emergence of acute social problems.

Table 3: Identification indicators:

Indicators	Value
1. Level of industrial employment	Relative share of those employed in industry in the total number of those employed in the past year – above the national average
2. Monostructure of the economy, dominated by industrial sectors in decline	Relative share of those employed in the sectors: coal mining, ore extraction and metallurgy, metal casting, chemistry, textile in the total number of those employed in industry in the past year – above 50 percent
3. Level and dynamics of unemployment	Mean annual unemployment rate for each of the past 3 successive years – above the national average for the respective year
4. Industry dynamics unemployment	Negative growth of those employed in industry for the last 6-year period – above the national average
5. Industrial decline	Drop of industrial output above the national average

A mandatory condition in the selection of these indicators is that they are subject to regular and formal statistical surveys.

The identification of declining industrial regions is seriously hampered because of the fact that the bulk of the country's industrial regions have structural problems and an industrial slump. On the other hand, the boundaries, defining the different types of regions, are to a certain extent conventional. Many of the regions bear the characteristics of two or more types, therefore it is their major characteristics, that have a more long-term and stable impact on the economic development and participation in the spatial division of labour, that are taken as a starting point for their definition.

This survey examines "regions of industrial decline". They are analyzed within their territorial scope, adopted by a 1999 Council of Minister Decree as a result of the "Ordinance of setting out the criteria and territorial scope of regions of purposeful impact". It should be noted that irrespective of their determined territorial scope for the purposes of the law, the problems of industry scrapping because of "antiquation" or lack of competitiveness are typical of most of the country's industrial regions. In this sense, the problems thus outlined are representative of regions in Bulgaria.

There are seven regions labeled "regions of industrial decline". There are other regions where the principal field of employment is coal mining, the energy sector or the ferrous metallurgy (see Map 5). Although at this stage such regions have not been classified as regions of industrial decline because it is considered that the risk of emergence of a critical situation there is potentially low (see Map 6).

2.2. Situation and problems in the regions in industrial decline

Within the defined spatial coverage the regions of industrial decline cover 9 percent of the total area of the Republic of Bulgaria and feature a population of 530 thousand inhabitants or 8.3 percent of the country's population.

Table 4: Main comparative indicators

Indicators	**% of R.Bulgaria**
Area	9%
Population	8.3%
Active population	8.6%
The share of inhabitants with higher, college and high school education	39 %; 46% - national average
Employed in industry	56.8% (from 36% to 69%) 39.2%-national average
the share of old industry sectors	From 37% to 80%
Coal mining	44.3%
Ferrous metallurgy	28%
Non-ferrous metallurgy	65%
Textile industry	12%
Heavy chemistry	7%
Level of unemployment	From 20% to 41%
Drop of industrial output (1990-1998)	From 40% to 70%
Settlement structure	Predominantly medium-size and small cities
	- Mono-functional settlement - Regions („nodes“ and the space between)

The population is employed mainly in industry. In some regions the level of employment in industry is above 60 percent.

Monostructure of the economy is a typical characteristic. The share of old industrial sectors in the manufacturing varies in the range of 37 to 80 percent: 44.3 percent of coal mining, 65 percent of non-ferrous metallurgy, 28 percent of the ferrous metallurgy, 12 percent of the textile industry, 7 percent of the chemical industry (mainly basic chemistry), are concentrated in these regions.

The specific problems of the development of the regions in industrial decline are: Drop of industrial output, which in the period 1990-1998 is in the range of 40-70 percent, one of the highest in the country. The economic base of the cities has been narrowed; certain production lines have been shut down or gravely reduced. The shift to alternative activities is weak, the emergence of new small and medium-size enterprises meets severe hindrances. The general drop of economic activities had a negative impact in all spheres. This problem is additionally aggravated by the absence of the necessary conditions for rapid rehabilitation of the industrial sites. The sole „positive“ effect of this shrinkage of production is the reduced emissions from the polluting manufacturing facilities.

Table 5: Main indicators of regions in industrial decline in Bulgaria

Municipality	Secondary Enrollment Rate	VA per capita, 1998 (BGN)	VA per employee, 1998 (BGN)	GDP in thous. USD, 1998 volume average exchange rate 1,76339	GDP in USD per capita, 1998	GDP in PPP$ per capita	Employed in private sector, % of total, 1998	Arable land as % of total, 1996
Tvarditza	53,8	934	2 893	12 231	737	2 384	62,4	22,3
Roman	60,3	1 392	4 519	7 314	872	2 821	71,0	38,0
Cherven Bryag	61,8	1 384	4 984	36 372	963	3 114	54,4	58,4
Mezdra	60,3	1 775	4 989	30 908	1 127	3 647	63,6	36,0
Lukovit	60,4	929	3 347	15 394	691	2 237	64,9	48,8
Byala Slatina	60,3	985	3 464	20 396	615	1 991	71,2	73,3
Chiprovtzi	61,2	824	2 392	4 721	787	2 546	47,5	25,7
Chuprene	57,3	966	4 676	2 460	727	2 353	50,4	21,4
Dospat	63,2	1 128	2 946	12 978	1 264	4 089	74,3	8,0
Zlatograd	63,2	1 195	2 785	20 220	1 335	4 319	55,4	13,0
Madan	63,2	1 665	3 937	29 937	1 875	6 065	43,2	14,0
Nedelino	63,2	990	4 495	9 784	1 102	3 566	64,1	21,9
Rudozem	63,2	2 640	5 544	34 330	2 985	9 656	58,5	7,8
Pernik	58,6	2 040	4 943	110 372	1 043	3 372	49,5	32,5
Radomir	58,6	2 547	6 454	33 681	1 298	4 199	49,8	41,6
Dupnitza	59,1	2 247	5 615	68 177	1 272	4 115	60,0	37,1
Bobovdol	59,1	7 166	8 393	55 934	4 098	13 256	20,7	39,9
Simitli	73,7	1 474	3 998	22 640	1 362	4 405	47,2	9,4
Lesichevo	55,9	748	4 120	3 329	468	1 515	78,9	37,9
Panagyurishte	55,9	2 775	6 495	55 503	1 817	5 877	46,6	23,4
Septemvri	55,9	1 519	5 972	31 255	987	3 192	66,5	48,4
Ihtiman	57,1	1 705	5 320	18 617	1 058	3 422	56,8	22,1
Bulgaria **total** (or average)	74,8	2 334	6 093	12 236 102	1 487	4 809	61,0	43,3
Min	49,8	405	1 640	459	282	912	20,7	0,0
Max	93,1	15 756	18 818	2 383 764	9 251	29 925	96,9	85,3
Regions **total** (or average)		1 084	5 084	636 551	1 226		0,0%	33.4
Min	53,8	748	2 392	2 460	468	1 515	20,66	8.0
Max	73,7	7 166	8 393	110 372	4 098	13 256	78,85	73.0
Regions/Bulgaria-**total**		46,4%	83,4%	5,2%	82,5%		0,0%	83%

Source: National Statistical Institute of Bulgaria, National Human Development Report – Bulgaria 2000, UNDP

High unemployment level. During the 3-year period under review (1996-1998) the level of unemployment has been above 50 percent of the national average. In the overwhelming majority of the regions and cities it exceeds 15 percent and varies in the range of 20 to 46 percent, the country's average being 14 -16%.

An important measure of local impact of any reductions in employment is to consider both the direct effects on unemployment and also the indirect effects. These are largely also a result of an increase in local purchases of goods and services, both by the mining companies and by miners and their families as a consequence of the severe curtailing of their disposable income.

Ecological damages. The concentration of large enterprises of the energy sector or metallurgy and their operation determined these regions as ecologically depressive areas. In recent years, due to the drop in production, there is a marked reduction of harmful emissions, however a number of other forms of pollution – that of soils, water and air – still represent a grave environmental problem for these regions. The ecological problems in some regions (Madan, Rudozem, Pernik, etc) are among the highest health risk and disease coefficient regions.

Table 6: Specific problems of regions in industrial decline

Problems	**Characteristics**
Economic problems	- Economic drop; - Low diversification of economic activities; - Low degree of economic competitiveness; - De-industrialization;
Mental problems	- Low degree of entrepreneurship; - Dependence of state decisions – „old thinking" of the population; - Low ability for re-qualification;
Human resources problems	- Demographic decline; - Negative balance of net migration; - Youth migration for economic reasons and lack of motivation - Low capacities of educated labour force;
Infrastructure problems	- Lack of infrastructure for economic support; - Obsolete basic and social infrastructure
Social problems	- high level of unemployment; - shrinking average income; - increasing in local purchases of goods and services
Ecological problems	- highly degraded soils; - air and water pollution; - devastated landscape; - spoiled urban patterns; - health risk; - „positive" effect of the shrinkage of production – reduced emissions from the polluting manufacturing facilities
Investment problems	- low attractiveness for foreign investors; - lack of investments for restructuring
Human settlements problems	- Narrowed economic base of the cities and municipalities due to economic decline; - Urban and rural degradation
Spatial planning	- Lack of new urban plans; - Need of rehabilitation of terrains and construction of modern industrial sites.

Decline of cities and adjacent territories. The cities, representing the nuclei of the regions of industrial decline, are predominantly medium-size and small cities. They are sensitive to the processes of recession and particularly so the industrial crisis and no major changes are expected without a certain interference. With the worsening economic situation and the poor technical, social and market infrastructure, the functions of small towns over the last decade or so have weakened and their rural influence perimeter has been narrowed.

3. REASONS FOR PROBLEM SITUATIONS OF REGIONS IN INDUSTRIAL DECLINE

The development of the process of industrial or economic decline of the regions has been linked to the macroeconomic situation in the country, the international environment and the ongoing globalisation process. Within the framework thus described there is a differing dynamism of development of various regions which is the outcome of the specific impact of regional factors.

Table 6 shows the problems of the regions of industrial decline. The characteristic of these regions indicates part of their decline reasons. A more complete presentation of the reasons would be beneficial to undertake certain actions in view of the new regional policy. In this connection, the following are some major regional/local reasons for the problematic situation in these regions.

Local economic structure

The structural factor plays a principal role for problem situation in industrialised regions and cities. Although almost 10 years have elapsed since the offset of the period of transition, the economic structure inherited from the period of centrally planned economy is still an active factor for the depression or decay of the regions and cities. The combination of monostructure with high relative share of declining or the predominance of depressive sectors appertains to the genesis of these changes.

In the monostructure regions, where large industrial enterprises have strongly reduced their activity, one may note a grave undermining of the economic potential of the region and hence it takes more time to restore and develop the economic structure. The process of "passive" structural changes, caused by the economic crisis (different rates of production shrinkage), which has led to the natural "demise" or a "loss of positions" of the enterprises, has rarely been accompanied by the „active“ factor like decisions for closure of loosing enterprises. The absence so far of specific measures in the field of the structural policy to counteract the negative tendencies, had their impact on a regional horizon.

Investment activities

The very limited investment resources in the country have to a large extent delayed the processes of restructuring and economic recovery, as well as the possibilities for establishment of alternative new activities. One of the reasons is the fact that the country operates under the conditions of a Currency Board that strongly limits the domestic public investment expenditure. On the other hand, the influx of foreign investments is oriented mainly towards more-attractive regions with comparative advantages. Only 4% of the direct foreign investments have been spatially addressed to the studied regions.

The state of the budgets of the local authorities and the investment opportunities through them are very limited which impacts additionally on the further decapitalization of certain regions in the country.

Local Infrastructure

The level of infrastructure development is one of the key underlying reasons for the decline of a given region. In the case of regions of industrial decline the underdevelopment of their infrastructure impedes their ability to react rapidly to new innovative manufacturing opportunities or to expand efficiently the existing facilities. Equally, those municipalities with a better infrastructure base display greater flexibility, as their development efforts are not oriented towards keeping an obsolete structure intact but rather in developing new opportunities and horizons.

When analyzing the level of infrastructure in the individual regions, one may depict a different degree of its internal completion. This is connected above all with the concentration of material facilities in the past and the possibility for their maintenance and rehabilitation in the period of transition. Due to the fact that in the past the mining enterprises were able to provide support to the municipalities, these regions avail at least with an infrastructure that can meet the daily services and demands of the population. From the point of view of the level and nature of the infrastructure that should act as a catalyst of the innovation processes and the processes of rapid adaptation and restructuring, however, the available infrastructure is underdeveloped, obsolete and poorly maintained.

Human resources

A typical feature of these regions is the limited profile of the skills level and educational background of the labour force, and this conclusion is valid to a greater degree for regions dominated by small towns. The long-year one-sided occupation in these regions and the low ability for requalification intensifies the negative inertia factor in their development, which also impacts on the level of entrepreunerships, flexibility and adaptibility to the new conditions.

Local and regional capacity

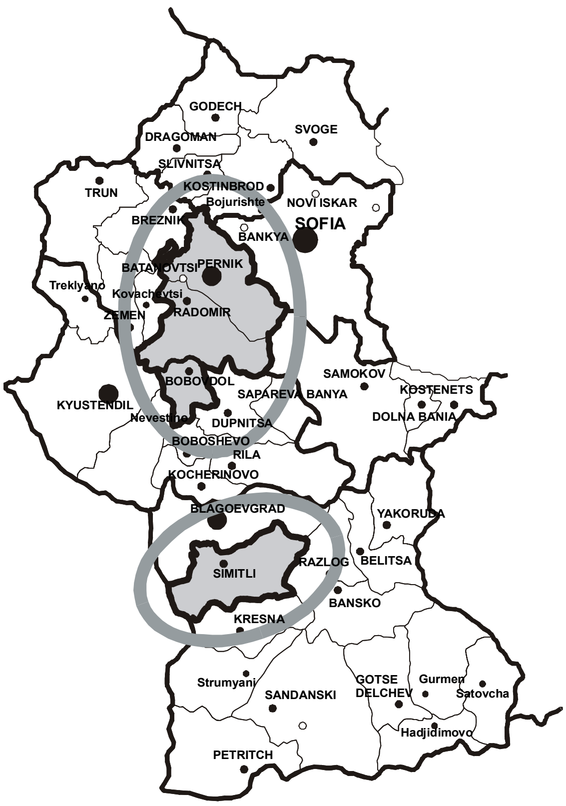
- Lack of strong institutions, private or public, which could drive forward the process of transformation into more sound economic and social structures. There is, however, some commitment of key people from some organisations which might be strengthened by adequate support measures for institutional structures.

- Apart from objective difficulties linked to the receipt of bank credits, a very small portion of the existing and potential local entrepreneurs have the necessary information and training to develop successful business plans, marketing strategies and receive the necessary information for the advancement of their business and other possible financial sources. The lack of such services is to an extent an obstacle to the development and expansion of entrepreneurship.
- A low degree of involvement of the full range of organisations in the process of local and regional development seems partly to reflect some polarity among public position-holders on the one side and private business circles on the other side. Both are not yet aware of the interlinkage and positive impact of these forces in a civic society; a low representation of the private business sector or SMEs in the emerging assistance bodies
- Insufficiently developed business and professional training, the low degree of know-how in project preparation and management.

Studies of the level of entrepreneurship in regions of industrial decline and in backward regions, measured by the density of companies (companies per mil inhabitants) show that it is two times below the country's average. The 1996-1999 Report on SMEs in Bulgaria reads the poor entrepreneurship should not be interpreteed only as a sequence of a low entrepreneurial culture or as a result of the psychological characteristics of the locals, but rather the reasons for this are to be found in the characteristics of the economic environment and infrastructure: physical and institutional. The authors also note a delay in the process of building new SMEs in the region and a much lower occupation share (19%) as compared to the 1998 average (44%).

The activity of most of the SMEs in studied regions is strongly impacted by the fluctuations in the local economy and their potential for job openings and income generation is in full dependence on other companies in the region. This brings in the conclusion that it will be difficult to expect, with the economic restructuring of regions of industrial decline and a possible closure of new jobs, in major companies the policy of encouraging the opening of new big and small companies to lastingly resolve the employment problem. Macrocompanies, with the exception of commercial ones, are based on a past experience and skills of the owner. In a monostructural economy, most of the manpower is employed in a few companies with a specific type of business and the experience accumulated can hardly be used in the future. The existing policy of stimulating the opening of small own businesses through the granting of purpose-oriented funds for an initial capital is a short-term effect policy. What is necessary is the development and implementation of a strategy and programme to comprehensively change the environment and capacity of local human resources (Small and Medium Size Enterprises, 1996-1999. Report, Sofia, 2000, pp. 83, 86, 91,92).

REGIONS OF INDUSTRIAL DECLINE
PERNIK AND SIMITLI



Irrespective of the similarity of identification indices, the problems of the regions of industrial decline are displayed in a different way in different regions. Thus for instance, the two localities of Pernik and Simitli present many of the social and economic problems that will face coal-mining areas in other parts of Bulgaria. The forthcoming closure of the coal mines will cast a strongly depressive nature on the two regions. This determines also the need to take urgent measures in the framework of the spatial planning policy.

In particular, the contrast between the situations at Simitli and Pernik offers an opportunity for a useful range of experiences to be examined, and for the development of a viable and thus transferable „model“ of approach to be designed and tested in relation to regional restructuring and social mitigation. The two areas, one a small, rural locality with heavy dependence on the mining industry, and the other with a larger and more diversified employment structure, present good possibilities for illustration of the problems and for designing approaches that are transferable to other parts of the country than would have been the case with one location.

The diversified economic base of the industrial complex of Pernik may have assisted the area to maintain an unemployment rate (16%), that is below the average for Bulgaria as a whole (18%). However, the area has also faced steadily rising unemployment as the main industries have come under increasing pressure to increase their efficiency.

Pernik was developed deliberately as an „industrial complex". It became a major centre for the production of steel, machine making, textiles and mining. By the late 1980's almost half of the workforce was engaged in these activities. However, the economic difficulties of the period since 1990 have resulted in a loss of output, and a steady rise in unemployment. The early casualties of economic transition were mostly women, employed in the clothing industry and in other light industry. More recently there has been an increasing impact upon men. A steady loss of jobs in the heavy industries is reflected in rising unemployment, with more difficulties ahead. Although 40% of the workers involved are of retirement age, this means (in common with the mining industry) an age of 45 years. These trends emphasise that the social and jobs situation in Pernik remains one of acute difficulty. In present conditions there are the difficulties to absorb into new employment, people who have become redundant due to the contraction of the activity of the main industries in the area. Nonetheless, Pernik remains a major employment centre, and is situated within commuting distance of the Sofia metropolitan area.

While the strong industrial base of Pernik has resulted in a significant infrastructure of physical and human assets, these remain to be adapted to areas of future opportunity, and to be deployed to their full effect in the attraction of the new investment that will be needed to achieve a reversal of the current trend of contraction - although the wider macro-economic situation will be a vital factor also. There are, however, indications that the area is capable of attracting the interest of international investors, with some joint venture activity in the clothing and textiles industry

The area of Simitli, represents a contrast with Pernik in scale, industrial structure and location in relation to other centres. The locality is mainly rural, with limited industrial development. There is some employment in ceramics manufacture, in small scale wood processing and in the production of building materials. A major employer is the mining industry. The relative concentration of miners in the Simitli regions means that the pits represent the major employer. Any significant reduction of employment in the mines at Pirin will have an especially severe social impact upon Simitli.

Current economic structures display few indications of strength or dynamism. The prospects for job creation in the absence of new, special measures are likely to be limited. The area is not likely to be attractive to substantial new industrial investment from outside the area. That situation implies that the region both seeks to gain maximum possible benefit from any internal capacity for the development of the indigenous SME sector, and seeks a strategy to develop more fully the potential of the area for the tourism industry, both in winter and summer. The unspoiled mountain landscape, along with a basic level of development in winter tourism offers a basis for a focused sector development programme.

4. STRATEGIES FOR FURTHER DEVELOPMENT

4.1 Definition of aims of the development

The set of aims forming the strategic development of regions of industrial decline undergoing structural changes, irrespective of certain regional peculiarities can be determined as follows under Bulgaria's conditions

- Creation of a vital economic infrastructure, operating efficiently under market conditions with possibilities for a dynamic reproduction;
- Protection and improvement of regional human resources;
- Employment generation;
- Creation of steady and competitive infrastructures;
- Urban restructuring with its ecological aspects following the decline or closure of major industry;

- Improvement of well-being and the quality of life;
- Measures to protect and improve the environment.

These aims can engender different measures and interference in regional development depending on the characteristics of the region, the resources which can be mobilized for their implementation.

The improvement of regional/local governance or more exactly the attainment of good governance is not included in the above aims but it is of major importance for their implementation. In this respect, it can be raised to the rank of a separate objective.

4.2 Strategies

After a long period of state policy prioritizing of the attainment of macroeconomic specialization, over the past few years there has been a general turn to the problems of regional development and the means of the regional policy. The reasons for this on the one hand are the prevention of the critical processes in regional structures and on the other, the inclusion of regional factors in generating economic growth.

1999 saw the adoption of the Regional Development Act. The restrictions imposed by the IMF on taxing policy, on the creation of budget and extra budget assistance funds disabled the materialization of the initial goals of the Act, notably, the introduction of preferences in the development of certain regions and the institution of the Regional Development Fund.

The law fixes as the main instrument of regional policy the National Plan of Regional development developed over seven years. The 2000 Budget Act says in the distribution of state subsidies the municipalities should secure prioritatively the projects in regional development plans. This restriction is linked with the fact that still a few municipalities make capital expenses on the basis of a strategy and development programme. Besides through the budget financing of projects in the National Plan is secured through various other fiscal sources including existing extrabudgetary funds, EU accession funds and others.

The technology of the development of the plan includes a combination of top-down and bottom-up approaches. This means briefly that on the grounds of the municipal strategies are developed regional development plans serving to form the National Plan. Any planning level calculates the strategic goals of its level and assesses the regional and national effect and importance of priorities and projects. A consensus over project priorities is formed by adopting municipal strategies by the municipal councils, district plans by district councils for regional development, the National Plan by the National Regional Development Council. There will also be an annual updating of the plan following the described technology. Experience shows that it is difficult to attain a consensus decision for the clash of interests.

The law-defined priority regions including regions of industrial decline have a priority in National plan project inclusion. District plans must suggest specific measures to develop these regions, as they are usually located in a single administrative district.

Municipal development strategies have a double purpose. On the one hand, they form the basis of the planned pyramid of regional planning and development thus realizing the top-down approach in regional planning. On the other hand, they enable the pursuit of an own policy of regional development, have own significance as far as the municipality is free to seek and realize measures, acts and projects outside those in the National Regional development Plan but realizing the aims of its development.

The first (1999) year of the 2000-2006 National Regional Development Plan outlined a series of problems in the planning process:

- The bulk of Bulgarian municipalities did not have overall strategies or development programmes. In many cases there were partial programmes (in certain development spheres). In general, however, the actions of the local authorities including their investment activity, are based exclusively on name-lists which are difficult to guard and can succumb to influences and subjective decisions;
- The included projects had a purely local significance. Though the effect is local, they resolve important for the region and the municipality problems, basically linked with the further development of local infrastructure. In many cases the proposals on funding projects of local

import were not linked to municipal budget drafts or an overall financing was suggested from the budget and other sources outside local budget and extrabudget means;

- The lack of administrative capacity of developing local strategies. The reorientation of administrative cadres in municipalities to think with the categories of business, entrepreneurship and marketing is very difficult and requires much time. There is a lack of skills of strategic planning, dialogue, partnership development, etc.;
- Lack of enough mechanisms to secure the diversity of support actions, according to the necessary measure and realization of the projects in municipal strategies and programmes.

With this situation the planned documents at a local level could not implement fully their function of a pyramid basis of planning of regional development and a generator of ideas of local development. Similar was the situation also with the development of district plans.

The situation this year in connection with the updating of the National Regional Development Plan shows some quality differences. They are linked with a greater number of municipalities that have developed their strategies and with the methodological approach from a vision to a great extent patterned and with no specific goals and measures to more purposeful strategic documents accompanied with a plan of action or a programme of realization.

On the basis of the accepted plans of regional development was updated the National Regional Development Plan. The main principle of its updating is the top-down and bottom-up approaches. The still dominant approach of the centre deciding on projects and means is increasingly countered by the district administration. More topical gets the issue of decentralizing part of project decision taking concerning regional and local development at a district level. A certain stride in this respect is the formation of 6 planning regions.

Irrespective of the efforts not yet are found the mechanisms to secure sufficient realization of the projects included in local strategies and programmes. In any case, the development of municipal strategies is a condition for the officialization of the projects in their quality of seeking financing for realization. The existence of strategic or programme document of municipal socioeconomic development in most cases is a must also in granting means for supporting projects along the line of various funds, schemes and other donor programmes.

In the current stage there can be difficulties in assessing the proposed strategies of development. Making an attempt of an investment assessment will be expounded also some thoughts on the content of the development strategy of industrial regions undergoing structural changes.

Having in mind the limited possibilities of foreign investment in these regions, the promotion of their endogenic potential should be at the basis of their development, especially transfer of technologies, business councils and education, exponing and valorization of local resources.

The creation of favourable conditions for the development of new economic activities and diversification of production is strongly linked with the measure of improving the educational structure and requalification of manpower. It is linked with reducing the pressure on the market of labour in the period of structural reform and a flexible reaction to the market situation. For its realization is necessary a package of activities:

- Adaptation of education received in the region to the sectorial specialization and the requirements of market economy;
- Overtaking education;
- Study of the needs and organization of programmes of training and requalification.

Another important measure is increase of entrepreneurial activity of the population and assisting the construction of new SMEs as an alternative of occupation and replacement of closed or shrinking enterprises of which is envisaged:

- Assisting the startup of own business through education;
- Improvement of consultancy services for small business (through construction of the respective local or regional structures);
- Stimulation of entrepreneurs to hire manpower through law opportunities to local authorities. Identification on the part of the municipal government of the possible support of local businesses

and realization of this support on the part of the municipality, including through leasing and sale of municipal property including municipal terrains, building rights grant, concessions, etc.

To the measures to diversify the economy and alternative occupation with different success are included projects on:

- Securing access to and introduction of new technological productions;
- Full use of the local natural potential;
- Expanding the service sector

The development of basic infrastructure in view of support of economic development and creation of favourable conditions for living of the population is strongly present in the strategies. Clearly is defined the role of infrastructure as a condition and motor of business development and attractiveness of the region.

A determined and hightened interest in Bulgarian regions is observed as regards cross-border cooperation. Establishment of lasting and mutual benefits contacts with neighbouring border municipalities and regions, organization of joint activities from the economic and social sphere is an often met proposal. Specially for the region of Simitli, and also for the region of Pernik, the development of the links with the Republic of macedonia and Republic of Greece enable an enhancement and real acting of activization of tourism (Simitli), trade exchange, new investments (Pernik).

In an institution aspect, the measures are aimed mainly to the realization of respective partnerships and contacts between the municipality, neighbouring municipalities, the district, deconcentrated state services on the sites, private business and the non-government sector mainly as concerns the creation of a suitable economic and social habitat in which to develop mutually beneficial cooperation and assistance in view of resolving common problems ad the protection of mutual interests.

In this direction in a series of strategies is envisaged the realization of measures aimed at the creation of specific units and institutions like Local Development Council, Local Development Agency, etc. Within the very government of the municipality is envisaged the creation of new structural units within the existing numbers directly involved in the strategy.

The limited resources and high inertia of regional development are not a premise of realizing quick results from the implementation of the Regional development Act, the plans and strategies of regional development. The high expectations can lead to a renunciation of the applied policy before it is asserted and attained the desired results. Within this context it is difficult and even risky to apply asserted models of policy of regional development and regional planning. Unconventional conditions and problems will probably require more unconventional and sometimes risky decisions. However, they will have to be sought.

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