

OECD Multi-level Governance Studies

Decentralisation and Regionalisation in Bulgaria

TOWARDS BALANCED REGIONAL DEVELOPMENT



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Foreword

Since its accession to the European Union (EU), Bulgaria has experienced relatively rapid economic growth, with GDP per capita gaps with the EU closing by one third between 2000 and 2019. However, income inequalities within the population and across regions have increased. Effective multi-level governance is an essential pathway for inclusive growth and well-being, and for delivering a more resilient recovery from COVID-19. Yet, despite the Bulgarian government's significant efforts on this front through, for example, its successive decentralisation strategies and programmes, as well as its 2014-20 Operational Programme "Regions in Growth, more could be done.

This report examines current regional and municipal governance structures and provides guidance and recommendations to support the Bulgarian authorities in designing and implementing regionalisation and decentralisation policies for regional development. To promote a place-based, bottom-up approach to regional development policy, an efficient multi-level governance system is required – one based on an enhanced role for regional and local actors, capable of designing and implementing context-sensitive policies and ensuring a better match between policies and citizen preferences.

The report reflects the outcome of two years of engagement and dialogue with Bulgaria's Ministry of Regional Development and Public Work, and draws from international experiences and good practice, responses from a dedicated OECD questionnaire completed in August 2019, a series of stakeholder interviews, and an international policy seminar (23-27 September 2019). This work is part of the OECD Multi-Level Governance Studies series. It was conducted by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), under the leadership of the Regional Development Policy Committee (RDPC). It was presented at the First Pilot Meeting on Multi-level Governance and Public Investment for Regional Development on 17 November 2020 and the final report was approved on 12 February 2021 by written procedure under the reference [CFE/RDPC(2020)18/REV1].

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Abbreviations and acronyms

ADRM	Association of Danube River Municipalities
ALGA	Australian Local Government Association
ANCT	Agence nationale de la cohésion des territoires (France)
ARC	Administrative Reform Council
BGN	Bulgarian lev
CAB	County administrative board (Sweden)
CCDR	Commissions of Coordination and Regional Development (Portugal)
CDSG	Council for Decentralisation of State Governance
CEEC	Central and Eastern European Country
CFFR	Council on Federal Financial Relations (Australia)
CGET	Commissariat général à l'Égalité des territoires (France)
CIT	Corporate income tax
CLLD	Community-Led Local Development
CNFPT	Centre national de la fonction publique territoriale
CNT	Conférence nationale des territoires (France)
COAG	Council of Australian Governments
COFOG	Classification of the Functions of Government
CoM	Council of Ministers
CPFF	Consejo de politica fiscal y financiera (Spain)
CSO	Civil society organisation
CVM	Cooperation and Verification Mechanism
DDC	District Development Council
DNP	Department of National Planning (Colombia)
EAFRD	European Agricultural Fund for Rural Development
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EERSF	Energy Efficiency and Renewable Sources Fund

EMEPA	Enterprise for Management of Environmental Protection Activities
EMFF	European Maritime and Fisheries Fund
EPCI	Établissement public de coopération intercommunale
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
EUR	Euro
FLAG	Fund for Local Authorities and Governments (Bulgaria)
FUA	Functional urban areas
GDP	Gross domestic product
HDI	Human Development Index
IB	Intermediate Body
IISDA	Integrated Information System of the State Administration
IMDP	Integrated Municipal Development Plan
IME	Institute for Market Economics
ITI	Integrated Territorial Investment
ITS	Integrated Territorial Strategy
LEADER	Liaison Entre Actions pour le Développement de l'Economie Rurale
LGLAA	Local Government and Local Administration Act
MA	Managing Authority
MLG	Multi-level governance
MRDPW	Ministry of Regional Development and Public Works (Bulgaria)
MTBF	Medium-term budgetary framework
NAMRB	National Association of Municipalities in the Republic of Bulgaria
NAO	National Audit Office
NCSD	National Concept for Spatial Development
NEDP	National Economic Development Plan
NEET	Not in Education, Employment, or Training
NFRC	National Federation Reform Council
NGO	Non-governmental organisation
NRDP	National Regional Development Plan
NRDS	National Regional Development Strategy
NSI	National Statistical Institute

NUTS	Territorial Units for Statistics
NUTS	Nomenclature of territorial units for statistics
OECD	Organisation for Economic Co-operation and Development
OFGL	L'observatoire des finances et de la gestion publique locales (France)
OP	Operational Programme
OPRD	Operational Programme for Regional Development
OPRG	Operational Programme "Region in Growth
PDR	Programme "Development of the Regions
PHARE	Poland and Hungary Assistance for the Restructuring of the Economy
PISA	Programme for International Student Assessment
PIT	Personal income tax
PPP	Purchasing power parity
PPP	Public-private partnership
PPS	Purchasing Power Standards
R&D	Research and Development
RC	Regional council (Finland)
RCI	Regional Competitiveness Index
RDA	Regional Development Agency
RDC	Regional Development Council
SDGs	United Nations Sustainable Development Goals
SME	Small- and medium-sized enterprise
SUBDERE	Sub-Secretary for Regional Development (Colombia)
TDP	Territorial development plan (Colombia)
VAT	Value-added tax
WGI	Worldwide Governance Indicators

Executive summary

This Multi-level Governance Review provides guidance and recommendations to foster a shift towards more effective place-based regional development in Bulgaria through regionalisation and decentralisation policies. Such a shift would help achieve positive regional development outcomes, crucial to a more resilient recovery from COVID-19.

Key findings

Bulgaria has progressed in its governance and socio-economic development, but significant gaps remain. Since 1991, Bulgaria has moved from a planned economy to an open, market-based, upper-middle-income economy. Bulgaria's GDP per capita grew from 29% of the EU average in 2000 to 53% in 2019. The share of the Bulgarian population at risk of social exclusion declined from 61.3% of the population in 2006 to 32.5% in 2019. The country has also improved its democratic governance, transitioning from a monocentric governance model to a multi-level governance system based on a clear division of powers and strong national and subnational institutions. Bulgaria has two deconcentrated regional levels with six planning regions and 28 districts, and one decentralised level with 265 municipalities.

Despite improvements, structural challenges may be limiting further socio-economic transformation. Socio-economic convergence has been slower in Bulgaria than in its Central and Eastern European counterparts, and has not translated into sustainable and inclusive growth across the country, resulting in increased social disparities. While the gap in Bulgaria's GDP per capita with other EU countries has narrowed it remains the lowest among EU countries and income inequality has risen since the 2008 crisis, with the Gini coefficient for disposable income rising from 35 in 2007 to 41 in 2019. Indeed, since 2016, it has been the highest in the EU. Moreover, despite its strong decline, Bulgaria's share of the population at risk of social exclusion remains the highest among EU countries.

Territorial socio-economic disparities are strong and increased after EU integration, the move to market-based economic systems and the 2008 global financial crisis. Bridging territorial divides has proven difficult despite significant investment in regional development and EU Cohesion Policy funds. In the 2018 ranking of European regions by GDP per capita, three Bulgarian regions ranked just above last place – between 34% and 36% of the European average.

There are disparities in planning regions, districts, and municipalities. Bulgaria reflects an “island of prosperity” dilemma, i.e. differences between the country's core region and others based on 11 socio-economic indicators. Regional income differences in Bulgaria are larger than in most OECD countries. National prosperity tends to concentrate in Bulgaria's South West region, and within it, the Sofia Capital (district). For example, the South West region concentrated 35% of national GDP in 2000 and 48% in 2018. The South West GDP per capita was 1.2 times higher than the national average in 2000 but 1.5 times higher in 2018. At a smaller level, the district of Sofia Capital concentrated 26% of national GDP in 2002 and 40% in 2017. Its GDP per capita was 1.9 times higher than the national average in 2002 but 2.1 times

higher in 2017. Although cities such as Plovdiv, Varna and Burgas are emerging as economic centres, counter balancing this concentration of prosperity, other areas remain behind.

Regional development is characterised by mixed results. This is despite the government's effort to construct a more place-based and integrated regional policy approach, notably through the 2014-2020 Operational Programme "Regions in Growth". Behind this, in part, are exogenous factors such as the 2008 crisis and difficulties arising from demographic and socio-economic challenges in some regions. The centralised approach to designing regional development policies is another contributing factor.

Despite successive decentralisation strategies and programmes, Bulgaria remains centralised. Bulgaria's only decentralised level (the municipal one) accounts for a relatively small share of public expenditure: 20% of public expenditure (7% of GDP) versus 34% of total public expenditure in the EU28 (15% of GDP). Fiscal decentralisation is the weakest dimension in Bulgaria's decentralisation process. Additionally, some pre-conditions for successful decentralisation have not been met, including a balance between political, administrative and fiscal decentralisation.

Municipal governance faces several decentralisation challenges. Low fiscal autonomy and very tight fiscal conditions for many municipalities hinder their ability to provide services, invest and grow. Municipal spending is largely driven by the central government. Administrative decentralisation is limited, and is undermined by weak municipal administrative and strategic capacity. While political decentralisation provided democratic legitimacy and accountability to municipalities, local democracy still needs to be reinforced within municipalities.

Regional governance could be strengthened at the district and planning region levels. On paper, districts are an integral component of the state territorial administration, particularly for regional policy. In practice, they lack the authority, human capital and financial resources to execute their mandates. The six planning regions are "territorial units" without legal status, and thus are not equipped to develop regional development policies.

Key recommendations

Regionalisation and decentralisation, when properly designed and implemented, can have a number of positive outcomes. For instance, decentralisation can generate more proactive local and regional development, enhanced growth and productivity, improved local public services, better accountability and a more efficient use of public resources. Bulgaria needs to renew its approach to decentralisation and regionalisation by adjusting its centralised framework in order to reinforce their value in regional development.

Moving towards a place-based and integrated approach for regional policy. Policies that are more place-based, together with new governance tools and an enhanced role for regional entities and municipal governments would help Bulgaria reach its regional development aims. The government should continue refining its place-based and integrated approach to regional policy in the 2021-2027 period. Amendments to the Regional Development Act, adopted in March 2020, and the new Programme for the Development of the Regions (PDR) are a step in the right direction. Bulgaria should ensure that regulations effectively support more clarity, better quality and enhanced coordination.

Improving municipal decentralisation: more capacities and resources and better municipal governance. The lack of progress in Bulgaria's decentralisation process, despite strong commitment, calls for updating the current 2016-25 decentralisation strategy and preparing a new 2021-25 programme. The update should focus on the strategy's content and its implementation, for example by preparing an implementation plan and developing an informed dialogue with key stakeholders on the benefits and challenges of decentralisation. The strategy should also bundle municipal decentralisation, regionalisation, and regional development and improve coordination mechanisms among levels of government, e.g.

through a permanent multi-level governance platform and contracts. A new programme should advance previously planned measures and introduce additional ones, including enhanced “intra-municipal decentralisation” and civil society participation; more effective administrative decentralisation; and stronger fiscal decentralisation and fiscal responsibility.

Reforming regional governance to boost capacity and deliver regional development objectives.

Rather than choose between levels, it is recommended to clarify the existing roles of Bulgaria’s regional bodies. Districts should be reinforced as deconcentrated state territorial administrations, with a role in vertical and horizontal coordination, municipal oversight, and territorial cooperation, but without regional development responsibility. The six planning regions, should be should be adequately resourced and promoted as legal bodies with regional development as their basic responsibility.

1 Assessment and recommendations

Bulgaria has large and growing regional disparities between the capital and the rest of the country, which may become further amplified in the aftermath of the COVID-19 crisis. These may be compounded by a centralised policy framework that can limit the space for a place-based policy approach. A new multi-level governance model is needed, one that considers adjustments at the regional level and reinforced decentralisation. Regionalisation and decentralisation, when they are properly designed and implemented, can have a number of positive outcomes, especially for regional development. This Multi-level Governance Review focuses on how municipal and regional governance in Bulgaria could be reformed to support a shift towards more effective place-based regional development policies. Such a shift would help achieve positive regional development outcomes, crucial in ensuring a more resilient recovery from COVID-19.

Key findings

Bulgaria has made progress in its governance and socio-economic development, yet significant gaps remain

Bulgaria has made solid progress in terms of socio-economic development, moving from a planned economy to an open, market-based, upper-middle-income economy. Bulgaria's structural reforms in the late 1990s and its accession to the EU in 2007 led to macroeconomic stabilisation and improved living standards. Since 2011, Bulgaria has experienced positive GDP growth, rapid labour productivity growth, and a falling poverty rate. Bulgaria's GDP per capita grew from 29% of European Union average in 2000 to 53% in 2019. The share of the Bulgarian population at risk of social exclusion declined from 61.3% of the population in 2006 to 32.5% in 2019. Before the pandemic, growth had exceeded 3% for five years, and reached 3.7% in 2019, with wages rising strongly and unemployment at historic low rates. These positive trends were interrupted by the COVID-19 pandemic, however low public debt, high fiscal reserves, and EU financial assistance put Bulgaria in a solid position to confront the crisis.

Bulgaria has effectively transitioned from a monocentric model of governance to a multi-level governance system, based on a clear division of powers and strong institutions at the national and subnational levels. Its territorial organisation is a mix of state deconcentrated administrations and decentralised authorities. Bulgaria has three subnational tiers, two at the regional level and one at the local level. The first regional level consists of six larger-scale planning regions at NUTS 2-level, and the other level consists of 28 districts at NUTS 3-level. The local level includes 265 municipalities, which can be further divided by sub-municipal level into wards (in large cities) and mayoralties (in rural areas), as well as villages. The municipal level is the only decentralised level of government. Districts, which are "administrative territorial units" representing the central government in district jurisdictions, are in charge of implementing regional development policies, according to the Constitution. The six planning regions, created in 1999, are not administrative entities with legal status but rather territorial units. The regional development councils (RDCs) are appointed by the central government and represent national and subnational governments, as well as partner organisations of employers and employees.

Structural challenges may be limiting further socio-economic transformation in Bulgaria. Socio-economic convergence has been slower in Bulgaria than among its Central and Eastern European counterparts due to lingering structural challenges. In 2019, the Bulgarian GDP per capita was the lowest among EU countries, as well as among all other Eastern and Central European countries, whose GDP per capita were above 65% of the EU average. Bulgaria's overall productivity gains have not fully translated into sustainable and inclusive growth, leading to increased social disparities. Income inequalities have risen since the 2008 financial crisis, with the Gini coefficient for disposable income rising from 35 in 2007 to 41 in 2019. Since 2016, it has been the highest in the EU. Moreover, despite its decline, the poverty level remains high. In 2019, the share of the Bulgarian population at risk of social exclusion was the highest in the EU – 1.5 times higher than the EU average. There is room to improve outcomes in health, education, and innovation. Doing so could improve future economic potential and citizen well-being. There have been notable improvements in infrastructure with the support of EU funds, but investment needs remain significant in several sectors (e.g. energy, waste and water infrastructure, R&D), especially at the regional and local levels. Megatrends accentuate the long-term growth, fiscal, and social challenges Bulgaria faces. Declining population levels due to emigration and a declining fertility rate, coupled with an ageing population, are particularly acute challenges.

Bulgaria has made significant strides in governance systems, and certain dimensions could be further reinforced. Compared to other EU countries, Bulgaria faces difficult and significant governance gaps at the national and local levels that can affect government performance and regional resilience. This is particularly true with respect to the “control of corruption” and “rule of law” World Bank’s Worldwide Governance Indicators,, which have not improved, or remain very low, since 1996. In the Transparency International Corruption Perceptions Index, Bulgaria ranks 77th out of 180 countries, below all EU members.

Territorial disparities have increased in Bulgaria

Since the 1960s, territorial socio-economic disparities have increased. This is due to rapid industrialisation, rural exodus and prior infrastructure investment allocations made by the State that increased rather than corrected imbalances between the capital region and the rest of the country. The process of EU integration and socio-economic convergence, the move to market-based economic systems and the 2008 global economic and financial crisis further increased territorial socio-economic disparities. Megatrends, such as globalisation and demographic changes, and the COVID-19 pandemic are exacerbating regional disparities

Despite large levels of investment in regional development and EU support through Cohesion Policy funds, it has been difficult to counteract territorial disparities in the country. In the 2018 ranking of European regions by their level of GDP per capita, three Bulgarian regions ranked just above last place, ranging between 34% and 36% of the European average. The Sofia City region, home to one fifth of the population, has a GDP per capita corresponding to the United Kingdom’s in purchasing power parities. By contrast, the poorest regions in the northwest are also the poorest in the EU.

Today, territorial disparities are found at all levels: planning regions, districts, and municipalities. Regional income differences in Bulgaria are larger than in most OECD countries and have increased more across regions over the last two decades, according to the dispersion coefficient. Internal territorial disparities can be summarised by the concept of the “island of prosperity” dilemma, with significant differences between the core and the other regions when looking at 11 socio-economic indicators such as demography, GDP and income, health, labour, education, and employment. National prosperity tends to concentrate in the South West region, and within it, the Sofia Capital (district). For example, the South West region is the only one with positive population growth between 2002 and 2017. For example, the South West region concentrated 35% of national GDP in 2000 and 48% in 2018. The South West GDP per capita was 1.2 times higher than the national average in 2000 but 1.5 times higher in 2018. At a smaller

level, the district of Sofia Capital concentrated 26% of national GDP in 2002 and 40% in 2017. Its GDP per capita was 1.9 times higher than the national average in 2002 but 2.1 times higher in 2017. At the other end of the spectrum, the North West and the North Central had the highest declines in GDP concentration as well as in GDP per capita as a share of the national average.

Although some cities, such as Plovdiv, Varna and Burgas are emerging as economic centres able to counterbalance the concentration of prosperity in the capital region, other areas remain well behind and face multiple challenges from depopulation, high unemployment and widespread poverty.

Bulgaria's increased territorial disparities are partly due to the prevailing centralised governance model and the lack of a place-based and integrated regional development approach. Regional development policies are centrally designed and implemented without sufficiently considering specific territorial characteristics and subnational input. Regional and local actors are particularly well placed to act effectively at the regional and local levels, by identifying local comparative advantages and designing relevant development policies. Yet, this implies that subnational governments have some autonomy and capacity to act, including clearly attributed responsibilities and adequate resources.

Bulgaria has placed considerable effort into designing decentralisation strategies and fostering more place-based regional policies, but has not yet achieved the expected outcomes

Bulgaria made significant effort to implement a regional development policy after EU accession but with mixed results as disparities have continued to increase between the capital and the rest of the country. In the 2014-2020 EU programming period, Bulgaria constructed a more place-based and integrated regional policy approach through the National Development Programme Bulgaria 2020, the National Regional Development Strategy 2012-22 (NRDS), and the National Concept for Spatial Development 2013-25 (NCSD). The mixed results are partly due to exogenous factors, such as the 2008 crisis and difficulties arising from megatrends that exacerbated the demographic and socio-economic challenges in several Bulgarian regions. Bulgaria was also faced with quickly absorbing and adapting to the EU cohesion instruments that support regional development policy implementation.

The lack of a place-based and integrated approach in Bulgaria's regional development strategy and policies contributes to the mixed results. Regional development policies remain centrally designed and implemented without fully considering specific territorial characteristics, and lack subnational input. Bulgaria's system for managing EU funds in the 2014-2020 programming period was centralised in the hands of national Managing Authorities, although the Operational Programme "Regions in Growth" (OPRG) did incorporate a territorial approach to its implementation. There is a plan to decentralise the structure supporting EU Cohesion Policy funds in the 2021-2027 programming period.

Bulgaria is a centralised country despite successive decentralisation strategies and programmes. Bulgaria has one decentralised level – the municipal one – that accounts for a relatively small share of public expenditure: 20% of public expenditure (7% of GDP) versus 34% of total public expenditure in the EU28 (15% of GDP). Bulgaria remains in the early stages of decentralisation, in particular with respect to fiscal decentralisation, the weakest dimension of its decentralisation process. In Bulgaria, a number of pre-conditions for successful decentralisation are still lacking, notably a balance between political, administrative and fiscal decentralisation, and clarity in the assignment of responsibilities among government levels.

Since the early 1990s, Bulgaria has travelled a long road towards decentralisation. Bulgaria's decentralisation process has been gradual, with stops and starts, organised around four main phases: 1991-2001; 2002-2005; 2006-2015; and the current 2016-25 phase with a new decentralisation strategy. However, several measures of this strategy included in the 2016-19 programme are yet to be implemented.

Bulgaria has maintained a centralised governance system in many respects, especially regarding fiscal decentralisation.

Municipal governance faces challenges in political, administrative, and fiscal decentralisation

Fiscal decentralisation is the weakest dimension of the Bulgarian decentralisation process, although there is room for additional progress in political and administrative decentralisation as well.

Political decentralisation has provided democratic legitimacy and accountability to Bulgarian municipalities. However, decentralisation is limited within municipalities, as mayoralties and wards have a very limited ability to bring policies and services closer to their citizens. In the same vein, although some tools exist, engaging stakeholders in governance and policymaking is difficult across most Bulgarian municipalities. Open government data initiatives at the municipal level are scarce.

Effective administrative decentralisation has been limited so far. Not only does municipal spending represent a small share of public spending, but it is largely driven by the central government. Municipalities spent over half of their budget on state delegated responsibilities (i.e. education, social protection and health care). Municipal investment is relatively small and fragmented, which limits the emergence of strategic projects with positive spillovers across jurisdictions due to the lack of regional coordination and inter-municipal coordination. Municipal investment is also highly dependent on the central government and EU Funds, and therefore quite volatile. The ability of municipalities to access EU funds is also highly polarised, with many municipalities having difficulty to meet co-financing requirements.

The limited administrative and strategic capacity of municipalities impedes administrative decentralisation. Bulgaria suffers from a lack of sufficient and adequate human resources especially in smaller municipalities as well as limited ability to set strategic goals and regulate, design and plan activities. The quality of municipal services differs across the country. There is a lack of transparency and integrity to mitigate corruption, especially in public procurement. Finally, inter-municipal cooperation is limited, both in rural or urban/metropolitan areas.

Fiscal decentralisation levels work against municipal capacity. Low levels of fiscal autonomy and very tight fiscal conditions for many municipalities, especially small and rural ones, hinder their capacity to provide services, invest and grow. Municipalities depend mainly on central government transfers (and EU funds), which represent 68% of municipal revenues, on average. Despite the increase in grants over the past ten years, there are still underfunded mandates. In addition, 90% of grants and subsidies are earmarked and/or conditional. Municipalities have limited own-source revenue-generating capacity, resulting in large vertical fiscal imbalances. Tax revenue is low, accounting for 12% of municipal revenue (versus 42% in the EU28, on average), 0.9% of GDP (compared to 6.5% in the EU28) and 4.4% of public tax revenues (24.2% in the EU28), and there are substantial disparities among municipalities. In addition, the municipal taxing power remains constrained, both in terms of rates and bases.

Despite a substantial increase in municipal debt over the past two decades, the level of local government debt remains moderate by international standards, accounting for 1.2% of GDP and 5.5% of total public debt, versus the respective EU averages of 11.6% and 14.5%. Municipal debt is also very unevenly distributed. This low level is the result of weak creditworthiness among a large number of municipalities and the strict borrowing framework. Bulgaria has made substantial progress in strengthening its fiscal framework, enforcing fiscal discipline and consolidating local finance. There are still however, significant issues regarding municipal financial sustainability, transparency and accountability.

Regional governance could be stronger at the district and planning region levels

An effective intermediate level between the central and municipal levels is missing in Bulgaria. The ability of districts and planning regions to deliver on their functions, in particular regional development, is

limited. Reinforcing existing regional bodies has been debated for many years, without real progress. In Bulgaria, the topic of regionalisation is sometimes referred to as the “saga of decentralisation at the regional level”. To date, no consensus has emerged on the best options for the future.

The role of the districts is limited in practice. On paper, districts are a key component of the state territorial administration. They are in charge of regional policy, implementation of state governance at the local level, and ensuring the conciliation of national and local interests. In reality, districts do not have sufficient authority, human capital and financial resources to carry out their mandated responsibilities, their coordination role within deconcentrated state administrations, and their “mediation” role between the central government and the municipalities.

The six planning regions have limited territorial impact. These “territorial units” do not have a legal status and are therefore not equipped to develop regional development policies. Planning regions do not have their own administration or permanent staff nor do they exercise any administrative functions, and they suffer from a lack of representativeness and legitimacy. They act primarily as consultative bodies and “conduits” for regional planning and EU funds programming.

Key recommendations

Bulgaria’s centralised framework for regional development policy has limited the space to take a place-based policy approach. When they are properly designed and implemented, regionalisation and decentralisation can have a number of positive outcomes. These include more proactive regional and local development, enhanced growth and productivity, improved local public services, better accountability and more efficient use of public resources.

There is an increasing consensus today in Bulgaria on the need for policies that are more place-based and for a renewed governance model, based on decentralisation and regionalisation, i.e. based on an enhanced role for regional entities and municipal governments. Within this model, regional and local actors should be capable of designing and implementing context-sensitive interventions and providing local public goods and services to ensure a better match between policies and citizen preferences. A renewed model should include effective coordination mechanisms among levels of government.

Moving forward towards a place-based and integrated approach for regional policy post-2020

Bulgaria should continue its efforts to move towards a place-based and integrated approach for regional policy in the 2021-27 EU programming period, in particular by effectively finalising and implementing regional policy instruments that are under preparation. Important among these are the draft 2021-27 Partnership Agreement and the new Programme for the Development of the Regions (PDR). Amendments to the Regional Development Act, adopted in March 2020, are a large step in the right direction as they strengthen the importance of the territorial dimension in sectoral policies, improve cross-sector coordination, develop a polycentric model of hierarchical city centres, and ensure the effective implementation of integrated territorial investments (ITI) developed by the EU. These amendments will be instrumental for implementing the new Partnership Agreement and PDR. To consolidate these positive steps, it is necessary to ensure that regulations will effectively support more clarity, better quality and enhanced coordination.

Revisiting the 2016-25 decentralisation strategy to better link decentralisation, regionalisation and regional development

Despite strong commitment, Bulgaria’s limited progress in implementing its 2016-25 decentralisation strategy calls for updating the strategy and preparing a new programme for 2021-25. The update should focus not only on the strategy’s content but also on its method.

Adopting a new method to prepare and implement the revised 2016-25 strategy. Bulgaria needs to address the difficulties encountered in implementing previously planned decentralisation measures. As a first step, Bulgaria could prepare an implementation strategy that identifies the necessary steps and tools for the successful execution of the reform, including communication tools, effective indicators, and pilot programmes. It is proposed to reactivate the Council for Decentralisation of State Governance (CDSG), but with a different structure, role and a permanent secretariat.

Revising the content of the current strategy by better linking decentralisation and regionalisation. Despite the well-defined content of the current strategy, it is necessary to update its content, and to implement measures that were planned in the 2016-2019 programme and include additional measures. It is particularly important that the revised strategy rebalance political, administrative and fiscal decentralisation; address decentralisation in a “whole-of-government perspective”; and connect and “bundle” decentralisation, regionalisation and regional development. Connecting municipal decentralisation reform to the need for a stronger regional level, and vice-versa, could make the entire reform process run smoother.

Establishing effective multi-level governance coordination mechanisms among levels of government. Creating a culture of cooperation and regular communication is essential to achieve effective multi-level governance and long-term reform. Bulgaria could explore putting in place two forms of coordination mechanisms across levels of government: a multi-level governance platform for dialogue and coordination and multi-level governance instruments such as multi-level contracts.

Improving municipal decentralisation: more capacities and resources and better municipal governance

Municipalities could better promote socio-economic development and participate in regional development but they need more capacities and resources to act effectively. They also need to improve their governance. To achieve this, it is proposed to act in each of the three dimensions of decentralisation (political, administrative, and fiscal). Bulgaria could also be inspired by the OECD’s Ten Guidelines for Effective Decentralisation Conducive to Regional Development.

Enhancing intra-municipal decentralisation and civil society participation. Bulgaria should make the most of its existing well-developed network of mayoralities, wards and villages and reinforce civil society participation practices, transparency and accountability at the municipal level.

Generating more effective administrative decentralisation would reinforce the government’s commitment to its decentralisation strategies and programmes, and help increase the effectiveness of its governance system. It involves:

- Improving the assignment of responsibilities: less delegated functions, more exclusive responsibilities and experiments (asymmetric decentralisation);
- Increasing municipalities’ room to manoeuvre regarding investment and improving the multi-level governance of public investment;
- Improving municipal administrative and strategic capacities;
- Enhancing the quality and efficiency of municipal services;
- Ensuring the effective use of internal and external resources with integrity;
- Better municipal services and investment through inter-municipal cooperation in rural, urban and metropolitan areas.

Strengthening fiscal decentralisation and fiscal responsibility. As in many countries, the importance of fiscal decentralisation in ensuring successful reform is widely underestimated. To advance this agenda, the following measures are proposed:

- Conceptualise fiscal decentralisation reform within a strategic framework, dialogue with key stakeholders;
- Reform the grant system to ensure more adequacy and flexibility;
- Reform the local tax system to improve its performance (optimisation of current local taxes); diversify the municipal portfolio of taxes and improve the collection and management system; strengthen the Bulgarian fiscal equalisation mechanism;
- Facilitate access to external financing for public investment through borrowing and public-private partnerships to close the investment gap;
- Pursue measures for better fiscal discipline and local financial management.

Reforming regional governance to boost capacity and deliver regional development objectives

Moving towards a new regional organisation based on reformed districts and planning regions.

More effective regional governance could be of significant value to the Bulgarian multi-level governance system. It could help foster cooperation among municipalities, ensure better coordination between the municipal and central levels, and better support the design and implementation of place-based policies at the regional level, in coordination with the central government and aligned with EU cohesion policy. Although the need for a stronger place-based approach and improved regional governance is widely agreed upon in Bulgaria, there is no consensus on how to achieve this. One challenge is managing the existence of two regional-level entities – districts and planning regions. This report proposes to proceed gradually and in a comprehensive manner. Rather than choosing between the levels, consideration should be given to reforming both levels with functions that are very clearly attributed, focused and differentiated. Districts could be maintained and reinforced as state territorial administrations (deconcentrated central government), but without responsibility for regional development. Planning regions could be promoted as a legal body with responsibility for regional development as their basic function, and they should be adequately resourced to do so.

Reinforcing the role of the districts as state territorial administration. Districts should be reformed to accompany the decentralisation process, and adapted to the new proposed role of planning regions. This involves:

- Reconfiguring district responsibilities to enhance vertical and horizontal coordination among levels of government (including facilitating cooperation between municipalities) and develop the administrative and budgetary control of municipal activities;
- Reinforcing human, technical and financial capacities of the districts, including rationalising and consolidating the fragmented territorial units of the central administration at the district level;
- Conducting a review focusing on the territorial organisation and boundaries of future districts, i.e. keeping the 28 districts or merging them into six state regional administrations.

Strengthening the planning regions as regional development public bodies. To reinforce regional governance in Bulgaria, it is not recommended to establish elected regions, as this option needs more in depth-analysis, discussions and dialogue to be implemented in the longer term if relevant. Rather, two other scenarios are proposed:

- Scenario 1: a minimal one consisting of providing planning regions with a legal personality. They would become a public body, with their own assets, budget and administration. This is the simplest and fastest scenario.

- Scenario 2: consists in transforming planning regions into regional associations of municipalities or cooperative regions. This more ambitious scenario allows for a “partial democratisation” of the governance system by directly involving municipalities in the governance structure, which could then be more supportive to this type of regionalisation. This form of regional governance could lay the groundwork for more empowered regions in the future.

To strengthen the current planning regions, it is proposed to:

- Expand regional functions in the areas of spatial planning, regional development and management of EU funds to also include selection, funding, implementation and monitoring of projects;
- Provide planning regions with a permanent administration;
- Provide planning regions with adequate financial resources, skilled staff and modern tools (e.g., efficient IT systems, performance indicators) should be made available to planning regions so that that can effectively perform these tasks, in particular, those concerning implementation, monitoring and evaluation;
- Enhance planning region capacity through peer-learning, networking and expert committees.

2 The context: Strong socio-economic progress, yet large territorial disparities

Bulgaria has made significant progress in its democratic and socio-economic development since 1991 but gaps remain, particularly in terms of economic performance and quality of governance. Despite improvements in macroeconomic stability and growth, convergence has been slower in Bulgaria than among its Central and Eastern European counterparts and has not translated into sustainable and inclusive growth across the entire territory. The increased territorial disparities at the regional, district and municipal levels call for a new approach to regional development and governance that is more place-based and decentralised.

Bulgaria has made solid progress in terms of socio-economic development and democratic governance

The history of modern Bulgaria is quite short, beginning around a century and a half ago. Its origins are marked by the Treaty of Berlin in 1878, which set up an autonomous state within the Ottoman Empire, and the Tarnovo Constitution, Bulgaria's first democratic constitution in 1879, which established a parliamentary monarchy and recognised the principles of self-government at the district and municipal levels (Troeva, 2016^[1]). After Bulgaria gained its full independence from the Ottoman Empire on 22 September 1908, the country went through drastic political changes, including 43 years under a communist regime. The fall of the People's Republic of Bulgaria in November 1989, followed by the organisation of the first multi-party elections and the ratification of the constitution in 1991, opened the way to the democratisation and liberalisation of the country's economy. The integration of Bulgaria into the European Union (EU) in 2007, following years of preparation, was also another major catalyst of both economic and governance reform. Bulgaria had to integrate the *acquis communautaire* in several policy areas. Since then, Bulgaria has made strong progress in terms of socio-economic development, from a planned economy to an open, market-based and upper-middle-income economy, as well as towards democratic governance and a multi-level governance system, with stronger institutions at the national and subnational levels.

The socio-economic transition: From a planned economy to an open, market-based, upper-middle-income economy

Bulgaria's structural reforms in the late 1990s and its accession to the EU in 2007 led to macroeconomic stabilisation and improvements in living standards, after a decade of slow growth, high indebtedness and loss of savings (World Bank, 2019^[2]). This progress was slowed by the 2008 economic crisis and a period of political instability in 2013-14. Overall, the country's economic development was characterised by a positive change in key macroeconomic indicators. Bulgaria's GDP per capita (PPS) grew from 29% of the European Union average in 2000 to 53% in 2019. Since 2011, its real annual gross domestic product (GDP) grew faster than the EU-28 average. Before the pandemic, growth had exceeded 3% for five years, with wages rising strongly and unemployment at historic low rates. The share of the Bulgarian population at risk of social exclusion declined from 61.3% of the population in 2006 to 32.5% in 2019.

Since 2006, Bulgaria has become an upper-middle-income country securely anchored in the EU (World Bank, 2019^[2]). Its Human Development Index (HDI) has increased linearly from 0.709 in 1999 to 0.816 in 2018 (after stagnating around 0.700 in the 1990s), placing Bulgaria 52nd out of a ranking of 189 countries (UNDP, 2020^[3]).

In 2019, Bulgaria continued to see positive trends in its economic activities and public finance. Unemployment was low, amounting to only 4.2% of the active population aged 15-74 in 2019. Economic growth remained robust, reaching 3.7% for the year, with the main drivers being private consumption and investment. Private final consumption has been supported by the increase in real wages, due to public salary increases and labour market shortages, as well as by persistently low interest rates, which have fuelled consumer and mortgage credit. Private investment has also been strong, supported by improvements in the domestic banking sector's profitability and asset quality. Spurred by EU funding, the participation of public investment in GDP has been significant, higher than in the EU-28 on average between 2010 and 2019, except in 2016 and 2017. Public investment dropped from 6.5% of GDP in 2015 to 2.6% of GDP in 2016 and even 2.2% in 2017. In 2018 and 2019, it started to increase again to reach 3.4% of GDP in 2019 (versus 3.0% in the EU) (EC, 2019^[4]; Eurostat, 2020^[5]).

In 2018, fiscal revenues grew by 18.1% thanks to improved revenue collection, strong economic activity and higher minimum wages. In 2017, Bulgaria registered a budget surplus of 1.1% of GDP, which increased to 1.8% of GDP in 2018 (World Bank, 2019^[2]; OECD, 2019^[6]). Furthermore, government debt

has remained low according to the Maastricht definition, at 22.6% of GDP in 2018, compared to 80.0% on average in the EU28 (OECD, 2019^[7]). These positive trends, however, have been interrupted by the COVID-19 pandemic that hit Europe in the first quarter of 2020 (Box 2.1).

Box 2.1. The economic and social impact of the COVID-19 crisis in Bulgaria and globally

Beyond the health and human tragedy of the coronavirus, the widespread lockdowns and the shuttering of most economic activity are expected to have a serious negative impact in many countries in Europe and around the world. COVID-19 is proving unique in its generation as both a supply-side and a demand-side shock. All economic sectors are affected by disrupted global supply chains, weaker demand for imported goods and services, a drop in international tourism (OECD, 2020^[8]), or a decline in business travel, and most often a combination of these. Measures to contain the virus' spread have hit small- and medium-sized enterprises (SMEs) and entrepreneurs particularly hard (OECD, 2020^[9]). Unemployment levels and the number of aid seekers have increased, in some cases dramatically. The second wave emerging in several countries since September-October 2020, has brought renewed lockdowns making estimates even more pessimistic. The latest estimates from the OECD released in June 2020 indicated that, absent a second wave, global economic activity would fall by 6% in 2020 and OECD unemployment would climb to 9.2% from 5.4% in 2019. In the case of the second wave, the OECD estimates a drop of 7.6% in global economic output in 2020, before climbing back to a positive growth rate of 2.8% in 2021 (OECD, 2020^[10]).

According to OECD estimates from December 2020, the impact of the COVID-19 crisis on the Bulgarian economy will result in a contraction of real GDP of 4.1% in 2020. This mainly reflects a fall in gross fixed capital formation (-8.4 percentage points) and, to a lesser extent, a decline in private consumption (a contribution of -0.7 percentage points) and the negative contribution of net exports (-0.8 percentage points). The OECD forecasts a return to pre-pandemic activity level by the end of 2022. The economic contraction has been milder than expected as confinement measures have been less severe in the first half of 2020 compared to many OECD countries. The first COVID-19 outbreak in Bulgaria was smaller than in many countries but the current second wave is putting high pressure on the health system and the government responded at the end of November by closing public spaces, shopping malls and education facilities. The unemployment rate is expected to rise moderately in 2020, to 6.4%, thanks to strong fiscal measures to assist firms and households. Low public debt and high fiscal reserves, together with EU financial resources, will allow the government to sustain and expand its fiscal assistance (OECD, 2020^[11]).

As part of a package of economic and social measures to cope with the crisis, the government announced various fiscal measures to support the economy, which are expected to remain in place in 2021 (OECD, 2020^[11]). These include increased spending on medical equipment, wage bonuses and/or increases for medical and security staff, subsidies, tax deferrals, state guarantees and a reallocation of investment funds to support the economy. Combined with an increase in unemployment and social benefits and a decrease in tax revenues, these measures will be a burden on public finance. The budget balance is estimated to turn into a deficit of around 2.7% of GDP in 2020 and 1.7% in 2021. Public debt is expected to increase and reach over 25% of GDP in both 2020 and 2021 (EC, 2020^[12]). However, the still low public debt and high fiscal reserves, and EU financial assistance, have put Bulgaria in a solid position to avoid withdrawing fiscal assistance prematurely. EU funding is due to be high with strong investment expected at the beginning of the next programming period in 2021 and substantial resources, of about 10% of pre-crisis GDP, to come from the EU Recovery and Resilience Facility (OECD, 2020^[11]). Large public investment, due to EU resources, is planned to close the gaps in housing

efficiency and transport infrastructure, increase innovation and speed up the transition to a more digitalised and less carbon-intensive economy (OECD, 2020^[11]).

Source: OECD (2020^[8]), "Tourism policy responses to the coronavirus (COVID-19)", <https://www.oecd.org/coronavirus/policy-responses/tourism-policy-responses-to-the-coronavirus-covid-19-6466aa20/>; OECD (2020^[9]), "Coronavirus (COVID-19): SME policy responses", <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>; OECD (2020^[10]), "A collapse in output followed by a slow recovery (chart)", https://oecd.github.io/EO-Outlook_chart_2/; OECD (2020^[11]), *OECD Economic Outlook, Volume 2020 Issue 2*, <https://doi.org/10.1787/39a88ab1-en>; EC (EC, 2020^[12]), "European Economic Forecast, Spring 2020", https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf.

The democratic transition: From a monocentric model of governance to a multi-level governance system

Since the adoption of the 1991 Constitution, Bulgaria has substantially improved its governance, transitioning from a monocentric model of governance (Termeer, Dewulf and Van Lieshout, 2016^[13]) to a multi-level governance system (Box 2.2).

Box 2.2. Governance, public governance, good governance and multi-level governance

Governance is the exercise of political, economic and administrative authority necessary to manage the affairs of a nation. Institutions are the rules of the game in society. They determine the constraints and incentives that economic and political actors are subject to (EBRD, 2019^[14]).

Public governance is the process within government by which public institutions conduct public affairs and manage public resources.

Good governance refers to the management of government in a manner that is essentially free of abuse and corruption, and with due regard for the rule of law (IMF, 2007^[15]). Quality of governance is characterised by participation, transparency, accountability, rule of law, efficiency, effectiveness, responsiveness, equity and clear institutional responsibilities etc. (OECD, 2006^[16]).

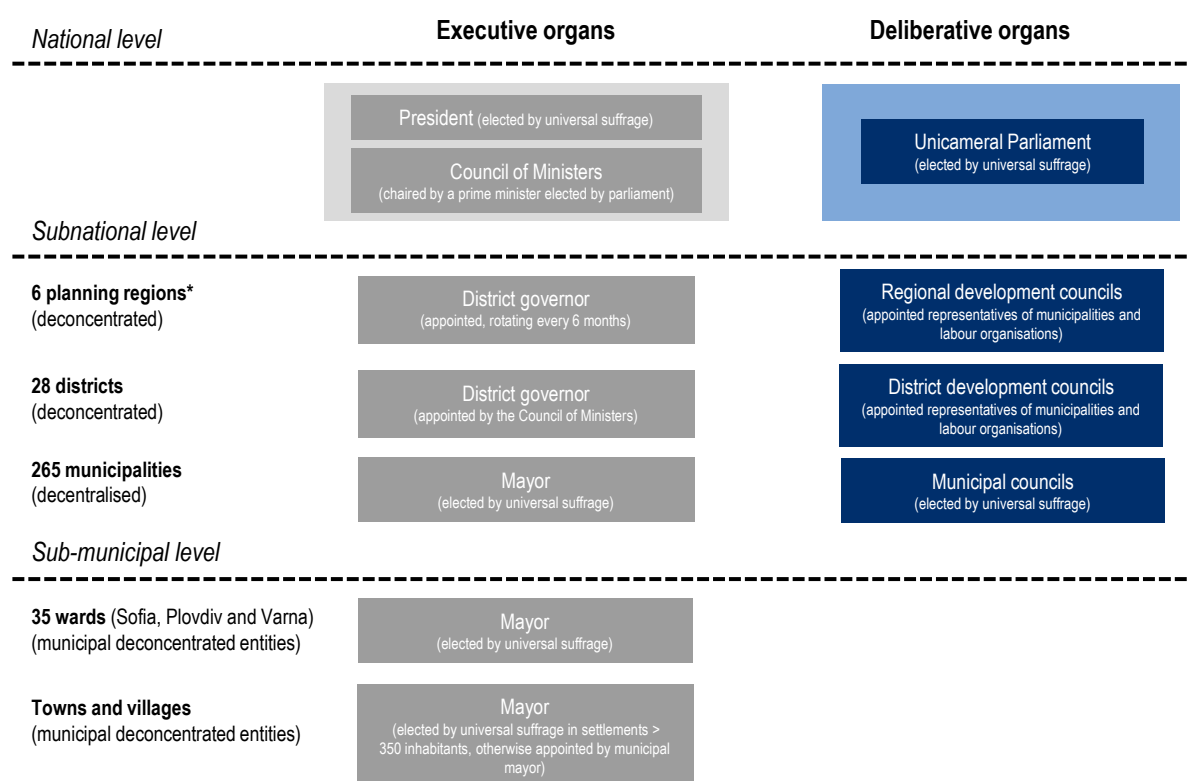
Monocentric governance refers to an approach in which the state is the centre of political power and has sole authority over the economy, society and resources. Power is exercised by the top-down implementation of policies and by the unilateral establishment of the agenda of societal problems and policy goals (Termeer, Dewulf and Van Lieshout, 2016^[13]).

Multi-level governance is the interaction between levels of government and a broad range of stakeholders, including private actors and citizens, when designing and implementing public policies with subnational impact. This is particularly the case when it comes to regional development policy and public investment. This interaction is characterised by a mutual dependence among levels of government and runs vertically (among different levels of government), horizontally (across the same level of government) and in a networked manner with a broader range of stakeholders (citizens, private actors). Multi-level governance practices are part of every country's governance system regardless of its institutional form (federal or unitary, centralised or decentralised).

Source: EBRD (2019^[14]), *Transition Report 2019-20: Better Governance, Better Economies*, <https://www.ebrd.com/transition-report-2019-20/>; IMF (2007^[15]), *Manual on Fiscal Transparency*, <https://www.imf.org/external/np/pp/2007/eng/051507m.pdf>; OECD (2006^[16]), *Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-operation*, <https://www.oecd.org/environment/environment-development/37353858.pdf>; Termeer, C., A. Dewulf and M. Van Lieshout (2016^[13]), "Disentangling scale approaches in governance research: Comparing monocentric, multilevel, and adaptive governance", <http://www.ecologyandsociety.org/vol15/iss4/art29/>.

The 1991 Constitution established a unitary country with a new governance framework based on a clear division of powers, stronger institutions at the national (legislative, executive, judicial powers) and subnational levels, and a political and administrative system with checks and balances (Figure 2.1).

Figure 2.1. Bulgarian multi-level government system



Note: * Planning regions have no administrative structure and act simply as conduits for regional planning and programming linked to EU funds.

Bulgaria is now a “consolidated democracy” based on a parliamentary representative republic with a multi-party system. The unicameral parliament is composed of 240 deputies, directly elected by the population for a 4-year term. Members of the parliament elect the prime minister, who as head of government chairs the Council of Ministers (CoM), which is the executive state body that directs the internal and foreign policy. The president, i.e. the head of state, is also directly elected by universal suffrage for five years.

Article 117 of the 1991 Constitution recognised the independence of the judicial system but reforms in this area have been slower compared to those of the political system. The judicial branch, managed by the Supreme Judicial Council, is composed of three separate systems of law enforcement or law protection authorities: the courts, the public prosecution and the investigation offices. The constitutional court is separated from the rest of the judiciary and is in charge of interpreting the constitution and checking the constitutionality of laws and treaties. Bulgaria implemented public administration reforms in three main stages: the first stage was a political transition (1991-94), the second stage was the introduction of practices and concepts of the traditional administration model and New Public Management (1994-2000), and the third stage – the current stage – is directed primarily at achieving European conditionality and implementing the concept of good governance (Tomova and Petrov, 2017^[17]).

At the subnational level, the territorial organisation is quite complex, comprising of a mix of decentralised authorities and state deconcentrated administrations. Bulgaria has three subnational levels: two regional

levels, one consisting of 6 larger-scale planning regions at NUTS 2 and the other of 28 districts at NUTS 3 (*oblast*)¹; and the local level with 265 municipalities, which can be further subdivided by sub-municipal level into wards and mayoralties. The districts are “administrative territorial units”, whereas the planning regions are only “territorial units” without administration (see map in Figure 2.2).

The municipal level and its localities

The only decentralised level of government is the municipal level, with 265 municipalities (*obshtini*). It was reinstated in 1991 with the new constitution, after decades of a centralised socialist system, to restore local democracy and autonomy. Bulgaria belongs to a group of 13 EU and OECD countries with only 1 level of decentralised administration (Table 2.1). Within the EU and OECD combined, 21 countries have 2 decentralised levels of government (municipal and regional) while 7 countries have 3 levels (municipal, regional and intermediate). Note that 5 federal countries are two-tiered and 4 are three-tiered (including Spain, which is a quasi-federation).

Table 2.1. Number of subnational government levels in the OECD and EU in 2020

	13 countries with only 1 level: Municipalities	21 countries with 2 levels: Municipalities + regions	7 countries with 3 levels: Municipalities + intermediate entities + regions
9 federal countries		Australia, Austria, Canada, Mexico, Switzerland	Belgium, Germany, Spain,* United States
32 unitary countries	Bulgaria, Cyprus, Estonia, Finland,* Iceland, Ireland, Israel, Latvia, Lithuania, Luxembourg, Malta, Portugal,* Slovenia	Chile, Croatia, Czech Republic, Denmark, Greece, Hungary, Italy,* Japan, Korea, Netherlands, New Zealand, Norway, Romania, Slovak Republic, Sweden, Turkey	France, Poland, United Kingdom*

Note: * Spain: quasi-federal country; * Portugal: existence of two autonomous regions; * Finland: existence of one autonomous region (ongoing regional reform); * Italy: the provincial level is no longer a self-governing level; * UK: existence of three “devolved nations” at the regional level.

In Bulgaria, municipalities are administrative territorial units within which local self-governance is exercised. Their self-governing status is enshrined in the country’s constitution (Article 136, Chapter VII Local self-government and local administration). The Local Self-Government and Local Administration Act, adopted later in 1991 to regulate the administrative territorial structure of Bulgaria, consolidates the guidelines provided by the constitution and includes the modern legal framework for municipalities defining their organisation and functions.

The 265 municipalities are legal entities with their own assets that manage their own budget and have their own staff to serve the local population’s interest. They are represented by the municipal council, which determines the municipality’s policies, while the mayor (executive body) performs executive functions with the support of the municipal administration. The mayor and municipal councillors are elected for a four-year term by a popular vote and a proportional vote respectively. Municipal councils consist of between 11 and 61 members depending on the size of the municipal population. Stolitchna municipality (Sofia), for example, has 7 deputy mayors while in the smallest municipalities (under 10 000 inhabitants) there are only 2 deputy mayors. Municipal councils are headed by a chairperson elected from among their members. Additionally, they have standing and ad hoc committees with each municipal councillor being a member of at least one standing committee.

Bulgaria also has a dense system of localities at the sub-municipal level, totalling 5 256 in 2019, i.e. on average 20 localities per municipality. It comprises 3 187 mayoralties (*kmetstvo*) in rural areas, 35 urban wards (*gradski rayon*) in the large main cities and around 1 070 villages (settlements below

350 inhabitants). Only mayoralties and urban wards are governed by mayors elected through universal suffrage for a four-year term. For a settlement below 350 inhabitants, which is not an administrative centre of a mayoralty, the municipality mayor may appoint a mayor's representative (a delegate mayor) for the term of office to carry out executive duties.

The district level

The intermediate regional level is made of 28 districts. Districts have existed since the birth of the Bulgarian state in 1879 but under the name of “*okrag*” and with self-governing status up until 1959. Their number has fluctuated over the years. In 1987, the then-existing 28 districts were transformed into 9 large units, which survived until 1999, when the previous 28 districts were re-established without self-governing status. The re-established districts took the name of “regions” (*oblasts*) to be consistent with the 1991 Constitution, which defines them as administrative territorial units. Representing the central government at the NUTS 3 level, a district has its delimited territory, population, name and an administrative centre. The territory of a district encompasses that of the municipalities united within it.

According to Article 142 of the constitution, districts are in charge of regional policy, implementation of state governance at the local level and of ensuring the conciliation between national and local interests. They are headed by a governor appointed by the CoM and supported by deconcentrated administrations. A district governor ensures the implementation of the state's policy, safeguards the national interests, law and public order, manages state property located in its territory and carries out administrative control, i.e. the monitoring of the compliance of municipal decisions with the law (Articles 143 and 144 of the constitution) as well as the control of the legal acts and activities of governmental entities located in the district.

Since the 1999 Regional Development Act, which initiated the creation of a regional development policy in Bulgaria, districts also comprise a deliberative organ, the District Development Council (DDC), responsible for regional development at the NUTS 3 level. The DDC is chaired by the district governor and comprises the mayors of all municipalities within the respective district, as well as representatives of the municipal councils and organisations of employers and employees.

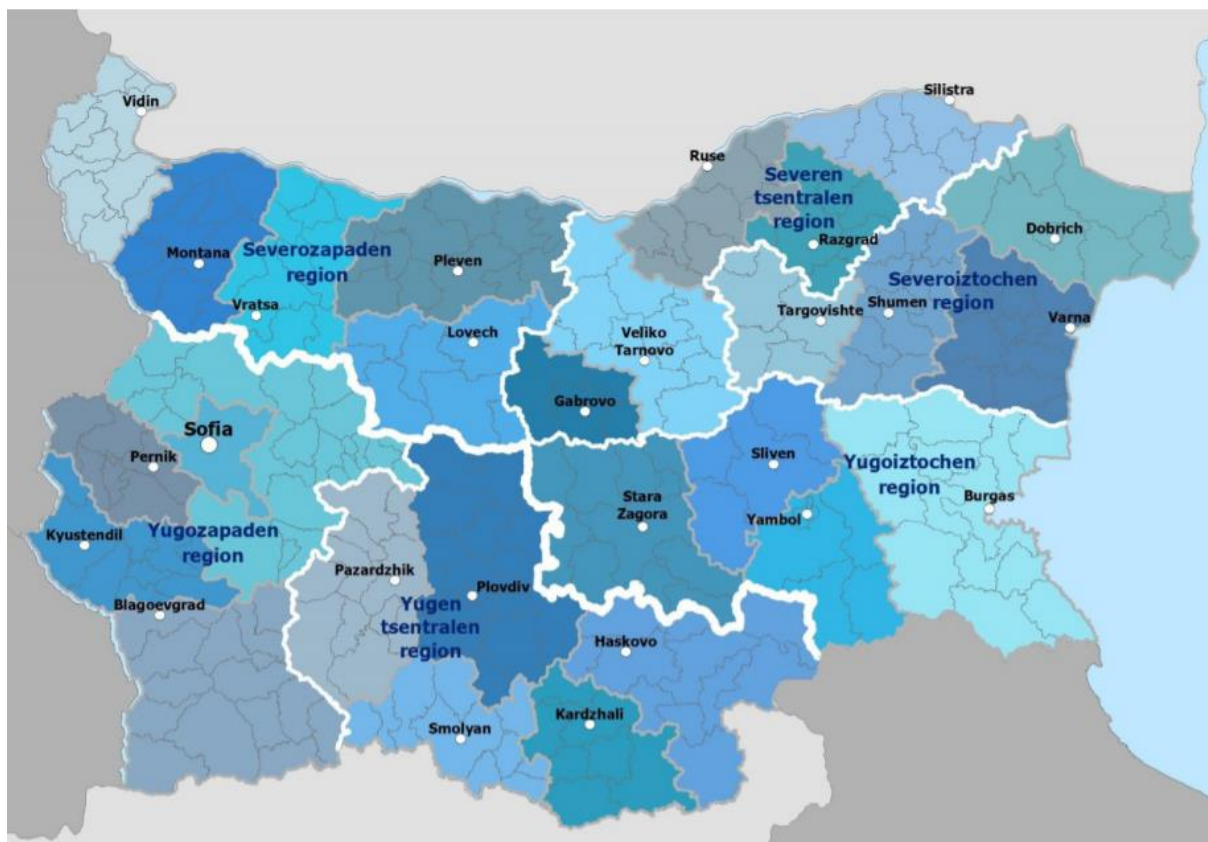
The planning region level

The macro-regional level is made up of six planning regions. They were created by the 1999 Regional Development Act as statistical regions corresponding to Eurostat standards of NUTS 2 regions, to access the EU structural and pre-accession funds and design regional development policies. They are – according to Article 2 of the Regional Development Act – the “authorities for conducting state regional development policy regarding the respective regions”.

Planning regions are not administrative entities with legal status but rather territorial units. Thus, they do not have their own administration, budget or permanent staff and they do not exert control over administrative functions. The secretariat of each region is carried out by the Ministry of Regional Development and Public Works (MRDPW) at the central level, through its deconcentrated regional units (Troeva, 2016^[1]).

The Regional Development Act of 2009 introduced some governance tools for the planning regions, in particular “regional development councils (RDCs)”. Members of these councils are appointed by the central government and represent national and subnational governments as well as partner organisations of employers and employees. RDCs are chaired on a six-month basis by a “rotating” governor, who is one of the district governors from the 28 districts.

Figure 2.2. The territorial organisation in Bulgaria: Planning regions, districts and municipalities



Source: Ministry of Regional Development and Public Works of Bulgaria (2012^[18]), <https://www.mrrb.bg/bg/nacionalna-koncepciya-za-prostranstveno-razvitiie-za-perioda-2013-2025-godina/>.

Despite improvements, several economic and governance gaps remain

Despite economic and governance improvements, some structural challenges may be limiting further socio-economic transformation in Bulgaria. These challenges have prevented Bulgaria from catching up with the rest of the EU and have resulted in it falling behind the other EU cohesion countries.

Bulgaria performs less well than other EU cohesion countries in several socio-economic areas

Despite its relatively good overall economic performance, Bulgaria has been slow to catch up with the rest of the EU. Even though Bulgaria's income per capita and labour productivity grew much faster than the EU-28 on average over the last ten years, the levels remain the EU's lowest. In 2019, the Bulgarian GDP per capita in Purchasing Power Standards (PPS) amounted to 53% of the EU-28 average, compared to all other Central and Eastern European countries which accounted for more than 65% (Eurostat, 2020^[19]). Bulgaria also had the lowest labour productivity in 2019, which amounted to 48.7% of EU-28 average, with the second-lowest level being Latvia at 68.7%, 20 percentage points above Bulgaria's level. Romania had the same level as Bulgaria in 2007 but reached 72.6% in 2019 (Eurostat, 2020^[20]).

Bulgaria's overall productivity gains did not translate into sustainable and inclusive growth across the entire society, resulting in increased social disparities. Decreases in unemployment and rising wages have

helped to lower poverty levels but this improvement has been very uneven according to the socio-economic and geographical location of individuals. Although absolute poverty has declined during the past decade, it remains high. Levels of poverty and social exclusion are still among the highest in the EU. In 2018, the at-risk-of-poverty rate² (after social transfers) was 22.0% versus 16.8% in the EU, placing Bulgaria among the five highest in the EU-28 (Eurostat, 2020_[21]). In 2019, the share of Bulgarian population at risk of social exclusion was the highest in the EU – 1.5 times higher than the EU average (Eurostat, 2020_[22]). The Roma population and ethnic Turkish groups are among the most disadvantaged communities. The Roma represent 10% of the population in Bulgaria, the largest share across all EU countries, followed by the Slovak Republic and Romania. In 2018, almost 65% of Roma and 31.6% of individuals from Turkish ethnic groups were at risk of poverty (OECD, 2021_[23]). In a similar vein, income inequality has been increasing since the global crisis, and especially the mid-2010. The Gini coefficient for disposable income has risen from 35 in 2007 to 41 in 2019 (Eurostat, 2020_[24]), and is the highest in the EU since 2016, nearly 30% higher than the 2019 EU average of 30.7 (Eurostat, 2020_[24]). High income inequality could be related to the fiscal system which has a low redistributive impact, especially compared to other EU countries. Furthermore, the poor quality of public services, in part resulting from the low effectiveness of government spending, reinforces the vulnerability of the left-behind groups which are already more likely to be in poverty (EC, 2019_[4]).

Insufficient improvements in health, education and innovation limit future economic potential and well-being. Since 2000, Bulgaria has had one of the lowest life expectancies at birth in the EU, below those of most Central and Eastern European countries: 74.8 years in 2017 compared to 80.9 on average in the EU (Eurostat, 2019_[25]). In 2018, the crude death rate in Bulgaria was 15.4 deaths per 1 000 residents, the highest in the EU and almost 50% higher than the EU-28 average of 10.4 deaths per 1 000 residents (Eurostat, 2019_[26]). Infant mortality is also high, second only to Romania in the EU-28, at 6.4 deaths per 1 000 live births in 2017 versus 3.6 deaths per 1 000 live births in the EU-28.

Despite progress on education, Bulgaria is still behind many EU and OECD countries. Programme for International Student Assessment (PISA) scores have been poorly progressing (OECD, 2019_[27]). The early school leaving rate remains high and there is a large proportion of young people who are neither in employment nor in education or training (NEET): 18.6% in 2017, roughly 30% higher than the EU-28 average. In 2019, Bulgaria has among the highest school dropout rates (13.9%) together with Malta, Romania and Spain, in comparison to 10.2% in the EU in 2019 (Eurostat, 2020_[28]).

Higher education remains insufficiently aligned with the needs of the job market, especially in terms of soft and digital skills. These remaining challenges in education create a skills shortage, which hinders labour productivity and reinforces inequality (Eurostat, 2020_[29]; EC, 2019_[4]). Bulgaria also suffers from a low level of innovation, as reflected by low research and development (R&D) public and private spending, limited issuance of patents and a low share of employment and export in high and medium high-tech manufacturing. Relative to the EU average, Bulgaria's share of innovative firms is very low. In 2019, Bulgaria scored 27th on the European Innovation Scoreboard (EC, 2019_[30]).

Amounting to 18.8% of GDP in 2018, total investment remains relatively low in Bulgaria compared to most of its regional peers, and below the EU average of 21%. Investment – both public and private – has been declining since 2014, sitting slightly below the EU average level relative to GDP. The recovery of private investment after the 2008 crisis was subdued and unstable. Public investment highly depends on European Structural and Investment Funds (ESIF), which explains strong fluctuations related to the EU funding programming cycle. The contribution of EU funds can be more than two-thirds of total public investment depending on the year (EC, 2019_[4]). In particular, public investment significantly decreased in 2016 (from 6.5% of GDP in 2015 to 2.6% in 2016), as the result of the “cliff effect” whereby it suddenly turned negative after the 2015 deadline for payments under the last EU programming period. Public investment has started to rebound in 2018, reaching 3.0% of GDP, on par with the EU-28 average (2.9%).

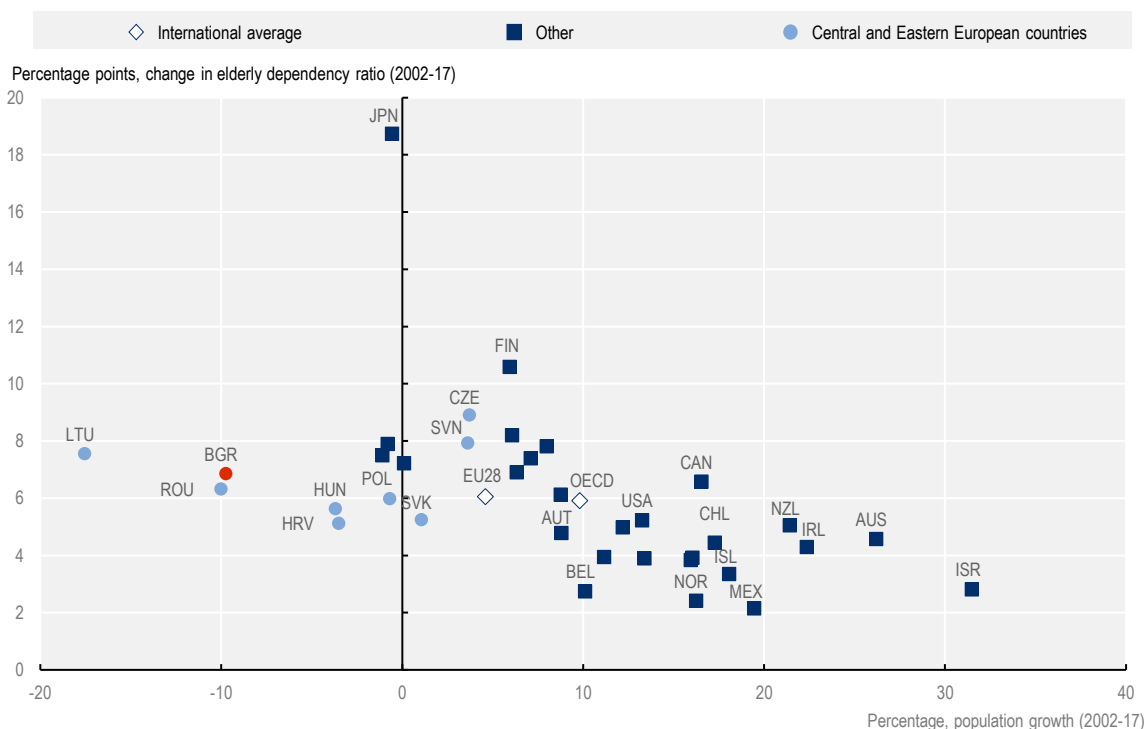
Bulgaria has made notable improvements in its infrastructure – both in terms of coverage and quality – with the support of EU funds. Nevertheless, significant infrastructure investment gaps remain and several sectors require higher public investment. By 2019, the overall quality of infrastructure in Bulgaria ranked 76th out of 140 economies according to the World Economic Forum Global Competitive Index (World Economic Forum, 2019^[31]). In particular, inadequate maintenance of existing roads and municipal infrastructure is a widespread problem. Road infrastructure is struggling to keep up with demand driven by a steady increase in traffic and car ownership. In 2018, Bulgaria ranks 26th in the EU Transport Scoreboard for transport infrastructure efficiency and quality (EC, 2020^[32]). Beyond transport, large investments are also needed in energy, waste and water infrastructure, and R&D. Over 20% of the water and sanitation infrastructure is amortised and needs reconstruction. It is estimated that over EUR 6 billion is needed for the basic improvement of water structure while elevating the quality of the Bulgarian water services to that of its European peers would require over EUR 21 billion (Ministry of Environment of Bulgaria, 2012^[33]). Moreover, significant investment efforts are needed to raise the municipal waste recycling rate from 25% to its 50% target, or even just to the EU average level of 44% (World Bank, 2015^[34]). The low infrastructure quality remains a bottleneck for unlocking the country's growth potential. In the coming years, investment needs are further pushed up by the increasing emphasis on urban and inter-regional infrastructure (EBRD, 2020^[35]). Institutional shortcomings, regulatory uncertainty and corruption remain among the main obstacles to investment (EC, 2019^[4]).

Bulgaria faces long-term growth, fiscal and social challenges due to megatrends, especially unfavourable demographic prospects. Demographic and social changes already in play hinder Bulgaria's socio-economic development and limit future development by creating labour shortages and skill mismatches. An ageing and shrinking population due to emigration and a declining fertility rate are two especially acute challenges in many OECD countries, particularly in Central and Eastern Europe, and even more so in Bulgaria. Between 2002 and 2017, Bulgaria saw its population decline by 9.7% and its elderly dependency ratio increase by 6.9% (OECD, 2020^[36]), placing it among the highest ratios within EU and OECD countries (Figure 2.3). While the Bulgarian population has continuously decreased since the late 1980s, new declines are expected by 2030 and 2060. Only Japan, Latvia and Lithuania have recorded higher population decreases (Figure 2.4).

A major demographic challenge for Bulgaria is the continuous emigration of inhabitants, in particular educated and qualified people of active age. The number of Bulgarian emigrants in the world has increased by 51%, from over 600 000 in 1990 to 1.5 million in 2019. While in 2018, a total of 22 of the EU-27 member states reported more immigration than emigration in 2018, the number of emigrants outnumbered the number of immigrants in Bulgaria, together with Croatia, Latvia, Lithuania and Romania. In 2017, the crude rate of net migration of Bulgaria was negative at around -0.8 per 1 000 inhabitants, significantly below the positive EU-28 average of 2.3 per 1 000 inhabitants (Eurostat, 2020^[37]).

Despite favourable economic and social conditions before the COVID-19 crisis, the crisis threatens the Bulgarian economy and society as in many countries around the world and the OECD (see above Box 2.1). The crisis will also certainly highlight some structural weaknesses in Bulgaria, including persistent governance gaps and territorial disparities.

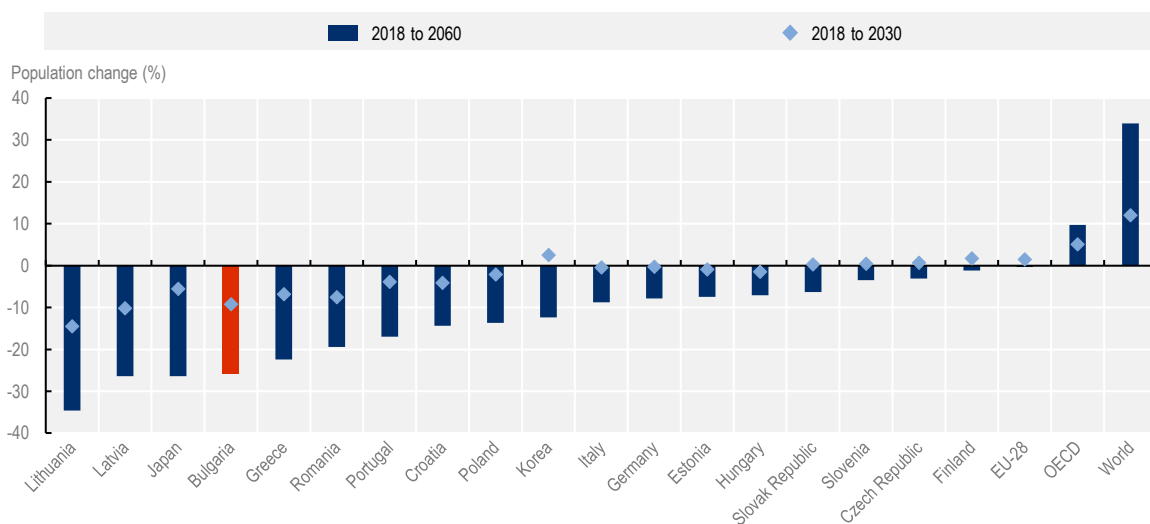
Figure 2.3. Ageing and population decline between 2002 and 2017



Note: The sample includes all EU and OECD countries, except Luxembourg that has a decreasing elderly dependency ratio during 2002-17.
 Source: Author's compilation based on OECD (2020^[36]), *OECD Regional Database – Regional Demography*
https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR

Figure 2.4. Bulgaria is projected to be one of the countries with the highest level of population decline

Negative population growth among EU and OECD countries plus selection of country group averages



Source: Author's compilation based on OECD (2020^[36]), *OECD Regional Database – Regional Demography*,
https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR

Bulgaria has made significant strides in governance system, and certain dimensions could be further reinforced

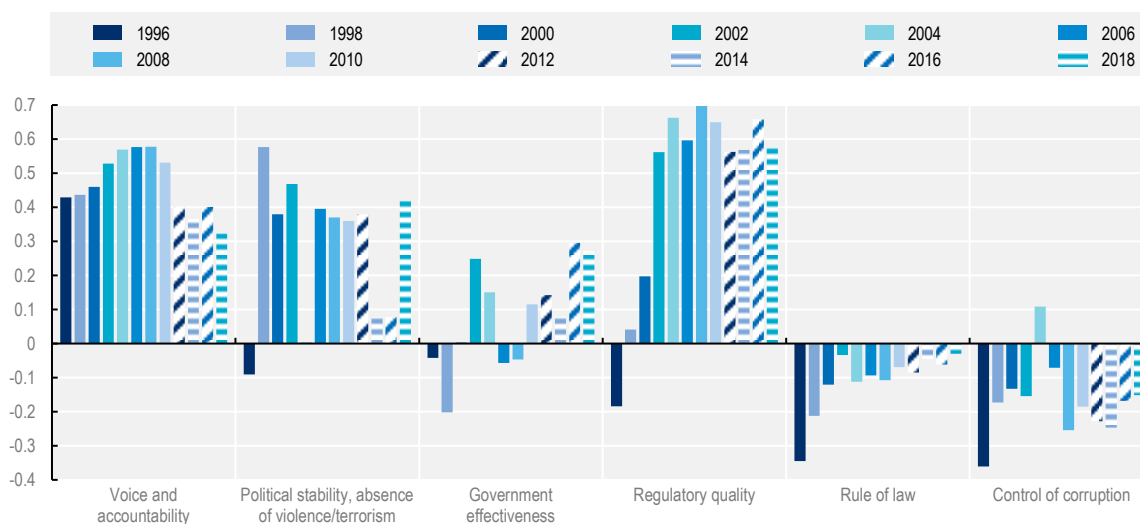
Bulgaria has made substantial progress by consolidating its legal and institutional framework concerning administrative and judicial reform, and by strengthening the fight against corruption and tackling organised crime (OECD, 2021^[23]). However, persistently weak governance limits Bulgaria's economic performance. Weak governance distorts markets and results in an inefficient allocation of capital and labour within the economy, leading to reduced investment and income growth (EBRD, 2019^[14]). Effective institutions are critical for promoting economic growth and development.

Compared to other EU and OECD countries, Bulgaria faces difficult and significant governance gaps at the national and local levels. According to the World Bank's Worldwide Governance Indicators (WGI), the "control of corruption" and "rule of law", both of which can affect government performance and regional resilience, are considered the most worrying governance issues in Bulgaria. The "control of corruption" indicator has not improved between 1996 and 2018. In the Transparency International Corruption Perceptions Index, Bulgaria ranks 77th out of 180 countries, below all EU members. The "rule of law" indicator has improved but remains very low, with negative values (Figure 2.5). Estimates of government effectiveness, voice and accountability are also among the lowest within the EU-28 since the late 1990s (Kaufmann, Kraay and Mastruzzi, 2011^[38]).

Citizen trust in the political system and judiciary system is low. Responses to a 2018 public opinion poll indicated that only 4% to 5% of the population trusted political parties or the parliament, while 10% of the population trusted government (BTI, 2018^[39]). Finally, "institutions" remain among the poorest performing of the 13 areas of the Global Competitiveness Index 2019. Bulgaria ranked 57th out of 141 countries in 2019 with regards to this area (World Economic Forum, 2019^[31]).

Finally, at the regional level, according to the 2017 European Quality of Government Index, Bulgaria ranks last out of all 28 EU countries. Bulgarian regions are among the lowest-scoring NUTS 2 regions in the EU, with the North West, South East, and the capital region of South West ranking respectively in 200th, 199th and 195th place out of the 202 regions represented. This is also explained by the fact that Bulgaria does not have elected regional governments, therefore current regions are not politically meaningful, which makes the assessment of quality governance more difficult (Charron, Lapuente and Annoni, 2019^[40]).

Figure 2.5. Worldwide Governance Indicators in Bulgaria from 1996 to 2018



Note: Governance score (-2.5 to +2.5) estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Source: World Bank (2020^[41]), *World Governance Indicators*, <https://info.worldbank.org/governance/wgi/>, data extracted in July 2020.

Territorial disparities have increased in Bulgaria, despite active regional development policies

During the 1960s and 1970s, territorial imbalances were strengthened due to high industrialisation and the rural exodus from villages to cities (Boulineau, 2016^[42]). After the 1980s, direct intervention from the state, through infrastructure investment allocations, reinforced territorial disparities instead of correcting imbalances. Despite huge investments and many positive outcomes, regional development policies, implemented in the framework of EU Cohesion Policy, were not able to counteract these trends. As in other less developed EU countries, it seems that the process of EU integration and socio-economic convergence and the move to market-based economic systems has led to an increase in territorial socio-economic disparities (Totev, 2017^[43]).

The 2008 global crisis and the difficulty to address megatrends have exacerbated the negative demographic and socio-economic trends in several Bulgarian regions. Today, territorial disparities are found at the regional, district, and municipal levels and can be summarised by the concept of the “island of prosperity” dilemma, with significant differences between the core and other regions. National prosperity tends to concentrate in the South West region, and within it, the Sofia (capital) district. All other regions lag behind the South West region and seem to be more homogeneous. However, some cities are emerging as economic centres and might rebalance this trend towards concentration in the capital region, such as Burgas, Plovdiv and Varna.

The COVID-19 crisis has a strong territorial impact in most EU and OECD countries (OECD, 2020^[44]), including Bulgaria. These impacts could deepen Bulgarian regional and local disparities even further (Box 2.3).

Box 2.3. The COVID-19 crisis has a differentiated impact on territories and subnational governments

The COVID-19 crisis is multi-dimensional: it is a health, economic, social and fiscal crisis. For each of these dimensions, there is a strong territorial aspect whereby short-, medium- and long-term impacts are heterogeneous across regions and localities. Moreover, the territorial impacts of the various dimensions of the crisis do not necessarily coincide.

The impact of the *health* crisis seems highly differentiated in Bulgaria, with clusters in large cities and Roma settlements. But low testing rates prevent from understanding the whole picture. As of 3 November 2020, Sofia had the highest number of COVID-19 cases, followed by Plovdiv (9%), Blagoevgrad (7%), Varna (6%) and Burgas (4%) (own calculations based on ESRI Bulgaria (2020^[45])).

The *economic and social* crisis related to COVID-19 also has asymmetric effects across regions and localities. In the OECD, the economic impact of the COVID-19 crisis differs across regions, depending on the region’s exposure to tradeable sectors and global value chains. For example, regions with economies that are heavily dependent on the tourism industry are more affected by the COVID-19 pandemic than in other regions. Capital or other metropolitan regions show a relatively higher risk of job disruption compared to other regions (OECD, 2020^[46]). In Bulgaria, while employment levels have been negatively impacted in all regions, existing high unemployment rates have increased even further in some rural regions. Touristic regions, such as the Burgas and Varna regions by the Black Sea, are particularly suffering from the economic crisis and it will likely take a long time for them to recover (OECD, 2021^[23]). Hunger is expected to increase, especially in Roma communities and municipalities with higher-than-average poverty and unemployment rates such as in the North West region (ESPN, 2020^[47]; World Bank, 2020^[48]).

The COVID-19 crisis also has differentiated *fiscal* impacts on subnational governments. Subnational governments are at the frontline of the health, economic and social crisis. In EU and OECD countries, regional and local governments are in charge of critical aspects of healthcare, social services (elderly care, education), utility services and local economic development. During the crisis, they have to ensure the continuity of local public services, whilst protecting vulnerable populations that are most affected by the virus. This situation puts strong pressure on subnational expenditure while the economic and social crisis tends to reduce their revenues, in particular those coming from taxes, user charges and fees. The extent of the impact on subnational government finance will depend on the structure of their expenditure and revenues and their fiscal health, including the level of indebtedness and the capacity to activate reserves or rainy-day funds (OECD, 2020^[44]; 2020^[49]).

In Bulgaria, the impact of the 2008 crisis revealed that local governments were not equipped with sufficient capacity or resilience to cope with the shock. Municipal revenues shrank significantly, leading to deficits and debt at the municipal level, in a context of little fiscal reserve. Budgetary consolidation occurred relatively rapidly resulting in spending cuts in 2009-10 (OECD, 2020^[49]). For the current crisis, according to the National Association of Municipalities in the Republic of Bulgaria (NAMRB), the bulk of income losses stem from tax revenues, in particular from real estate tax, vehicle tax, transaction tax on property acquisition and tourist tax. Fees are also affected, such as the waste fee, use of kindergartens, nurseries and other healthcare facilities, use of markets and marketplaces, technical and administrative services and more.

Source: OECD (2021^[23]), *2020 Economic Assessment of Bulgaria*, OECD Publishing, Paris; ESRI Bulgaria (2020^[45]), *Homepage*, <https://esribulgaria.maps.arcgis.com/home/index.html>; OECD (2020^[46]), "From pandemic to recovery: Local employment and economic development", <http://www.oecd.org/coronavirus/policy-responses/from-pandemic-to-recovery-local-employment-and-economic-development-879d2913/>; ESPN (2020^[47]), "The impact of the COVID-19 crisis on poverty and social exclusion in Bulgaria", <https://ec.europa.eu/social/BlobServlet?docId=22934&langId=en>; World Bank (2020^[48]), "Europe and Central Asia", <http://pubdocs.worldbank.org/en/825681588788164258/Global-Economic-Prospect-2020-June-2020-Analysis-ECA.pdf>; OECD (2020^[44]), "The territorial impact of COVID-19: Managing the crisis across levels of government (revised version June 2020)", <http://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/>; OECD (2020^[49]), "COVID-19 and fiscal relations across levels of government", <https://www.oecd.org/coronavirus/policy-responses/covid-19-and-fiscal-relations-across-levels-of-government-ab438b9f/#section-d1e1704>.

Regional development policies are not yet yielding the expected results

The lack of regional development policy until the late 1990s

As with most transition economies, Bulgaria emerged from the central planning period with very little experience of conducting regional policy. There were initial efforts in the 1960s and 1970s to unite central planning with regional and district-level needs (e.g. through the creation of district-level planning committees and the General Directorate for Territorial Location of Production Forces within the State Planning Committee), however, they were not particularly successful and the concept of regional policy had not materialised.

For the first time, the 1990 Constitution of Bulgaria mentions "balanced regional growth" as an objective and responsibility of the state. There has been no subsequent legislation or development of specific formal institutional structures to implement regional policies and as such territorial disparities have continued to deepen in the context of significant political, economic and financial instability (Monastiriotis, 2008^[50]).

Until the late 1990s, national growth was prioritised over regional development and convergence, leaving limited resources for comprehensive regional policy design. In fact, until 1996, regional policy was largely conducted on an ad hoc basis, mainly through several subsidies for municipal-level intervention (Kamenova, 1999^[51]), initiated by the municipalities and financed directly by the state budget. There was

no clear design of regional allocation formula to correct the inter-regional imbalances and, importantly, no “regional identification” of the allocation of funds (Monastiriotes, 2008_[50]).

The prospect of EU accession: A driver for regional development policy

The prospect of EU accession was an important driver for Bulgaria to establish the regulatory, institutional and administrative framework for regional policy. In the pre-accession period (1991-2006), Bulgaria mainly received EU funding for institution- and capacity-building from the Poland and Hungary Assistance for the Restructuring of the Economy (PHARE) programme as a means to assist with the accession process. Nevertheless, these funds had positive impacts on regional policy development. Support from PHARE initiated early-stage regional policy framework development, including the establishment of the Territorial Units for Statistics (NUTS) and the creation of the first Operational Programme for Regional Development for 2000-06, which financed a wider range of more targeted regional interventions in Bulgaria.

This period was also marked by the adoption of the first Regional Development Act in 1999 and, with it, a new approach to regional policy emerged, with the introduction of important changes in the regional administrative structure and the planning of regional interventions. It was decided to share overall responsibility for regional and development policy between the CoM and the MRDPW. Two new planning instruments were defined: a National Economic Development Plan (NEDP), which includes a National Regional Development Plan (NRDP). Furthermore, six planning regions at NUTS 2 level were created. At the subnational level, a RDC was established to allow for the participation of several ministries, district governors and representatives from the NAMRB to develop policy proposals under the NRDP and to co-ordinate the implementation of regional policies. Development councils were also created in each planning region and each district. A development office or directorate was established in each of Bulgaria’s 264 municipal councils (Monastiriotes, 2008_[50]).

In 2004, a new Regional Development Act was enacted and a new National Strategy for Regional Development for 2005-10 was developed, leading in 2005 to the formulation of the new Operational Programme for Regional Development for the country’s first post-accession planning period 2007-13. The most significant policy innovations were, for the first time, to explicitly identify intra-regional disparities and to set wider objectives of regional policy.

Regional development policy after the EU accession has mixed results, despite many positive outcomes

After the EU accession, in the 2007-13 programming period, Bulgaria made great progress in setting the framework and priorities for regional development. However, the framework was rather complex, with numerous institutions sharing the responsibilities of policy design leading to overlaps or contradictions in objectives, priorities and funding allocation. One example is that while the CoM considered the elimination of regional disparities as the fundamental objective of regional policy, the National Strategic Reference Framework at that time prioritised the achievement of balanced and sustainable development. Meanwhile, the areas that were mapped out to receive regional development funding are not consistent in the view of the Ministry of Finance and MRDPW. All territories are eligible for EU funds, including Stolitchna municipality (Sofia), with no mechanism thereof favouring the least developed regions. According to the Assembly of European Regions, this period allows the introduction of a series of important, hierarchically related statutory strategic documents in regional and spatial planning, however, a lot of work still needs to be done regarding institutional and expert capacity development (Assembly of European Regions, 2018_[52]).

In the 2014-20 period, Bulgaria has constructed its regional policy framework with a focus on reducing regional disparities through creating a polycentric spatial development model with multiple urban centres to allow for more sustainable and balanced growth across regions (MRDPW, 2019_[53]). This regional policy has not yet yielded the expected results of regional growth and convergence. Territorial disparities have deepened.

Territorial disparities have increased at the regional, district and municipal levels

While national disparities between EU countries measured by GDP per capita were decreasing thanks to EU regional policy, internal regional disparities have increased in several countries, including Bulgaria. In other words, there is a clear reverse relationship between the economic level reached by less developed EU countries and intra-regional dispersion (Totev, 2017[43]). Despite the significant intervention of EU Cohesion Policy, the 2008 global crisis and the difficulty to address megatrends have exacerbated the negative demographic and socio-economic trends in several Bulgarian regions. Today, territorial disparities are found at all levels: planning regions (NUTS 2), districts (NUTS 3), and municipalities, and are higher in Bulgaria than in most EU and OECD countries. In the 2018 ranking of European regions, three Bulgarian regions ranked just above last place in terms of GDP per capita, ranging between 34% and 36% of the European average (Eurostat, 2020[54]). The Sofia City region, home to one fifth of the population, has a GDP per capita corresponding to the United Kingdom's in purchasing power parities. By contrast, the poorest regions in the northwest are also the poorest in the entire EU and compare to Colombia by GDP per capita (OECD, 2021[23]).

The increase in territorial disparities resulted in an “island of prosperity dilemma” that is more intense in Bulgaria than in other Central and Eastern European countries (Totev, 2017[43]). Regional income differences are now larger than in most OECD countries (OECD, 2021[23]). The South West region contains Sofia (capital) district, which tends to concentrate the national prosperity. All other regions are lagging behind. These regions seem to be more homogeneous, even though some economic centres are emerging (e.g. Burgas, Plovdiv and Varna) and could possibly rebalance the trend toward concentration in the South West region and capital district.

Regional disparities at the NUTS 2 level: The South West region, driven by Sofia (capital) district, stands out above all other planning regions

Bulgarian territorial disparities at the planning region level are relatively high compared to EU and OECD countries. To analyse these territorial disparities, two concepts are used: dispersion and polarisation (Figure 2.6). Dispersion is the main lens through which OECD Regions and Cities (OECD, 2020[55]) analyses territorial disparities: it measures the gap between the worst and best performing regions as a percentage of the country value. Polarisation enables one to look at another dimension of territorial disparities by highlighting if one region or a group of regions (i.e. outliers) performs significantly better (or worse) than the majority of regions. For instance, a country that does not experience a large gap in educational performance among its regions but has one of its regions performing significantly worse than the others in education might want to specifically address education policy in this region to ensure that the gap between the lagging region and the others will not deepen (see Annex A). The methodology has been applied to 11 socio-economic indicators including demography, GDP and income, health, labour, education and employment.

In Figure 2.6, the polarisation coefficient measures the difference in distance between the maximum and the median, and the minimum and the median, as a share of the total distance between the maximum and the minimum. For instance, for population growth, disposable income, GDP per capita and labour productivity, the higher the coefficient, the greater the gap between the best performing regions and the rest. A coefficient of zero means that all regions have the same levels, e.g. of GDP per capita, while a coefficient of 100 means that all regions except one have the same levels and the remaining one is performing significantly differently.

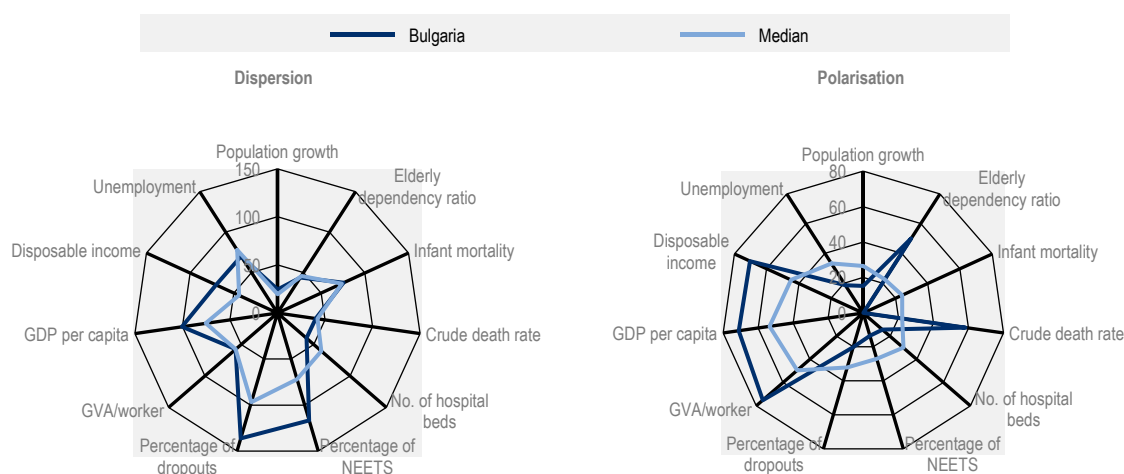
Dispersion in Bulgaria is higher than in most EU and OECD countries for most socio-economic dimensions, such as in GDP per capita for which Bulgaria is among the 30% highest. It means that 70% of the sample countries have dispersion in terms of GDP per capita lower than Bulgaria. Bulgaria's dispersion score for GDP per capita is 100, meaning that the difference between the worst regional GDP per capita and the best regional GDP per capita is equal to one time the country average. This dispersion score, while

normalised by the country average, highlights that the GDP per capita of the best performing region is at least two times higher than the GDP per capita of the worst-performing region.

Polarisation is also high for most socio-economic dimensions, with the South West and North West regions standing out. Compared to EU and OECD countries, Bulgaria has the fifth-highest polarisation coefficient in 2017 in terms of elderly dependency and is in the highest 20% in terms of labour productivity polarisation. In other words, for labour productivity, at least 80% of the sample countries have a polarisation score lower than Bulgaria. Bulgaria's labour productivity polarisation score is 75 while the sample median score is 49. This polarisation score indicates that the distance between the best performing region and the median is three times higher than the distance between the median and the worst-performing region. This highlights the gap between the best performing region, which performs significantly better than the other regions, and the other regions, which are concentrated around the median.

On one hand, the South West region, which represents an island of prosperity, is the only Bulgarian region with positive population growth between 2002 and 2017 and in 2017, its GDP per capita was 1.5 times higher than the national average versus 1.2 times in 2000. This is largely driven by prosperity of Sofia (capital) district. On the other hand, the North West region has the highest population decline, two times higher than the national average, the lowest GDP per capita, the highest elderly dependency ratio and the highest unemployment rate (1.8 times that of the national average). As looking at all dimensions goes beyond the scope of this report, two dimensions are selected below: demography and economy.

Figure 2.6. Regional disparities are higher in Bulgaria than in most EU and OECD countries



Note: All EU and OECD countries are part of the sample, except for Cyprus, Estonia, Latvia, Luxembourg and Malta, which have only one region at Territorial Level 2 (TL2)³. Therefore, the full sample is composed of 36 countries. The median is the median value for all EU and OECD countries included in the sample. Data comes from 2017 for the proportion of NEETS and dropouts, for the elderly dependency ratio and population growth (2002-17); otherwise, data comes from 2016. Due to a lack of data, not all 36 countries are included for all indicators. Population growth and the elderly dependency ratio comprise the full sample. For infant mortality, the sample comprises 33 countries since data for Australia, Iceland and the United States are missing. For the crude death rate, the sample comprises 34 countries since data for Australia and Ireland are missing. For hospital beds, the sample comprises 23 countries, it includes all EU-27 countries (at the exception of Ireland and the Netherlands), Norway, Switzerland and Turkey. For the proportion of NEETS and dropouts, the samples comprise 29 and 28 countries respectively since data are missing for Canada, France, Iceland, Ireland, Korea, Lithuania and Mexico; data for Japan are also missing for the proportion of dropouts. For labour productivity, the sample comprises 33 countries since data are missing for Iceland, Israel and Turkey. For GDP per capita, the sample comprises 33 countries since data are missing for Iceland, Israel and Japan. For disposable income, the sample comprises 31 countries since data are missing for Chile, Iceland, Japan, Switzerland and Turkey. For unemployment, the sample comprises 31 countries since data are missing for Croatia, Finland, Iceland, New Zealand and the United States.

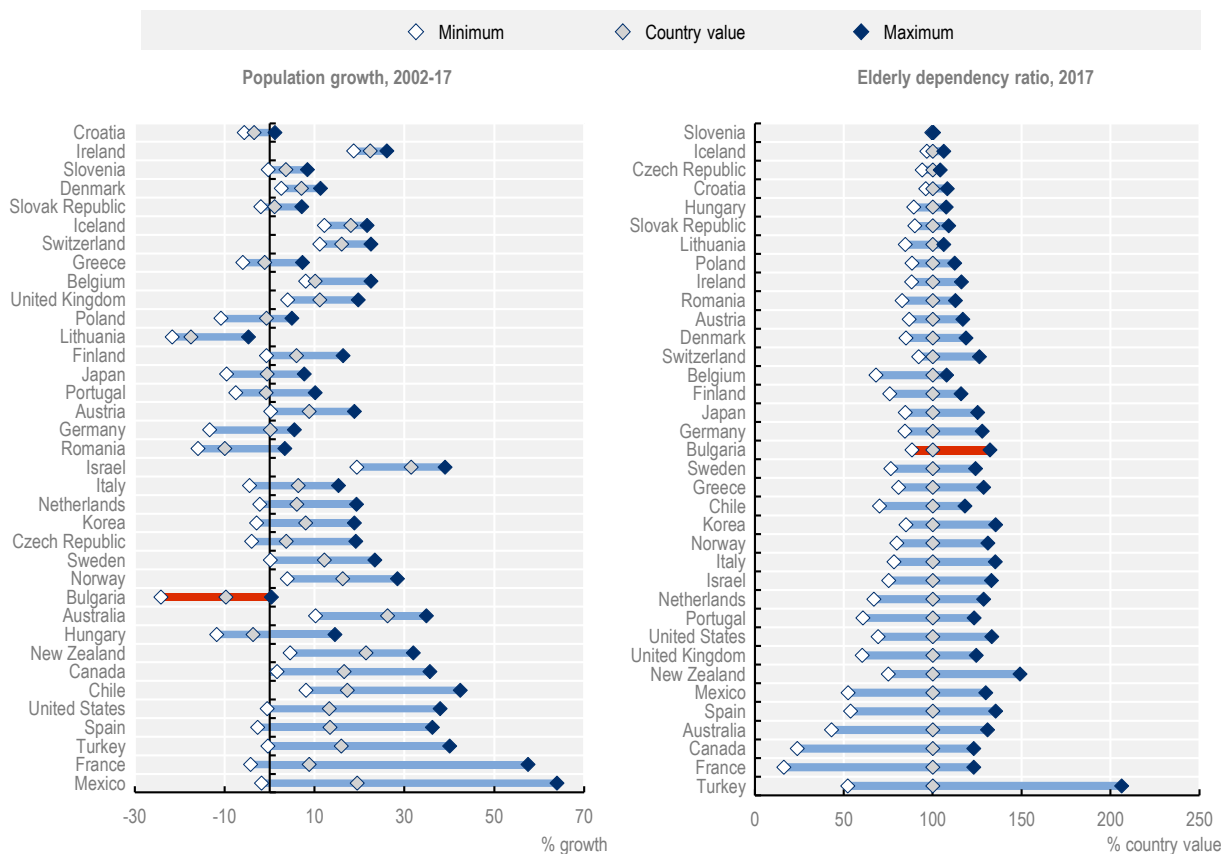
Source: Author's compilation based on OECD (2020_[36]), *OECD Regional Database*, https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR, and Eurostat (2020_[20]), <https://ec.europa.eu/eurostat/databrowser/view/tesem160/default/table?lang=en>

Demographic disparities across Bulgarian regions

On the demographic side, the South West region is the only Bulgarian region with a positive population change between 2002 and 2017. The South West region has the most positive regional values in Bulgaria in terms of natural change and net migration while the North West and North Central regions have the most negative figures on net migration and the most negative rate of natural change among all European regions. The North West region lost one-fourth of its population during the 2002-17 period, the worst population decline among all 403 EU and OECD regions in the sample. Its elderly dependency ratio reached 42.0% in 2017 and is the highest among Bulgarian regions since 2002 while that of South West (28.1%) is below the EU-28 average. As a result, the South West region is the most populated, containing 30% of the Bulgarian population. It is followed by the South Central region (20%) and the other 4 regions, which range from 11% to 15%.

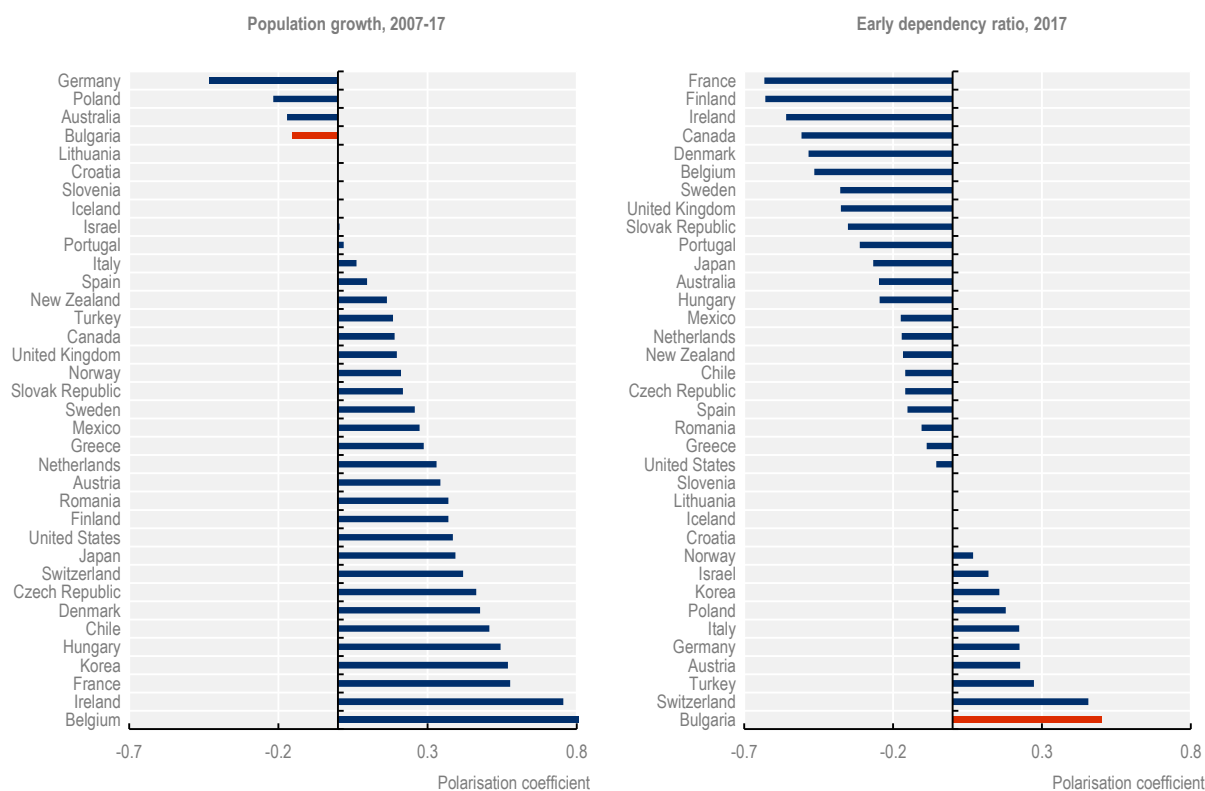
The territorial disparities among Bulgarian regions facing demographic changes are higher than in most EU and OECD countries. In Bulgaria, the dispersion between the lowest and the highest regional values for population growth and elderly dependency is higher than in half (or more) of the 36 sample countries. The dispersion of population growth in 2017 among Bulgarian regions is higher than in most EU countries, except for France, Hungary and Spain. For the 2017 elderly dependency ratio and growth rate, Bulgaria's regional dispersion is close to the sample median (Figure 2.7). Additionally, Bulgaria had among the largest polarisation coefficient in the elderly dependency ratio in 2017.

Figure 2.7. Regional dispersion in terms of demographic change in EU and OECD countries



Source: Author's compilation based on OECD (2020^[36]), OECD *Regional Database*, https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR, and Eurostat, 2020.

Figure 2.8. Regional polarisation in terms of demographic change in EU and OECD countries



Note: All EU and OECD countries are part of the sample, except Cyprus, Estonia, Latvia, Luxembourg and Malta, which have only one region at TL2 level. The country value is the weighted average of the regional values.

Source: Author's compilation based on OECD (2020^[36]), OECD Regional Database, https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR

Economic disparities across Bulgarian regions

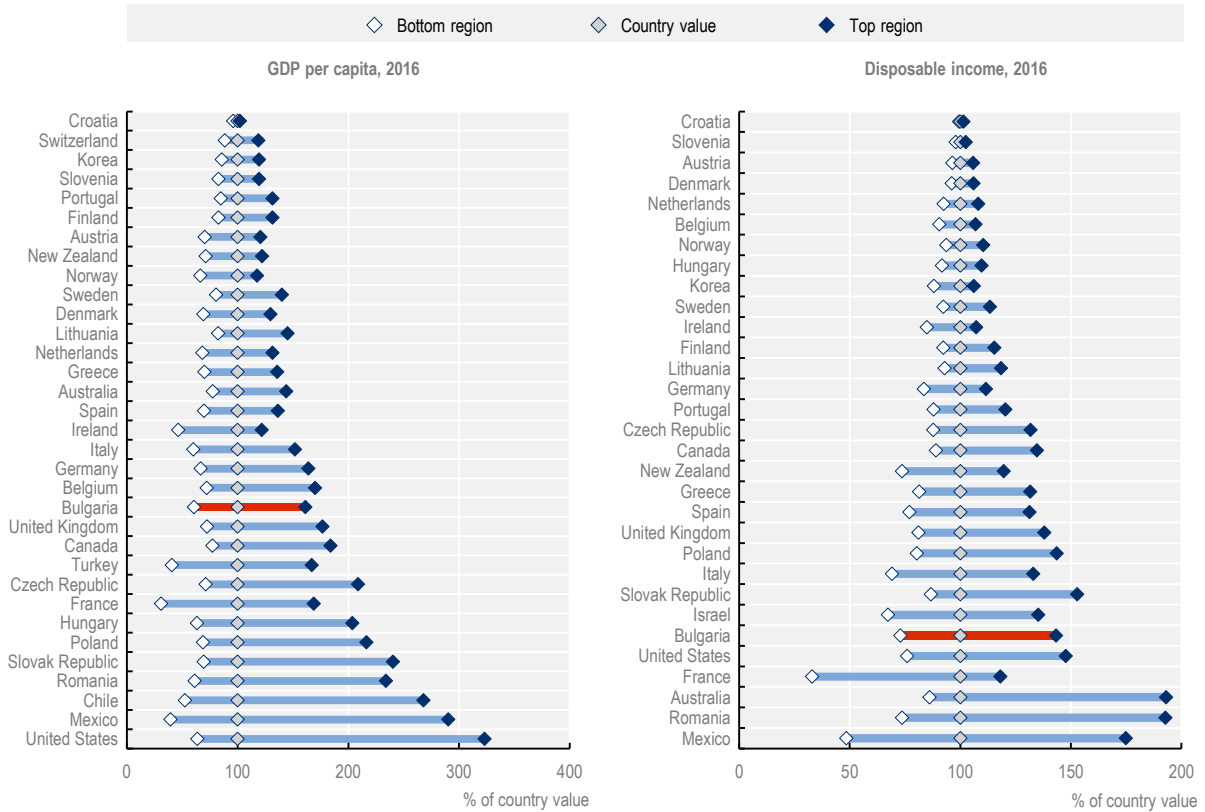
The South West region stands out with its relatively good economic performance regarding European standards, concentrating 48% of the Bulgarian GDP. Between 2000 and 2018, the South West concentration of GDP has increased by more than 35%. At the other end of the spectrum, the highest declines in GDP concentration were experienced in the North West and North Central regions.

Since the early 2000s, the South West region experienced the highest increase in GDP per capita and labour productivity, exceeding the national averages in GDP per capita and labour productivity; hence, it is the only Bulgarian region with figures higher than the national average. During the past decade, the South West GDP per capita and labour productivity were respectively on average 63% and 34% higher than the national average (OECD, 2020^[36]). Regional dispersion in GDP per capita and disposable income as well as the regional polarisation in labour productivity and disposable income are particularly high in Bulgaria (Figure 2.9 and Figure 2.10)

Since 2004, unemployment in the South West region has been significantly lower than the EU-28 average and remains, since 2008, significantly lower than the unemployment rate in the five other Bulgarian regions. By contrast, unemployment reached 10.9% in the North West region in 2017, which is the highest rate in Bulgaria and almost twice the national average (OECD, 2020^[36]).

Figure 2.9. Regional dispersion in GDP per capita and disposable income is high in Bulgaria

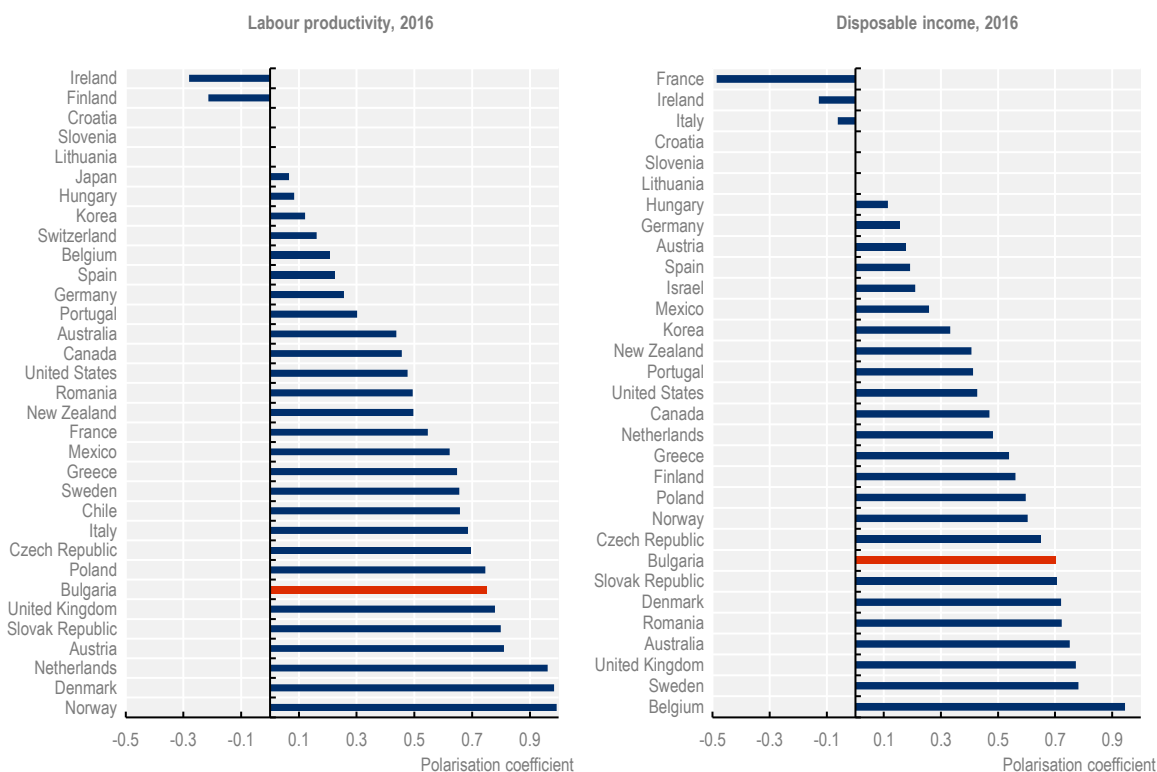
Graphs ordered from the lowest to the highest dispersion



Note: All EU and OECD countries are part of the sample, except Cyprus, Estonia, Latvia, Luxembourg and Malta, which have only one region at TL2 level. For disposable income, Chile, Iceland, Japan, Switzerland and Turkey are not included due to lack of data. The country value is the weighted average of the regional values.

Source: Author's compilation based on OECD (2020^[36]), OECD Regional Database, https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR

Figure 2.10. Regional polarisation in labour productivity and disposable income is high in Bulgaria



Note: 33 EU and OECD countries are covered. Cyprus, Estonia, Latvia, Luxembourg and Malta are excluded because they have only one region at the TL2 level. Iceland, Israel and Mexico are not included due to a lack of data. For disposable income, Chile, Japan and Switzerland are also not included due to a lack of data. The country value is the weighted average of the regional values.

Source: Author's compilation based on OECD (2020^[36]), *OECD Regional Database*, https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR.

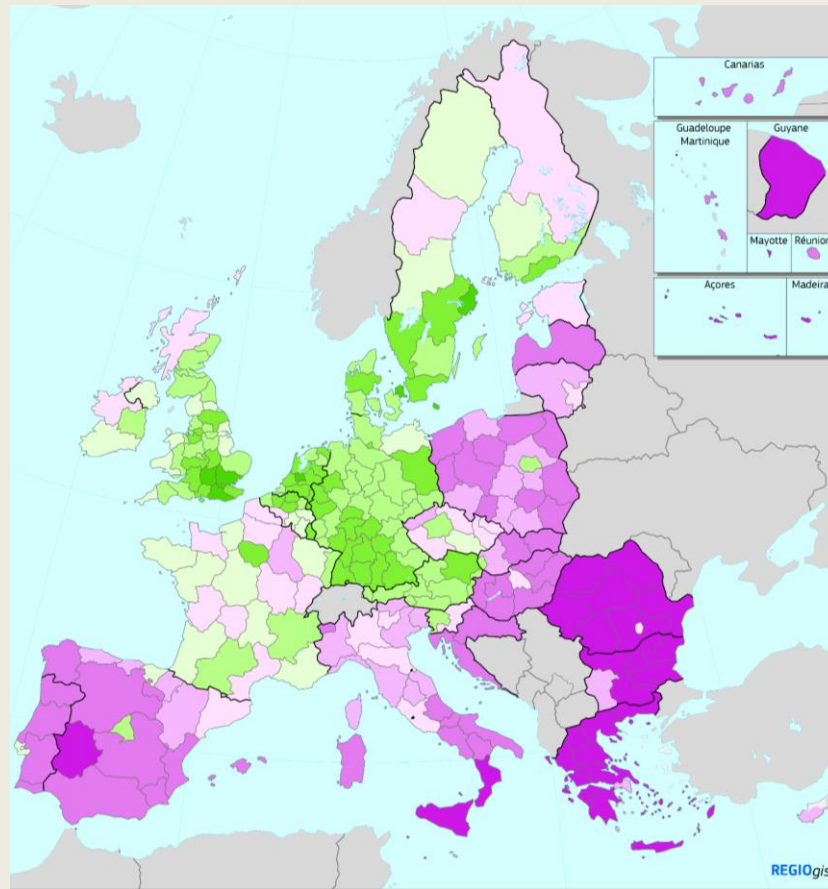
The 2019 EU regional competitiveness index (RCI) confirms the weak performance of Bulgaria, at the regional level compared to other regions in the European Union as well internal disparities between the South West Region and the others. Bulgarian regions also perform worse than the great majority of EU regions in terms of income inequality (Box 2.4).

Box 2.4. How Bulgarian regions rank in the 2019 Regional Competitiveness Index (RCI)

The EU RCI confirms the weak performance of Bulgaria at the regional level, compared to other EU countries. Based on the map, there is a significant divide between the North West and South East across the EU, with Bulgarian, Greek and Romanian regions performing particularly poorly. The map also confirms a polycentric pattern, with capital and metropolitan regions being the more competitive in many parts of the EU, thanks to agglomeration and connectivity of economic activities and human capital making them engines of growth and competitiveness (EC, 2019^[56]). In Bulgaria, the capital region of the South West is the only region with a competitiveness index of between -0.5 and -0.2, the others having the highest negative value (below -1) among EU regions. It is the most competitive region in the country, although it is still one of the less competitive among the majority of other EU capital and metropolitan regions. Among the 10 worst-performing regions in the EU, we find one Bulgarian region, the North West, with GDP per head reaching only 29% of the EU average and a competitiveness score of -1.4.

Bulgarian regions also perform worse than the great majority of EU regions in terms of income inequality. Data from the RCI 2019 incorporated social elements for the first time (Annoni and Dijkstra, 2017^[57]). Income inequality has become a more and more prominent indication of social integration and fairness in the EU and worldwide. Data from 2016 show wide inequalities in the distribution of income across EU regions. Bulgarian, Romanian and some Italian regions combine low competitiveness with high-income inequality.

Figure 2.11. Regional Competitiveness Index (RCI) 2019 in the EU



Regional Competitiveness Index – RCI 2019

Index: values range from low (negative) to high (positive)

< -1	0 - 0.2
-1 - -0.5	0.2 - 0.5
-0.5 - -0.2	0.5 - 1
-0.2 - 0	> 1

EU-28 = 0
Source: DG REGIO

0 500 km

© EuroGeographics Association for the administrative boundaries

Note: RCI 2019 tracks the performance of 268 regions at the NUTS 2 level across 28 EU member states. It measures 11 dimensions of competitiveness capturing concepts that are relevant to productivity and long-term development: infrastructure, labour market efficiency, market size, innovation, business sophistication, technological readiness, higher education and lifelong learning, basic education, health, macroeconomic stability and institutions. Each dimension comprises a series of indicators.

Source: (EC, 2019^[56]).

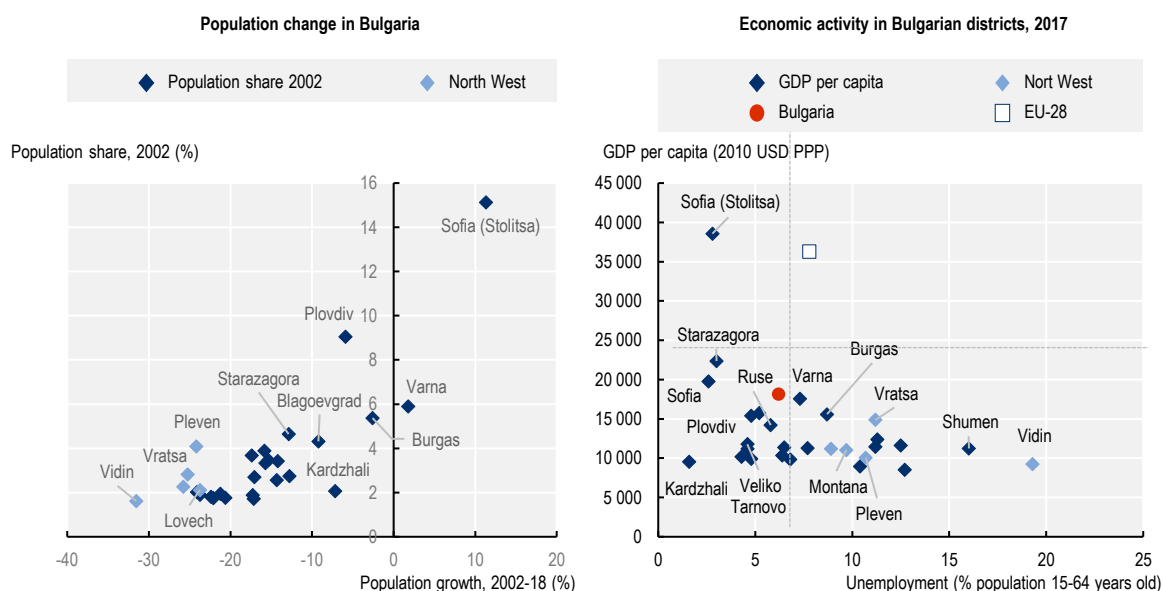
Source (box): Annoni, P. and L. Dijkstra (2017^[57]), "Measuring and monitoring regional competitiveness in the European Union", in Huggins, R. and P. Thompson (eds.), *Handbook of Regions and Competitiveness*; EC (2019^[56]), *The EU Regional Competitiveness Index 2019*, https://ec.europa.eu/regional_policy/sources/docgener/work/2019_03_rci2019.pdf.

The “island of prosperity” dilemma at the district level: The gap between Sofia (capital) district and the other districts

The concentration of wealth in the South West region, which represents an “island of prosperity”, stems mostly from the good performance of Sofia (capital) district. **Sofia (capital) district attracts economic activity and people seeking job opportunities.** It is the only Bulgarian district for which the positive net migration compensates the negative natural change of population; hence, it is the only Bulgarian district with positive annual population growth since 2002. Sofia (capital) district accounted for 18.8% of the national population in 2018. Due to agglomeration effects, the concentration of economic activity is much more important than the concentration of population, reaching almost 40% of national GDP (versus 29% in 2002) and receiving more than 50% of the non-financial foreign direct investment (FDI) in 2017 while its unemployment rate is among the lowest in Bulgaria. As a comparison, the remaining districts individually account for less than 10% of the national GDP. Sofia (capital) district’s GDP per capita was 1.9 times higher than the national average in 2002 but 2.1 times higher in 2017.

Sofia (capital) district is also characterised by high well-being conditions alongside high-income inequality, which is typical of major economic hubs. Sofia (capital) district had the fourth-highest level income inequality, as measured by the Gini index, among Bulgarian districts in 2017, reaching 42.3, and the highest growth in income inequality between 2014 and 2017, growing by 28% compared to 14% on average in Bulgaria.

Figure 2.12. Population change and economic activity in Bulgarian districts



Note: Sofia (Stolitsa) is Sofia (capital) district.

Source: Author’s compilation based on OECD (2020^[36]), OECD *Regional Database*, https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR

The growing polarisation trend towards the most populated districts, especially Plovdiv and Varna, might, however, soften this “island of prosperity” dilemma by fostering the development of new socio-economic hubs. The most populated districts seem to benefit from agglomeration effects. Plovdiv and Varna, in the South Central and North East regions respectively, are the leading districts in their respective regions. They perform better than the country average for most indicators, with a GDP per capita among the 25% highest, crude death rates among the lowest and an average grade on the matriculation exam in 2017

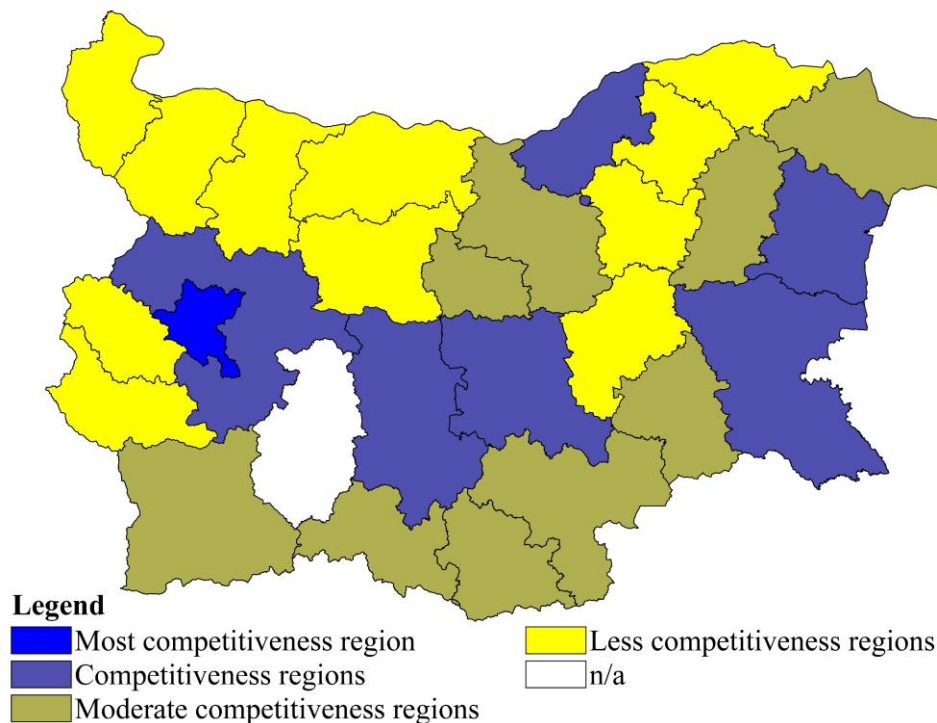
among the highest in Bulgaria. For their part, Stara Zagora and Burgas are two good candidates for leading the South East region.

Nevertheless, the development of these balancing centres should not be done at the detriment of surrounding districts. Indeed, during the past decade, territorial disparities have been deepening. The worst-performing districts had difficulties catching up with the other districts while the best performing districts were hardly challenged by others. Several rural areas do experience deconcentration trends because of the attractive pulling forces from more populated areas. Support policies might thus be needed to help lagging districts from falling further behind. A positive note is that the most rural and remote districts are not the worst performing in terms of education, health and poverty.⁴

The North West districts seem to be the most affected by these polarisation forces. The five districts in the North West region have among the lowest performances for most socio-economic indicators, which explains the weak overall performance of the region. A study shows that the dispersion of GDP per capita among districts in Bulgaria is 45.5, much higher than the EU average of 28.3 (Totev, 2017_[43]).

An application of the EU RCI at the NUTS 3 level in Bulgaria by Ivanov (2018_[58]) shows that, in 2016 in the North West region, all of its five districts are considered “less competitive”. This study also highlights the leading role of Sofia (capital) district, which is at least twice as competitive as any other districts in Bulgaria and ranks first in terms of competitiveness during the whole period 2004-16. Among the other districts, the differences are smaller, supporting the hypothesis of an “island of prosperity” dilemma. With the exception of the North West region, in the other regions, there is always a combination of competitive districts, moderately competitive districts and less competitive districts. These disparities likely reflect a concentration of investment and better infrastructure, fostering better conditions for doing business, as is the case in the southern regions.

Figure 2.13. Regional competitiveness index at NUTS 3 level in Bulgaria, 2016



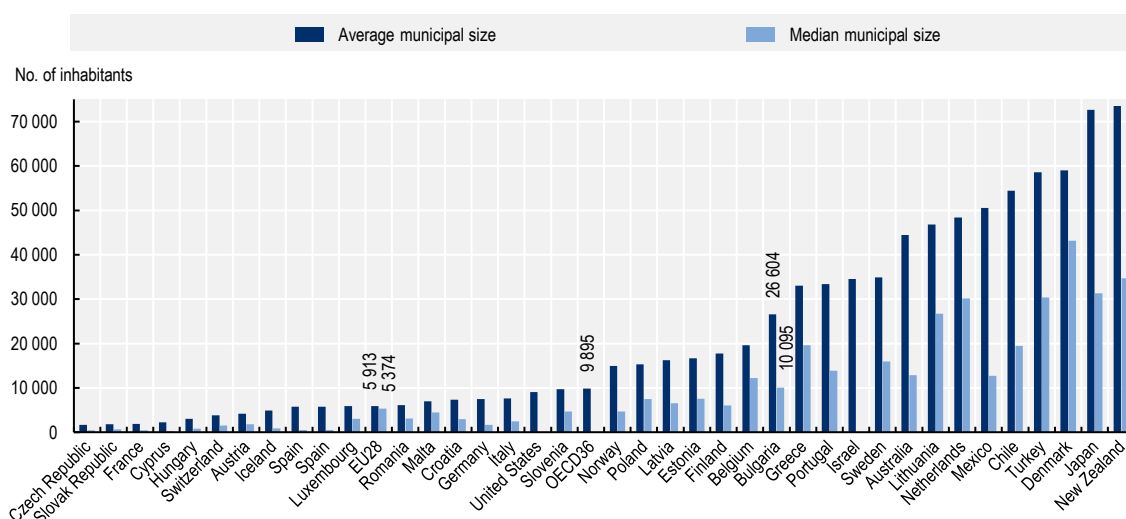
Source: Ivanov, I. (2018_[58]), “Study of regional inequalities: Case of Bulgaria”, <http://dx.doi.org/10.3846/bme.2018.2275>.

Municipalities differ considerably in area, population size and economic potential

Compared to European municipalities, Bulgarian municipalities are on average larger in terms of land area, amounting to around 420 km² compared to an EU-28 average of 51 km² (OECD, 2019^[59]). However, there is great variation across municipalities, from 44 km² for the smallest to 1 354 km² for the largest; 60% of Bulgarian municipalities are under the national average.

In terms of population, compared to EU and OECD countries, the average municipal size (26 600 inhabitants in 2018-19) is quite large compared to the OECD average (9 600 inhabitants) and, especially, to the EU-28 average (5 900 inhabitants). The median size of municipalities in Bulgaria remains also quite high compared to the median size in the EU: 10 100 inhabitants versus 5 370 (Figure 2.14).

Figure 2.14. Average and median municipal sizes in EU and OECD countries, 2018-19



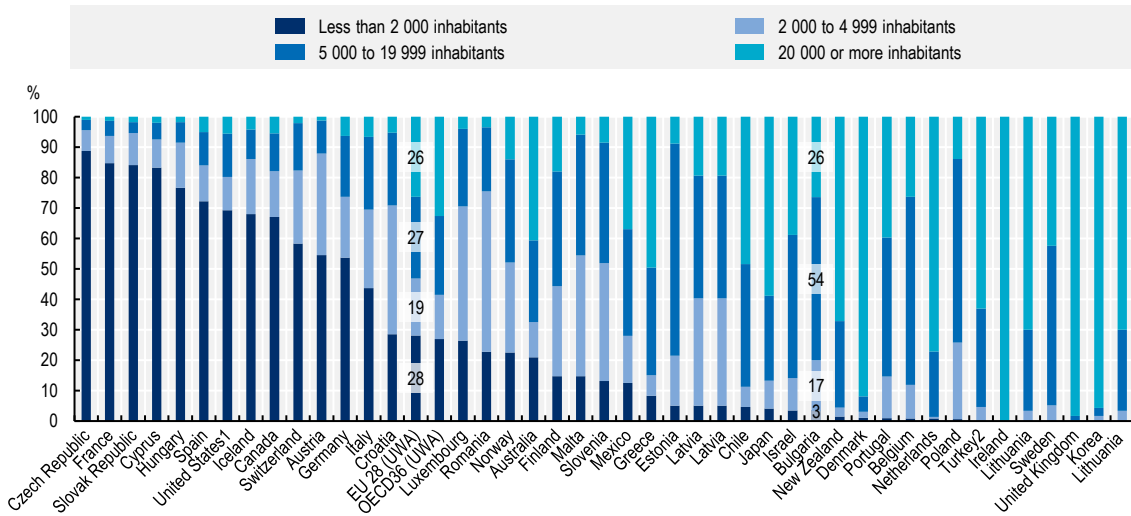
Note: Three countries are not shown on the graph because of very high values (average/median): Ireland (155 820/123 850), the United Kingdom (173 490/130 630) and Korea (228 350/125 110).

Source: OECD (2020^[60]), *Subnational Governments in OECD Countries: Key Data - 2020 Edition*, OECD, Paris; OECD (2019^[59]), *Key Data on Local and Regional Governments in the European Union (brochure)*, https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf.

The majority of Bulgarian municipalities (54%) have between 5 000 and 20 000 inhabitants which is twice the EU and OECD averages (around 27%) (Figure 2.15). Around 20% of Bulgarian municipalities have fewer than 5 000 inhabitants compared to 47% in the EU-28 and 41% in the OECD.

This does not mean, however, that Bulgaria is spared from the problem of municipal fragmentation. Bulgaria has some very small municipalities (3% of total). Overall, 76 municipalities had less than 6 000 inhabitants in 2019, the minimum population threshold for creating a new municipality as determined by the Administrative and Territorial Act, versus 56 municipalities in 2010, i.e. 29% in 2019 versus 21% in 2010 (NSI, 2020^[61]). Ninety-two percent of Bulgarian municipalities saw their population decline between 2010 and 2019. For 21% of municipalities, their population declined by more than 20% over the 9-year period (Figure 2.16). One can anticipate that this trend will continue given predicted demographic changes. Between 2000 and 2019, 92% of municipalities saw their populations decline due to the effects of the natural balance of births and deaths and migration. In 2019, 63% of Bulgarian municipalities had a negative rate of net migration (NSI, 2020^[62]). Moreover, within these municipalities, the majority of them (52) also has an extremely low density of fewer than 20 inhabitants per km². Most of them are located in the border regions, with a particularly clear concentration observed in the North West region of Bulgaria.

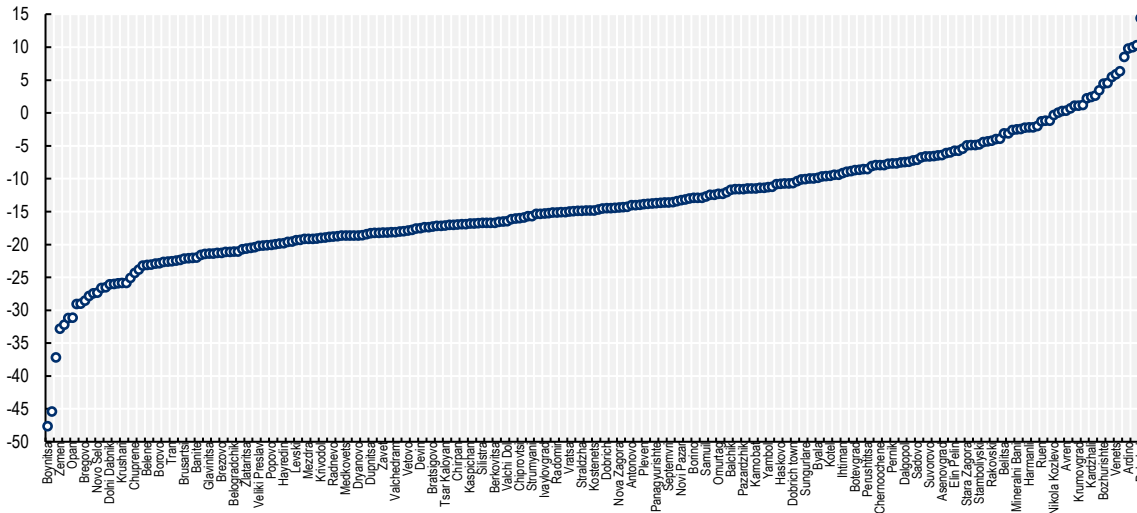
Figure 2.15. The share of municipalities by population size class in the OECD and EU



Note: Calculations do not comprise French Guyana for France. EU and OECD averages are unweighted (UWA).
 1. United States: size classes are slightly different: less than 2 499 inhabitants, 2 500 to 4 999, 5 000 to 24 999, 25 000 or more.
 2. Turkey: metropolitan municipalities are not included to avoid double counting.

Source: OECD (2020^[60]), *Subnational Governments in OECD Countries: Key Data - 2020 Edition*, OECD, Paris; OECD (2019^[59]), *Key Data on Local and Regional Governments in the European Union (brochure)*, https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf.

Figure 2.16. Population change by municipality between 2010 and 2019 (%)



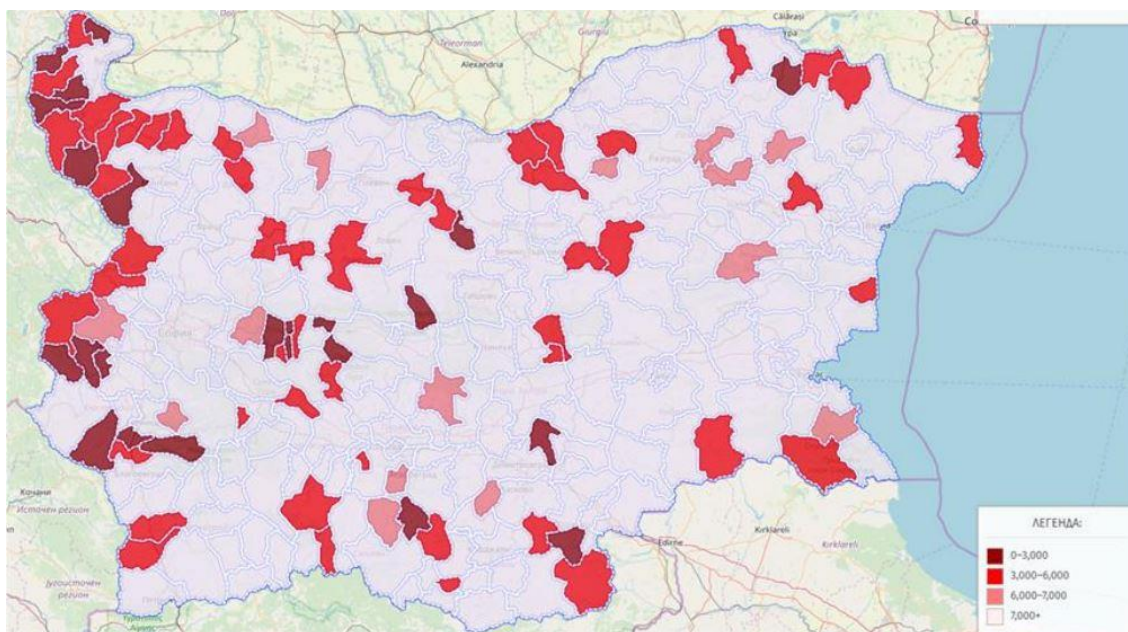
Source: OECD calculations based on NSI (2020^[61]), *Population by Districts, Municipalities, Place of Residence and Sex*, <https://www.nsi.bg/en/content/6704/population-districts-municipalities-place-residence-and-sex>.

At the other end of the spectrum, there are no large municipalities to balance the demographic weight of Stolitchna municipality (Sofia). Only 10% of municipalities are above 50 000 inhabitants and 9 municipalities are above 100 000 inhabitants. Plovdiv and Varna, which are the two largest cities after Stolitchna municipality (Sofia) with around 345 000 inhabitants each, are almost 4 times smaller than the capital city (1.328 million inhabitants in 2019). Stolitchna municipality (Sofia) accounts for 19% of the population in 2019, and Plovdiv and Varna, 5% each. The other 6 municipalities above 100 000 inhabitants

account for between 1.5% and 3% of the total population. The polarisation of the population towards the Stolitchna municipality has grown by 6% between 2000 and 2019 while the total Bulgarian population decreased by 7% over the same period (NSI, 2020^[61]).

In terms of socio-economic development, Sofia (capital) district, i.e. the Stolitchna municipality (Sofia), makes up 40% of the total GDP for Bulgaria. Sofia (capital) district's GDP per capita is more than twice the national average and is above the EU average since 2017 in purchasing power parity (PPP) terms. By the end of 2018, Sofia attracted half of the foreign investments in Bulgaria, i.e. EUR 9 800 per resident - 3 times the national average. The average salary in Sofia exceeds the country's average by 38%, approaching the EU average. Sofia has a highly concentrated, highly educated working-age population. For example, the share of the population with higher education is around 51%, while it was below 28% at the national level in 2017. Sofia has also the highest employment rate in Bulgaria – 76.4% in 2019 (versus 70.1% at the national level) – and therefore also has the lowest unemployment rate in the country – 1.6% (versus 4.2% at the national level) (NSI, 2020^[63]). Sofia's economy is dominated by the service sector, which produces over 80% of the regional GDP (IME/Sofia Investment Agency, 2019^[64]). This lack of polycentrism hinders the promotion of balanced regional development in Bulgaria (Boulineau, 2016^[42]).

Figure 2.17. Distribution of municipalities less than 6 000 inhabitants in Bulgaria, 2019



Source: IME (2019^[65]), “News: Which municipalities use the most European funds? (in Bulgarian)”, <https://www.regionalprofiles.bg/bg/news/which-municipalities-absorb-the-most-eu-funds-2019/>.

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Notes

¹ The Nomenclature of Territorial Units for Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants); NUTS 2

region (800 000 to 3 million inhabitants); and NUTS 3 region (150 000 to 800 000 inhabitants) (OECD, 2010^[71]).

² The at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers.

³ Regions within the 36 OECD countries are classified on two territorial levels reflecting the administrative organisation of countries. The 394 OECD large (TL2) regions represent the first administrative tier of subnational government, for example, the Ontario Province in Canada. The 2 258 OECD small (TL3) regions correspond to administrative regions, with the exception of Australia, Canada and the United States (OECD, 2020^[69]).

⁴ With the exception of Silistra, with education and economic performances (the lowest GDP per capita and third-highest unemployment rate in 2017) among the lowest.

3

Bulgaria's multi-level governance system: A diagnosis

Bulgaria's efforts for decentralisation and place-based regional development since the early 1990s have not yet yielded the desired outcomes. Despite successive decentralisation strategies and implementation programmes, the country has maintained its centralised multi-level governance model. Regional policy is still top-down and does not foster an integrated approach across sectors. Municipal governance faces several challenges in the three key dimensions of decentralisation: political, administrative and fiscal. Effective regional governance is missing at both the district and planning region levels. Governors are not equipped with sufficient power and administrative and financial resources to carry out their functions and implement regional policy while planning regions are also particularly weak.

The difficult path towards decentralisation and place-based regional development policy

Bulgaria's decentralisation process is a gradual process, spanning the past 30 years. Various steps have been taken, including restoring local democracy in the early 1990s, reforming the local public finance system, as well as taking a more institutional and comprehensive step since 2006 to deepen the decentralisation reforms. However, these efforts have not yielded their expected outcomes and Bulgaria remains a centralised state in many respects, thereby demonstrating that one of the most powerful impediments to decentralisation is the lack of political support.

Similarly, Bulgaria's significant efforts towards place-based regional development policy have not always produced the expected results. Regional development policies remain centrally designed and implemented without taking into consideration specific territorial needs, addressing the region-specific factors that cause economic and social stagnation, or allowing all regions to achieve their full economic potential.

Bulgaria has undertaken a gradual process of decentralisation for 30 years but with mixed results

Bulgaria has undertaken a long path towards decentralisation since the early 1990s. This process has been gradual, with stops and starts, in an economic and political context that was not always conducive to such reforms. Three phases can be distinguished. The first phase from 1991-2001 when Bulgaria restored and consolidated local self-governance and established the legislative and regulatory framework for local governance. The second phase was from 2002-05. The country made significant advances in fiscal decentralisation in this period, aiming to address issues that emerged from the increasing responsibilities of local governments. The third phase was from 2006-15 when the government adopted a more comprehensive decentralisation strategy. Overall, since 1991, the decentralisation process in Bulgaria has taken place in fits and starts and was temporarily suspended between 2011 and 2013. On the eve of the new 2016-25 decentralisation strategy, the prior decentralisation process has not produced the expected results and Bulgaria remains a centralised country in many areas.

1991-2001: Restoration and consolidation of local democracy

In 1991, Bulgaria restored the foundations of its local democracy. In this year, Bulgaria adopted its current constitution, which establishes the municipal government as the only decentralised level of government, while district councils were abolished. In 1995, the first "real" local elections were held, in tandem with the Local Elections Act coming into effect (International Republican Institute, 1996^[1]). The government consolidated the municipal governance system and continued the decentralisation process by adopting a package of laws that included: the Act on Administrative and Territorial Structure of the Republic of Bulgaria (1995), the Act on the Territorial Division of Stolichna Municipality (Sofia) and Major Cities (1995), the Referendum Act and Municipal Property Act (1996), the Local Taxes and Fees Act (1997), and the Municipal Budgets Act (1998), among others. This set of regulations and legislation provides the framework conditions for Bulgaria to build its local governance and democracy. In 1995, the National Assembly of Bulgaria also ratified the European Charter of Local Self-Government of the Council of Europe, which requires states to secure and protect the political, administrative and financial autonomy of territorial communities (MRDPW, 2016^[2]).

The National Association of Municipalities in the Republic of Bulgaria (NAMRB) was established in 1996. While serious attention was paid to political and administrative decentralisation, particularly concerning the definition of competencies and responsibilities of local government in specific spheres of activity, revenue decentralisation has lagged. This has resulted in a gap between spending needs and authority over local revenues in many municipalities.

2002-2005: Progress towards fiscal decentralisation

A stronger decentralisation momentum emerged in 2002, with a firm focus on adjusting intergovernmental fiscal policies. Following the signature of a co-operation agreement between the government and NAMRB on municipal fiscal autonomy, the government adopted a concept paper on fiscal decentralisation to be implemented over the period 2002-05. The objective was to more clearly delineate the responsibilities of municipalities and their sources of financing, creating sound and rules-based systems of intergovernmental transfers and strengthening the financial capacity of local authorities (Nenkova, 2014^[3]).

This programme produced an in-depth transformation of the local financial system. The distribution of responsibilities between the central and municipal governments was clarified and two types of municipal spending responsibilities were distinguished: state-delegated responsibilities (mainly education, social protection and healthcare) and exclusive municipal responsibilities. State-delegated responsibilities are now funded by state transfers (including shared taxes) while other responsibilities are financed by own-source revenues.

Significant changes were also made to the structure of municipal revenue, particularly in the area of shared tax revenue. Before 2003, municipalities received around 50% of personal income tax (PIT) and 10% of corporate income tax (CIT) as well as a small share of excise duties. The 2003 reform abolished the municipal share of CIT and excise tax and instead allocated 100% of the proceeds of PIT to municipalities. PIT became the only shared tax revenue source for municipalities and thus a major source of financing. The Local Taxes and Fees Act was also amended to assign full legal rights to municipalities to set the base and size of local fees by application of the cost-recovery principle. Additionally, municipalities were granted the power to provide some tax exemptions to certain taxpayers for local, social and economic policies.

Finally, the Municipal Debt Act was adopted in 2005 to provide the first comprehensive legal framework for municipal borrowing; this represented an important guarantee against municipal default and a vital precondition for fostering the growth of a market in municipal credit (Stoilova, 2007^[4]).

2006-2015: A more comprehensive reform on paper but with mixed outcomes

Boosted by the European Union (EU) accession process, Bulgarian decentralisation policy took a new step through the adoption of an ambitious “Strategy for Decentralisation for the period 2006-15” by the Council of Ministers (CoM). Compared to the previous strategy that mainly focused on fiscal decentralisation, the 2006-15 strategy promoted a more comprehensive approach, reviewing not only municipalities but also the district and sub-municipal level administration. The strategy defined a series of measures aimed at achieving three strategic objectives, namely:

- Objective 1: Enhance the transfer of powers and resources from the state bodies to the municipalities to strengthen local self-government.
- Objective 2: Optimise the functional competencies of the district governors and the territorial units of the central executive bodies for co-ordination of sectoral policies at the regional level.
- Objective 3: Develop decentralisation within the municipality, i.e. between the “mother municipality” and its mayoralties and wards.

Three programmes were adopted for the duration of the decentralisation strategy, covering the period of 2006-09, 2010-13 and 2014-15 respectively. A Council for Decentralisation of State Governance was set up in 2006 to monitor the progress. The results highlight several main achievements, mostly in the area of fiscal decentralisation but also several unsatisfactory results.

On the positive side, the following points can be highlighted (MRDPW, 2016^[2]):

- Major tax reform in 2007: While the PIT as a shared tax was phased out, a constitutional change granted taxing power to the municipalities. This represented great progress towards fiscal autonomy. Municipalities can now determine local taxes as provided for and within the limits of the Local Taxes and Fees Act. The patent tax was transferred to the municipalities as an own-source tax. Municipalities were also given the power to directly collect taxes.
- Municipalities also received full power over municipal fees.
- Municipal revenues from concession contracts have increased, resulting from the transfer of 50% of the revenues from state concessions; a considerable number of properties owned by the state were also transferred to the municipalities.
- The Fund for Local Authorities and Governments in Bulgaria (FLAG) was created to provide financial assistance to municipalities for the absorption of EU funds.
- The legal framework for inter-municipal co-operation and a public-private partnership was established.
- The Strategy for Innovation and Good Governance at Local Level of the Council of Europe was implemented, paying special attention to the strengthening of local democracy.

On the more negative side, the overall outcomes of the 2006-15 decentralisation strategy were considered unsatisfactory. Only 39% of the decentralisation measures in the strategy have been completely implemented, with 22% not being implemented or started at all. Most of the measures of Objective 2 (districts) and Objective 3 (mayoralities) were not implemented. These include: resolving the co-ordination issues among the territorial units of the central administration, as well as between these units and the district governors; expanding the discretion and administrative capacity of the district administrations to implement functions of supra-municipal importance; ensuring interdependence between the district development strategy and sectoral strategies, among others. Furthermore, there was no progress concerning the need to provide more powers to mayoralities and wards to reduce centralisation at the municipal level.

Despite this continuity over almost 30 years and permanent reaffirmation of the need to deepen decentralisation, many initiatives are yet to be implemented and many problems remain unsolved. Therefore, after almost three decades, the role of Bulgarian local governments in the economy is weak. Bulgaria belongs to the group of countries where a relatively low level of decentralisation is combined with a relatively low level of public spending, by international comparisons (Figure 3.1).

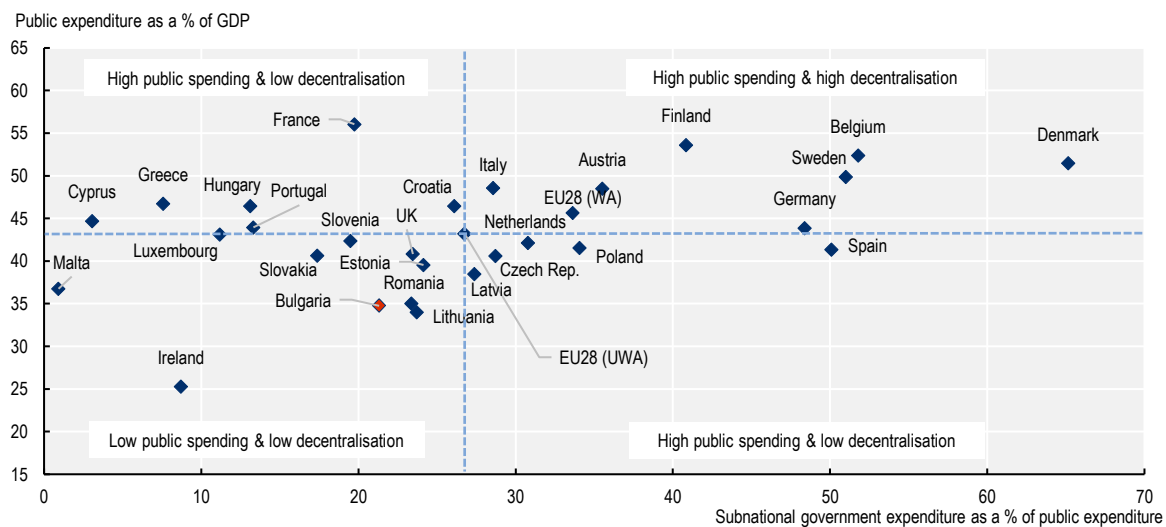
Why advancing decentralisation reforms is difficult in Bulgaria

The political economy of multi-level governance reforms is a key element to “make reforms happen”. Multi-level governance reforms are always particularly sensitive and difficult to conduct, as demonstrated by the number of failed reforms in many OECD countries (OECD, 2010^[5]). Policymakers face a variety of challenges, including structural constraints (e.g. including countries’ specific features and political conjuncture), the problem of “reforming the reformer” and the difficulty of gaining citizen interest and public support (OECD, 2017^[6]).

The last two challenges are particularly relevant for Bulgaria. “Reforming the reformer” has appeared to be one of the most powerful obstacles to decentralisation and regionalisation reform in Bulgaria. The difficulty is that since the public administration must indeed design and implement its own reform, it needs to impose measures that may be contested both at the central and local levels. Reshaping vertical interactions between central and subnational governments alongside changes to horizontal relations within the central administration itself, and within subnational governments, is particularly complex. They involve several layers of government, elected politicians and non-elected officials, as well as various other stakeholders

with often-conflicting interests. There is often strong resistance to reform at all levels of government. In Bulgaria, it seems that there is resistance to reform at the central government level (several ministries, civil servants) and the municipal level. While municipalities support decentralisation reform, they seem to be more reluctant to the idea of further regionalisation.

Figure 3.1. The relative importance of subnational governments in the economy, EU-28, 2018



Note: EU-28 UWA stands for EU-28 unweighted average while WA stands for weighted average.

Source: OECD (2019^[77]), *Key Data on Local and Regional Governments in the European Union (brochure)*, https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf.

The second main obstacle is the lack of social demand. Citizens and non-governmental organisations (NGOs) do not seem to have a strong interest in decentralisation. This is also associated with the problem that most of the NGOs in Bulgaria are structured around sectoral issues or the problems of certain social groups, instead of being territorial or locally oriented.

Finally, it seems that the topic of decentralisation itself is not considered a priority but more of a secondary issue, far behind challenges related to the economic and financial situation. This opinion was particularly dominant after the 2008 global economic and financial crisis when subsequent budgetary consolidation measures relegated decentralisation reform to second place. Policymakers are hesitant to endorse decentralisation due to concerns about increasing macroeconomic instability. Decentralisation would imply transferring spending responsibilities, resources and decision-making to lower levels of governments and thus is perceived as a potential loss of control over macro-management. This reflects the absence of a genuine and deep understanding of the benefits of decentralisation among politicians and civil servants. Politicians tend to view decentralisation more as a problem than as a necessary and integral part of solutions to the country's development and modernisation issues. In such a context, the decision-makers do not have a clear vision of what needs to be done. This confirms that, in Bulgaria, decentralisation reform is primarily impeded by political obstacles rather than technical ones. It has not labelled as a high priority on the political agenda while decentralisation cannot succeed without political and citizens' support (MRDPW, 2016^[21]).

Regional policy in Bulgaria is not sufficiently place-based or integrated

Many exogenous factors are contributing to poor outcomes of regional development policies, in particular, large and increasing inter- and intra-regional disparities (Chapter 2). Bulgaria entered the EU in 2007, just ahead of the global economic crisis, making it unable to fully reap the benefits of joining the EU market at the start. Throughout these years it was also a demanding task for Bulgaria to learn and adapt to the EU policy environment and, in particular, the implementation of complex EU cohesion instruments. Moreover, while the EU integration has been accompanied by a convergence of national economies for less developed EU countries, it has also generated an internal divergence process across and within regions (Totev, 2017^[8]). In addition, territorial disparities are aggravated by a series of megatrends – globalisation, demographic and social changes, resource scarcity, climate change, urbanisation and digitalisation – which are particularly difficult to thwart and manage and have more pronounced impacts on already lagging regions and countries.

Nonetheless, one inherent factor is the lack of a place-based approach in Bulgaria’s regional development strategy and policies. Place-based policies refer to policies that can effectively address the diversity of economic, social, demographic, institutional and geographic conditions across regions. These policies target specific territories and provide the tools that traditional structural policies often lack to address region-specific factors that cause economic and social stagnation. They also promote an integrated approach across sectors ensuring that a wide range of sectoral policies, from transport and education to innovation and health, are co-ordinated with each other and meet the specific needs of different regions – from remote rural areas to the largest cities (OECD, 2019^[9]). By its very nature, a place-based approach also mobilises local actors, based on the core assumption that local actors know best regarding what to do and when, in the places where they live (Barca, McCann and Rodríguez-Pose, 2012^[10]).

In Bulgaria, a place-based approach has not yet materialised. The current approach to regional policy implementation fails to address the needs and unlock the potential of regions and municipalities, notably small cities and rural areas, to capitalise on cross-sector synergies. The new integrated approach for regional development has not yet yielded the expected results of regional growth and convergence.

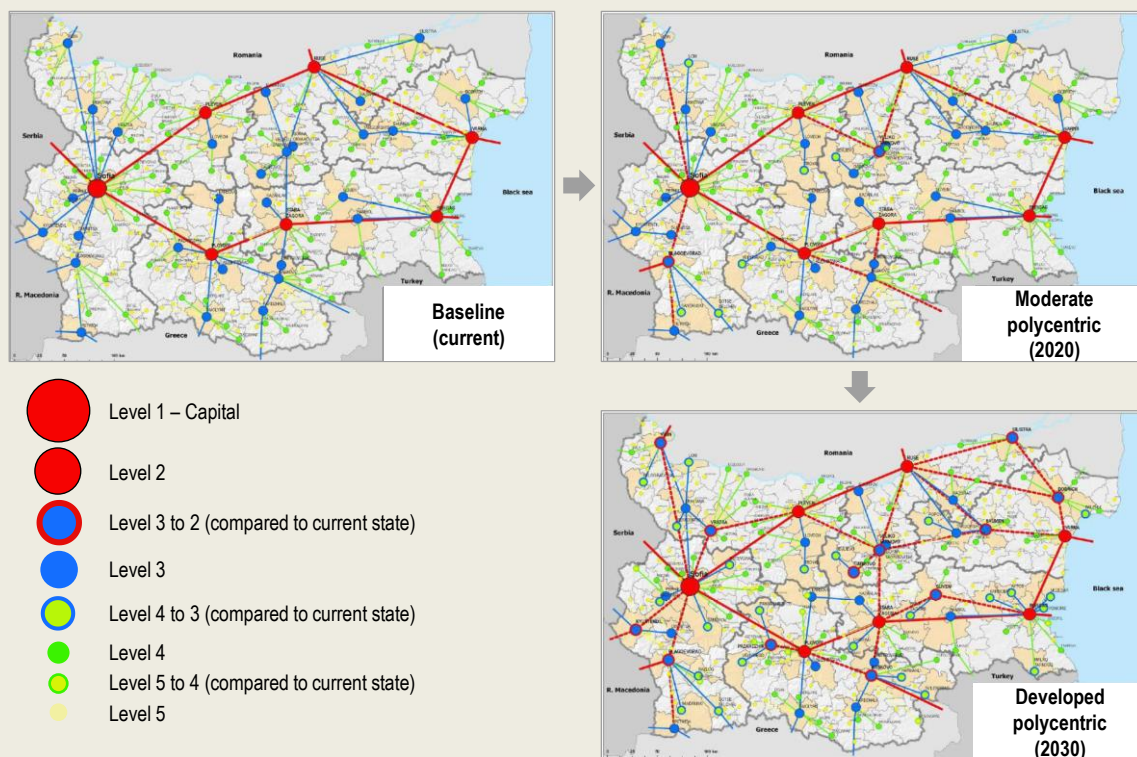
In the 2014-20 period, Bulgaria has designed its regional policy framework with a focus on reducing regional disparities through the creation of a polycentric spatial development model with multiple urban centres, to allow for more sustainable and balanced growth across regions (MRDPW, 2019^[11]). This integrated approach, called “broad regional policy”, developed as part of the National Concept for Spatial Development (NCSD) for the period 2013-25, aims at putting an end to the monocentric model of development which has led to growing disparities between Bulgarian regions, in particular the significant growth of Sofia (capital) district. It also focuses on boosting development in regions while reducing regional disparities (EoRPA, 2017^[12]; NCRD, 2012^[13]). The NCSD is directly connected with the Operational Programme “Region in Growth” (OPRG) for the period 2014-20 and with the National Regional Development Strategy (NRDS) 2012-22, approved by the CoM in August 2018. The main goal of the NRSD is the achievement of “sustainable integrated regional development, based on the local potential, and cohesion of the regions in economic, social and territorial aspects” (Box 3.1). However, as underlined in Chapter 2, inter- and intra-regional disparities have increased, with Sofia (capital) district benefitting the most from current development policies.

Box 3.1. 2014-20 regional policy in Bulgaria aims for an integrated approach

Territorial development in Bulgaria is governed by the guidelines and proposals of three strategic national documents: the National Development Programme Bulgaria 2020, the National Regional Development Strategy (NRDS) 2012-22 and the National Concept for Spatial Development (NCSD) 2013-25. The three documents are complementary to each other in proposing territorial measures to address the objectives for smart, sustainable and inclusive growth following the “EUROPE 2020” strategy (EC, 2014^[14]).

The National Concept for Spatial Development is directly connected with the 2014-20 OPRG, in line with the increasing emphasis of EU Cohesion Policy on urban and community development, and linked with the NRDS 2012-22. The NCSD uses a territorially based approach to identify priorities and measures to achieve the objective of balanced and sustainable territorial development. It promotes a polycentric spatial development model, with 39 cities as urban centres to drive balanced development (Figure 3.2). This is to address the current monocentric growth model where there are no counterweights to Sofia (capital) district in terms of population size, economic contribution, development of science, higher education, healthcare, art and culture (Kalfova, 2019^[15]).

Figure 3.2. Bulgaria aims to develop a polycentric urban development model



Note: Level 1 is the capital city of Sofia (core city); Level 2 consists of six big cities – Burgas, Plevn, Plovdiv, Ruse, Stara Zagora, Varna; Level 3 consists of medium-sized cities, centres of regional significance or for the area of the districts; Level 4 consists of 90 small cities of micro-regional significance for the territory of a group of municipalities (former “counties”); Level 5 is very small towns and villages centres of municipal significance for the territory of the respective municipalities, totalling 139 cities. In addition to the very small towns, there are also 38 villages, which are centres of municipalities, and 40 very small towns, which are not municipal centres.

Source (figure): NCSD (2012^[13]), *National Concept of Spatial Development for the Period 2013-2025: National Space - Our Heritage for the Future*, <https://www.mrrb.bg/bg/nacionalna-koncepciya-za-prostranstveno-razvitiie-za-perioda-2013-2025-godina/>.

Source (box): EC (2014^[14]), *Summary of the Partnership Agreement for Bulgaria, 2014-2020*,

https://ec.europa.eu/info/sites/info/files/partnership-agreement-bulgaria-summary-aug2014_en.pdf; Kalfova, E. (2019^[15]), “Regional policy and regional governance - The Bulgarian institutional reform that did not take place”, *Public Policy Bulgaria*, Vol. 10/4, pp. 33-57.

Strategic planning for regional development remains mainly top-down and not integrated

Compared to a truly place-based approach, regional policy design in Bulgaria remains mainly top-down and is thus unable to account for region-specific needs and strengths. National authorities play the dominant role as decision-makers in the strategic planning process, with subnational documents strictly subordinate to the national framework. Sectoral policies still dominantly influence the strategic planning for regional development, especially at the subnational level (e.g. regional development plans, municipal development plans, etc.). Due to this, Bulgarian regional policy is unintegrated and at arms-length from the regions and municipalities it is supposed to target. This renders regional policy in Bulgaria unintegrated and not place-based in practice. Lower-level units are expected to align their objectives and priorities to the strategic programmes at the national level. Strategic management is still mainly controlled by the Council of Ministers, with priorities and objectives trickling down to the lower units (EC, 2018^[16]).

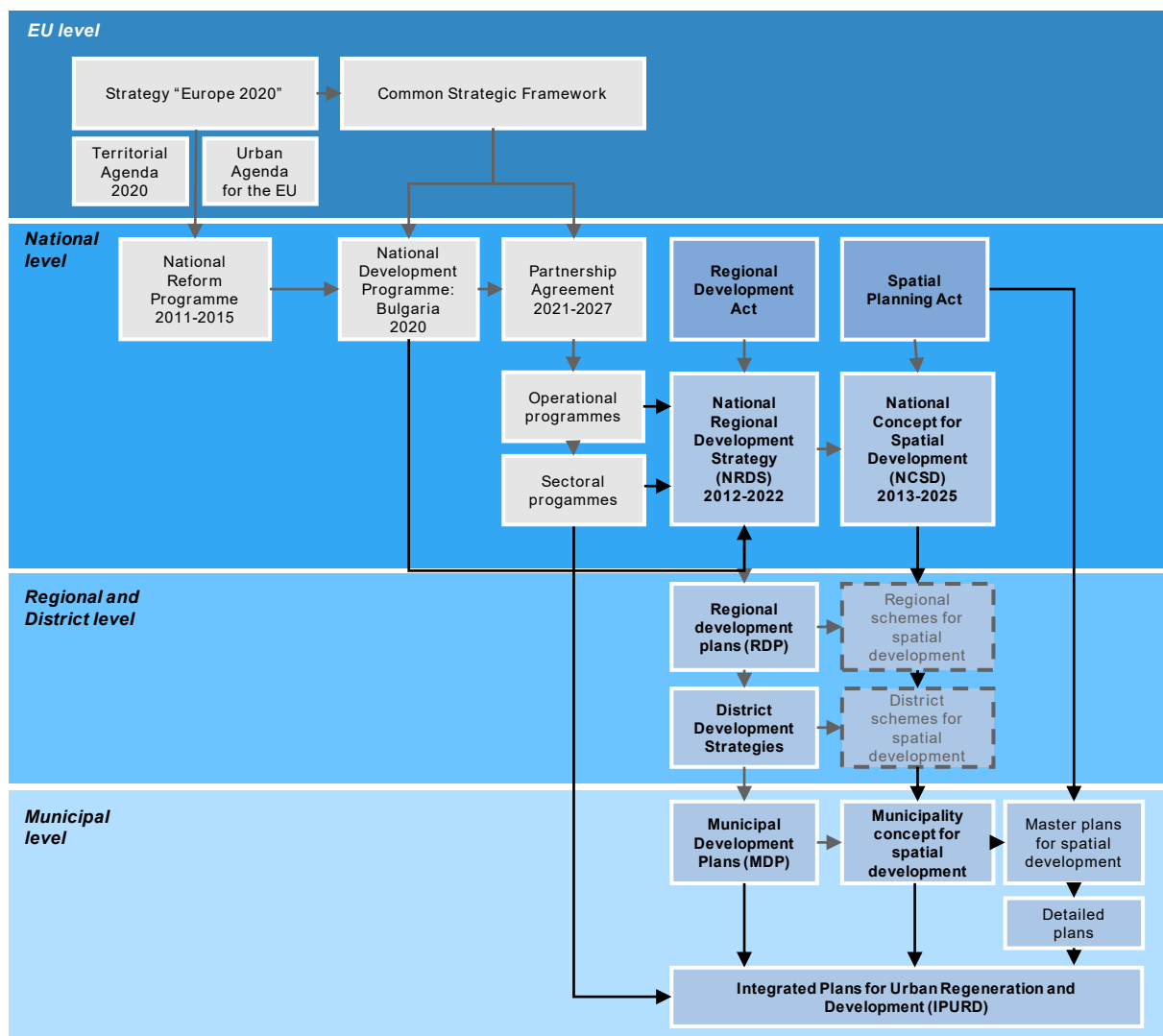
Strategic documents demonstrate a clear hierarchy from the EU level down to the municipal level (Figure 3.3). Strategic documents prepared by subnational governments mainly model and replicate the same procedures and formats as the national strategic documents. This approach also applies to the spatial development planning system. In theory, this may ensure the alignment of objectives and priorities across all levels; but in practice, this approach did not manage to ensure strategic coherence. Studies found that planning in Bulgaria was relatively slow, thus municipalities failed to receive the required documents on time and the quality of strategic documents was poor (Kalfova, 2019^[15]). Furthermore, there is no evidence in the current document preparation procedures and *ex post* control actions that suggest that coherence between the National Regional Development Strategy and the regional development plans at the planning region level can be ensured (NAO, 2019^[17]). This lack of coherence is demonstrated by a large volume of documents and poor co-ordination during their preparation, which creates difficulties in achieving coherence for planned initiatives.

The missing linkage between regional development strategies and sectoral policies suggests that strategic planning in Bulgaria is not integrated. To begin with, sectoral planning in Bulgaria is prioritised over regional development. Various strategic documents state that regional development strategies at all levels should be developed following sectoral priorities. Considering sectoral targets when designing regional development strategies has its merits if conducted properly. However, in practice, regional development documents at the three territorial levels are found not to reflect the projections and investment intentions of sectoral strategies for the territory concerned (NAO, 2019^[17]).

On the other hand, there is no mechanism for the territorial co-ordination of sectoral strategies. This suggests the absence of integrated thinking and can significantly reduce the effectiveness of regional development strategies. Local policies are often limited to government-subsidised activities. Identifying issues of local importance usually follow the funding sources, not vice versa as it should be.

At the municipal and district levels, problems exist with policy development and implementation, particularly with regards to co-ordination for policy execution. The findings in the 2011 draft Concept of District Government Reform show that very few strategic documents are linked to the continuation of policies at the municipal and district levels. Similarly, there is no mechanism for funding these policies at the district and municipal levels. Districts and municipalities are not engaged in activities aimed at implementing the national strategic documents, which limits the possibility of achieving them at the national level (Government of Bulgaria, 2014^[18]).

Figure 3.3. The system of strategic documents for regional development



Note: Schemes for spatial development at the regional and district levels are missing.

Source: OECD illustration based on Troeva (2017_[19]), *Bulgaria Planning System in the Changing Environment* (presentation), http://www.spa-ce.net/pdf/2017/presentations/SPA.CE_2017_TROEVA.pdf.

The current system of EU funds remains insufficiently place-based

The design and implementation of EU Cohesion Policy in Bulgaria in the current programming period appears to be a centralised process. Responsibility for preparing national and sector strategies, as well as the EU Partnership Agreement, rests with the CoM, its central co-ordination unit and line ministries. Among the public authorities represented in the elaboration process of the partnership agreement, only 12% are from the local level (below the EU average of 17%) (EC, 2016_[20]).

Inputs into Operational Programmes (OPs) priority setting and project selection from regional and district development councils, as well as the NAMRB, are also limited. The weak implementation of the partnership principle¹ across different OPs is also one of the key issues.

There have been some recent efforts to improve the territorial approach. The 2014-20 programming period included the OPRG whose main objective is to tackle territorial imbalances in the country by identifying complementary effects for achieving regional and urban development policy objectives (EC, 2014_[21]). The

39 largest urban centres of Bulgaria, identified as urban centres to support the polycentric spatial development model in the National Concept for Spatial Development 2013-25 (NCRD, 2012_[13]), are the main target group of the OP. They also act as Intermediate Bodies (IBs) to participate in project selection for one Priority Axis “Sustainable and Integrated Urban Development”. In the same vein, six territorial offices – corresponding to the six planning regions – have been created within the Managing Authority (MA) for OPRG, to assist the MA for the OPRG implementation.

However, despite these efforts, there is still room for improvement to reinforce the territorial approach. For instance, the current six territorial offices are mainly in charge of inspection tasks and payment verification, rather than participating in priority setting and strategic planning. Meanwhile, it is also the first programme period in which the 39 municipalities will act as IBs to participate in project selection for Priority Axis 1 of OPRG – some municipalities might not have extensive experience or capacity in the area of strategic project selection. As for other Priority Axes, ministries tend to design the project in advance. One approach that is taken sees the ministry design the project, set its budget and then let the municipalities decide on the type of investment required. Nevertheless, it is not unheard of for a line ministry to identify several municipalities as “beneficiaries”, establish the projects to be implemented in each and then determine the project budgets. Once the technical documentation and specifications of the applications are confirmed by the originating line ministry, the selected municipalities then submit their European Regional Development Fund (ERDF) project applications to the MA. As a result, while ministerial priorities are likely being met, municipal priorities may not be.

Finally, similar to the 2007-13 programming period, the current absorption of EU funds in Bulgaria is still concentrated in big municipalities, including Stolitchna municipality (Sofia), instead of favouring the less developed regions and cities. For both programming periods (2007-13 and 2014-20), EU funds benefitting the Stolitchna municipality (Sofia) amounted to BGN 4.151 billion as of the end of June 2019. Stolitchna municipality (Sofia) has absorbed nearly 1/3 of the total amount of funds allocated under the OPs or about BGN 2 900 per person on average – a higher absorption rate than the country average of roughly BGN 1 500 per person (IME/Sofia Investment Agency, 2019_[22]).

Despite the substantial efforts in absorbing cohesion policy funds and some promising results in terms of economic development (Box 3.2), there is still no evidence of Bulgaria achieving the main purpose of these funds, i.e. reducing regional disparities. This suggests that the approach used so far to determine EU financing based on sector priorities and to define urban and rural areas has led to unhealthy competition between municipalities and has deepened inter-regional, intra-regional and municipal disparities and imbalances. In practice, authorities may tend to select projects that are easier to implement, rather than projects that enhance convergence and regional development (Schoenberg, 2018_[23]).

Box 3.2. 2014-20 EU funds and programmes for Bulgaria and regional development

For the current period of 2014-20, a total of EUR 11.7 billion (EUR 1 660 per inhabitant) is dedicated to implementing the European Structural and Investment Funds (ESIF) in Bulgaria, combining EUR 9.9 billion from EU financing and EUR 1.8 billion from national co-financing.

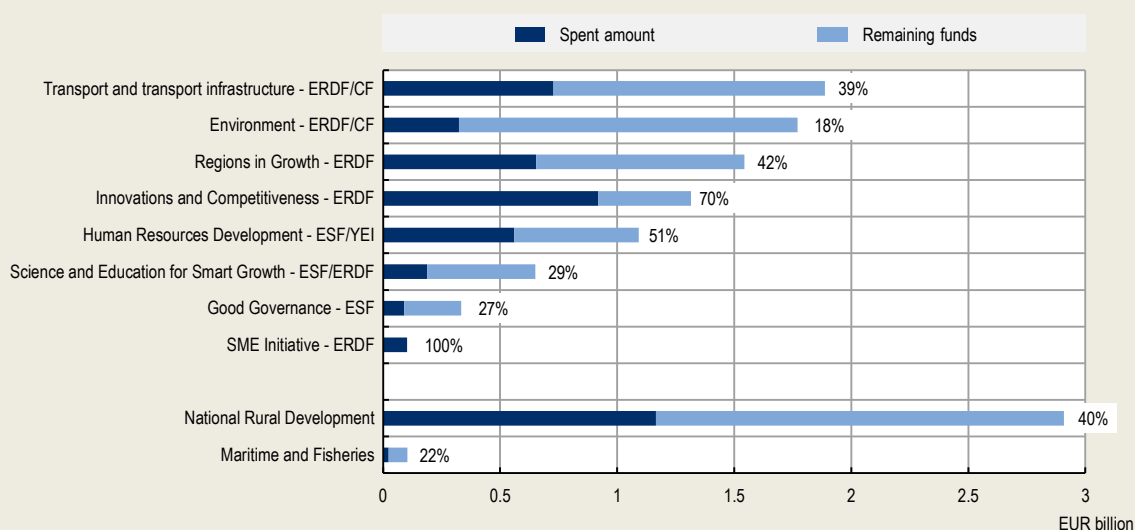
The EU financing comes from EU Cohesion Policy funds and amounts to EUR 8.7 billion over the period from 2014-20, which is equivalent to roughly Bulgaria’s 2.4% of gross domestic product (GDP). This envelope is channelled through the European Regional Development Fund (ERDF, 48%), Cohesion Fund (CF, 31%), and the European Social Fund (ESF, 21%). The allocation of Cohesion Policy funds from the EU to Bulgaria totals over EUR 1 billion per annum. EU Cohesion policy funding provides significant support for tackling structural challenges in Bulgaria, investing, among other things, in research, technological development and innovation, the competitiveness of enterprises, sustainable transport, education, employment and social inclusion.

The Cohesion Policy programmes for Bulgaria include 8 programmes, the largest allocation of funds being for the OP “transport and transport infrastructure”. Agricultural and fisheries funds, along with other EU programmes, also contribute to addressing investment needs. By the end of 2019, around 85% of the total amount was allocated to projects, while 41% was reported as having already been spent on the selected projects. These implementation levels are in line with the EU average (Figure 3.4).

The estimated effect of ESIF boosted GDP by 5.5% and helped create 200 000 new jobs by 2019. ESIF alone are responsible for almost 77% of GDP growth in the country. Almost 5 000 enterprises have already benefitted from the support. Additionally, up to 96% of ESIF expenditure has touched on 13 of the 17 of the United Nations Sustainable Development Goals (SDGs) (EC, 2020^[24]).

The OP specifically targeting regional development is “Regions in Growth” (OPRG), amounting to over EUR 1.5 billion. Its objective is to tackle territorial imbalances in the country by identifying complimentary actions for achieving regional and urban development policy objectives.

Figure 3.4. Allocation and absorption of ESIF in Bulgaria, by Operation Programme, by 30/12/2019



Note (figure): The percentages indicate the absorption rates; National Rural Development and Maritime and Fisheries Programmes are covered by the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). They are not part of the cohesion policy.

Source (box): EC (2020^[24]), “Commission staff working document - Country report Bulgaria 2020”, European Commission.

Diagnosing decentralisation at the municipal level: The political, administrative and fiscal dimensions

The three dimensions of decentralisation – distribution of powers (political), responsibilities (administrative) and resources (fiscal) - are complementary and closely interconnected. Linkages should be carefully considered to maximise the chance of success of decentralisation. In practice, however, finding the right balance and sequencing between these three dimensions represents a major challenge for policymakers. Many countries implementing decentralisation reforms often find that there are one or two missing links and bad sequencing (OECD, 2017^[6]; 2019^[25]). Bulgaria is no exception. The following section tries to answer two main questions: what are the problems and challenges in these three dimensions of

decentralisation; and how may these problems impede achieving the ultimate goal of balanced territorial development? Fiscal decentralisation appears to be the weakest dimension of the Bulgarian decentralisation process although significant progress remains to be achieved in the two other areas as well.

Improving local democracy through enhanced political decentralisation within municipalities

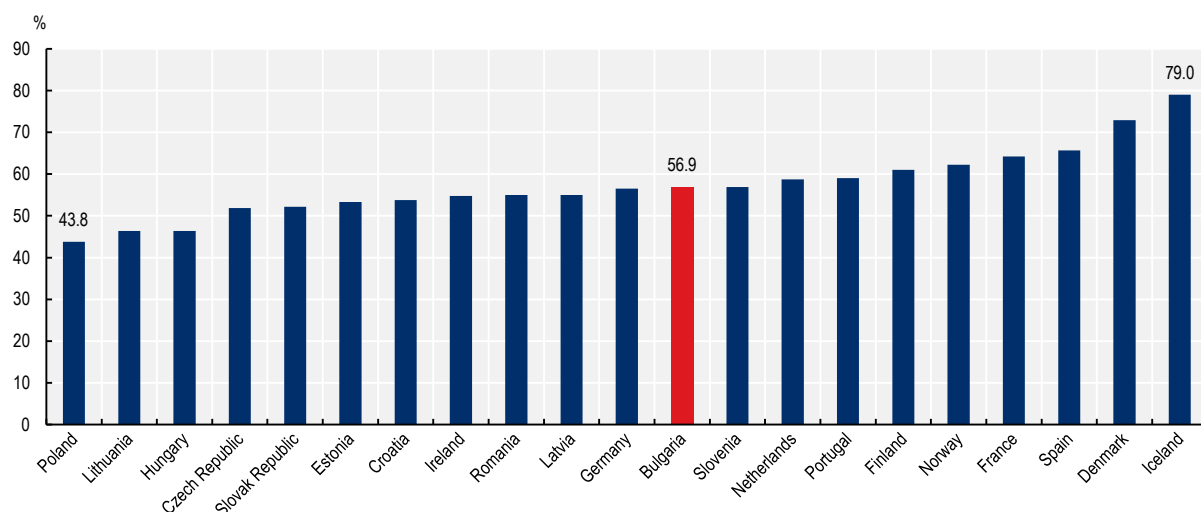
Political decentralisation involves the distribution of decision-making and enforcement powers according to the subsidiarity principle, between different tiers of government, with different objectives, and often to strengthen local democracy. Thus, how subnational administrators are selected (elected or not) is critical. Accountability, transparency and citizen engagement are also critical perspectives in this regard. In Bulgaria, political decentralisation has been carefully taken into consideration in providing democratic legitimacy and accountability to municipalities. However, some improvements are still needed to improve local democracy, especially concerning decentralisation within municipalities at the sub-municipal level and the citizens' involvement at the local level.

Since the restoration of local democracy, municipalities and their mayors are strong political actors

Municipalities are today the only directly elected local self-governments that enjoy the independent political power protected by the constitution. Deliberative power is exercised by the municipal council, which determines the municipality's policies while the executive power is exercised by the mayor (See Chapter 2 "The municipal level and its localities"). Mayors are supported by a municipal administration divided into specialised administration and general administration. The initial design of the local government system was "weak mayor-council" but the practice over the years has led to a gradual evolution towards "strong mayor-council". Several reforms have reinforced the autonomy of the mayor *vis-à-vis* the council and thus reaffirmed the tendency towards strengthening the mayor's powers and responsibilities to decide on local policy within the municipality (Minkova et al., 2006^[26]; Petrov Simeon, 2020^[27]).

Since their restoration, municipalities have been key and stable actors in providing public goods and services to the population. They have an irreplaceable role in any kind of territorial and multi-level governance reforms, strategies and policies, and ensure political representation at the local level. The last municipal election took place in October 2019 to elect a total of 36 233 candidates running for mayoral and municipal council seat. Voter turnout was 43% of among 6.2 million eligible voters. This turnout was 10 percentage points below the 2015 turnout of 53.6%. Declining voter participation rates are observed in many EU and OECD countries but, in the case of subnational elections, the level of decentralisation could also be an explanation of low voter turnout. The more power that is devolved and the more autonomous the subnational tier is, the more is at stake in elections at this tier. The high level of participation in Nordic countries confirms this assumption. Many authors have also argued that devolving power to subnational levels allows citizens to communicate more efficiently with their representatives and, therefore, makes the latter more accountable. This, in turn, should make subnational politics more meaningful and increase political participation (Gendzwill, 2019^[28]). This declining level of turnout in Bulgaria could thus reflect a lack of confidence in decentralised institutions and their capacity to govern effectively. If the decline is persistent, it may present a red flag concerning participative democracy and governance. It signals that people are choosing not to use voting as a mechanism of engagement in civic life and implies that future elected governments may not accurately reflect the broadest possible segment of the population (OECD, 2017^[29]).

Figure 3.5. Voter turnout in local elections in 21 European countries, 1990-2014



Note: Unweighted average for Germany.

Source: OECD elaboration based on data from Gendzwill, A. (2019^[28]), "Local autonomy and national-local turnout gap: Higher stakes, higher turnout?", <https://doi.org/10.1080/13597566.2019.1706496>.

The centralised municipal level model requires improvements

Bulgaria belongs to the group of EU and OECD countries that have established an institutionalised level of localities at the sub-municipal level. Such localities can be effective actors in reinforcing local democracy, bringing citizens closer to policymaking and political life and providing proximity to public services. However, in Bulgaria, these community-based governments have long historical traditions and perform different functions. The Bulgarian sub-municipal model is highly centralised, which prevents it from providing the benefit that such a level could bring.

The network of sub-municipal entities comprises 3 187 mayoralties (*kmetstva*) in rural areas, 35 city wards (*rayoni*) in urban areas and a network of around 1 070 villages. Mayoralties are deconcentrated municipal units established by the decision of the municipal council, governed by elected mayors and comprising at least 350 inhabitants. Urban wards, located in the 3 municipalities with more than 300 000 inhabitants (Stolitchna municipality (Sofia), Plovdiv and Varna [24 urban wards in Stolitchna municipality (Sofia), 6 in Plovdiv and 5 in Varna]), also have elected mayors. Settlements below 350 inhabitants do not have an elected mayor but instead, the mayor of the municipality may appoint a mayor's representative (a mayor delegate) for the term of office to exercise executive tasks.

Within Bulgaria, there is an "intra-municipal centralisation", compromising to some extent the outcomes of political decentralisation. The existing election system does not guarantee the representation of sub-municipal units in the municipal council (Bobcheva, 2008^[30]). Mayoralties and wards are just deconcentrated administrative territorial units. The municipal council approves the total number, structure and functions of mayoralties. Tasks of mayors include the implementation of the municipal budget and legal acts in the locality, the organisation of public works and other undertakings, the management of municipal property and staff, environmental protection, land use, police, administrative functions such as civil registers and administrative services to the population, public order and safety (defence from disasters and accidents) and representation. They can also execute functions assigned by the mayor of the municipality.

Most of the decision-making power remains concentrated at the municipal level, leaving sub-municipal institutions with a very limited ability to bring policies and services closer to their citizens (Peteri, 2008^[31]). Mayoralties in Bulgaria do not have a role in designing local planning or development policy either. The mayor of a ward or a mayoralty may participate in the meetings of the municipal council but only with an advisory vote. Governance and management efforts at the sub-municipal level are an ad hoc process that depends on the will of the mayor, his/her subjective judgment of local needs and the mayor's ability to raise funds. Public services, a mayoralty's functions and their financial resources are not clearly defined by law, thus the scope of public services performed may vary even within sub-municipal governments of the same municipality (Bobcheva, 2008^[30]; MRDPW, 2016^[2]; Ivanov et al., 2002^[32]).

The mayoralties, inhabited by about 30% of Bulgarian residents, have very limited roles in the provision of public services. Their role is confined to representing the village in municipal meetings and to suggesting solutions to any problems or needs in their locality. In general, administrative services are still far from the service users, who need to travel to the municipal and district centre to access many services. As of the end of 2014, 169 administrative services have been provided by the municipalities and only between 3 to 5 types of services, mainly referring to civil status, are delivered by the mayoralties. The role of village mayors is limited to proposing certain projects but their proposals can be disregarded by the municipal administration (Bobcheva, 2008^[30]). Frequent changes to the threshold population size required for the establishment of a mayoralty, as well as the inconsistent policy concerning the zoning of cities, have also had a negative impact on the decentralisation process at the municipal level (MRDPW, 2016^[2]).

Stakeholder engagement is not sufficiently developed at the municipal level

One of the most severe disadvantages resulting from the centralised governance model is the low level of stakeholder engagement, including civil society organisations (CSOs), citizens and businesses at the municipal level in Bulgaria. Civil society participation was not enshrined in the constitution. The important role of civil society, citizens and business organisations in ensuring successful place-based region policy reforms and good governance in general, cannot be emphasised enough. However, it does not appear to receive sufficient attention from national and subnational Bulgarian authorities.

CSOs are not recognised as an important partner of the public administration at the central and local levels in policy decision-making, planning and implementation (BTI, 2018^[33]). One challenge at the local level for Bulgarian municipalities is the lack of territorially based or local CSOs that are united to safeguard their interests. The existing CSOs are primarily sectorally aligned and focus on the protection of interests of certain social groups but not of the local community as a whole.

Only in 1996 did the Public Consultation Act permit that referendums, citizens' general assemblies and petitions can be organised for issues of local interest at the municipal and sub-municipal levels, but only if certain thresholds are met. There are other indirect forms of participation, regulated by the Law for Local Self-government and Local Administration, which include participation in open sessions of the municipal council, written proposals and opinions to the commissions of the municipal council, as well as various community associations (Stefanova, 2018^[34]). The Administrative Reform Council at the CoM adopted Standards for Public Consultations, and published a Civic Participation Guide (Council of Ministers of the Republic of Bulgaria, 2019^[35]). The high participation thresholds for initiating any form of direct participation at the local level and for making its results valid, together with the overly complicated and expensive bureaucratic procedure, discourage direct democracy in Bulgaria (Nikolova, 2011^[36]). There were three local referendums in 2017. In one of them, turnout was sufficiently high to ensure that the result was binding on the municipal council (SGI, 2019^[37]).

Engaging civil society, citizens and business communities in governance and policymaking is difficult across most municipalities in Bulgaria. It appears a vicious cycle that in many cases, municipalities lack the knowledge, mechanisms or staff to properly and strategically engage the civil society and citizens, while citizens and NGOs do not express a great interest in public consultations. Many do not believe that their engagement can have a tangible impact on the governance process. For example, the OPRG prescribes that, according to the partnership principle, municipal development plans shall be discussed and agreed with all interested bodies and organisations, including economic and social partners, individuals and representatives of legal entities. However, the level of participation in public consultations is low. Even though according to the mayors, all municipalities have organised a public discussion during the drafting process of the development plans, many of them do not have any written rules in place for conducting a public consultation (NAO, 2019_[17]). As a result, public discussions are mainly attended by municipal employees. The observed practice does not create confidence that the actions carried out by the municipal administration are sufficient to attract a larger number of persons in public discussions.

While publishing public sector information in an open format increases government transparency and enables citizens to hold their representatives accountable, access to municipal information and quality of municipal information is insufficient. Despite most local administrations being computerised, electronic services are limited and municipal websites offer only basic information and application forms for a subset of administrative services (World Bank, 2015_[38]).

In Bulgaria, the government introduced an online public consultation portal (www.strategy.bg), which was recognised as a good practice of digital democracy by the Parliamentary Assembly of the Organization for Security and Cooperation in Europe. It presents regulatory and strategic documents at both the national and local levels for public consultations. For the district and municipality level, over 500 documents have been uploaded for consultation between end of 2013 and beginning of 2021. These documents include draft ordinances and amendments related to local taxes and fees, municipal property management, sporting activities, etc., as well as municipal development plans and sectoral development plans at the local level. However, in practice, most of these documents do not receive any public comments (Council of Ministers, 2021_[39]). The public consultation process is not yet systematically implemented and public consultation does not take place for many government initiatives (World Bank, 2015_[38]).

In general, as in another six EU countries, the Bulgarian governance model of open data is exclusively top-down (EC, 2019_[40]) and open government data initiatives at the municipal level are scarce, e.g. in Stolitchna municipality (Sofia). Although most Bulgarian municipalities actively publish information about their budgets, the information is too complex and its interpretation and understanding require specialised expertise. This in turn discourages citizen participation in such an important area as municipal finance (Government of Bulgaria, 2016_[41]).

There is not enough work underway to stimulate the establishment of civic structures on a territorial basis, nor to integrate these structures into local policy formulation, adoption, implementation and monitoring processes. Some form of direct participation in local government on a territorial basis is observed only in the largest cities but, in general, the level of civic activity remains unsatisfactory (UPEE, 2020_[42]).

The result is the low participation of citizens in the development, adoption and control over the implementation of municipal policies (MRDPW, 2016_[2]). According to the Government Closeness Index, which measures people's empowerment on various aspects of government decision-making at the local level, Bulgaria ranked 43rd among 182 countries but 24th among the EU-28 countries (Ivanyna and Shaw, 2014_[43]).

Effective administrative decentralisation has been limited so far

Administrative decentralisation refers to the transfer of responsibilities and functions from the central government to subnational governments. The outcomes of administrative decentralisation depend on the

way responsibilities are allocated. The way responsibilities are shared should be explicit, mutually understood and clear for all actors, and without strong imbalances across policy areas. It is equally important to have clarity about the different functions that are assigned within policy areas, be it financing, regulating, implementing or monitoring. The effectiveness of administrative decentralisation also largely depends on the capacity of subnational governments in taking up these competencies. It is thus crucial to identify administrative capacity gaps, constraints and obstacles that prevent local governments from fulfilling their tasks and functions.

In Bulgaria, effective administrative decentralisation has been limited so far, despite commitments included in the successive decentralisation strategies and programmes. Bulgaria remains a centralised country, with municipalities accounting for a relatively small share of public expenditure which is mostly delegated spending made on behalf of the central government. Delegated spending undermines municipal spending autonomy and reduces the efficiency in the provision of public goods at the local level. Municipal investment is relatively small and fragmented and is highly dependent on EU funds. Administrative decentralisation is further constrained by multiple limitations related to the administrative and strategic capacity of municipalities. Finally, Bulgarian municipalities do not exploit all the possibilities offered by the inter-municipal co-operation framework, both in rural and urban areas.

Local expenditure is relatively low and constrained

According to the Local Self-government and Local Administration Act, municipalities are in charge of a wide range of responsibilities. However, the reality is a bit different. Most of the responsibilities are shared between the central government, the districts (state deconcentrated administration) and the municipalities (Table 3.1.).

Table 3.1. Responsibilities across levels of government in Bulgaria

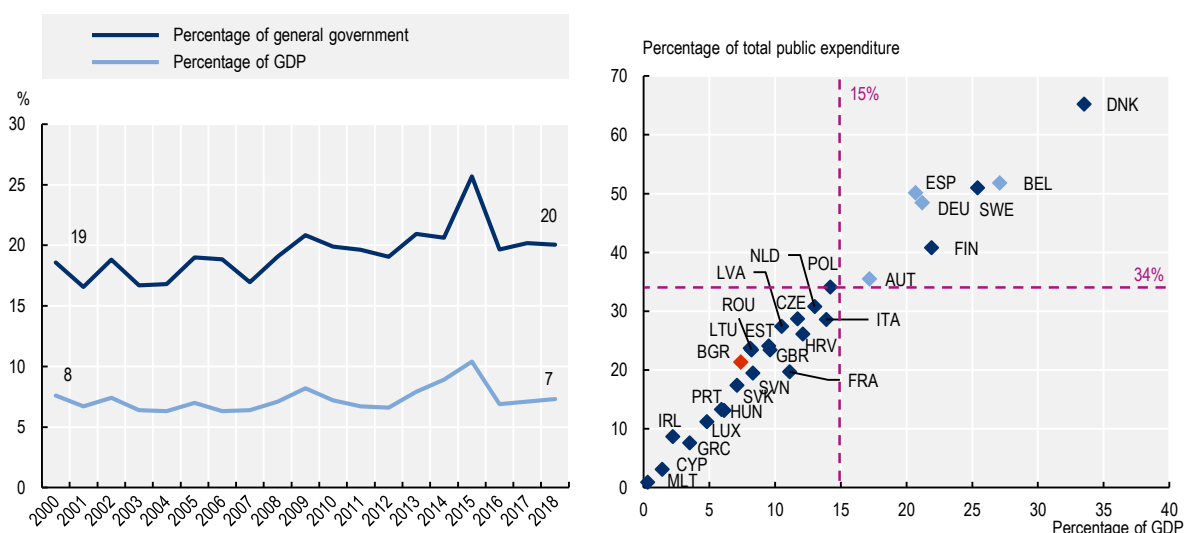
	Central government	Districts (deconcentrated administration)	Municipalities
1. General public services (administration)	Administrative services	Administrative services	Municipal administration; Civil registers; Issuance of building permissions, categorisation for tourism accommodations, permits for use of beaches; Management of municipal property (municipal airports, ports, etc.); Management of municipal companies; Cemeteries
2. Public order and safety	Police; Firefighting; Road traffic control	Firefighting; Public order; Disaster protection; Co-ordination of road safety regulations	Shared: Municipal commissions for juvenile delinquency, prevention; Municipal programme for disaster risk reduction; Traffic signs
3. Economic affairs/transport	General policy on road infrastructure (Road Infrastructure Agency); Republican Transport Scheme; Railway transport: Civil aviation; Motor vehicle registration; Agriculture; IT; Tourism national policy; Energy	Road safety (district commissions); Public transport scheme; Implementation of state policy for the promotion of investment; Co-ordination of information technology (IT) development; Tourism strategies and programmes	Municipal roads; Parking; Implementation of the policy for investment promotion upon the elaboration of the municipal development plan; Adoption of local programmes for tourism development, building and maintenance of tourism infrastructures Shared: Urban public transport; Upgrading of local infrastructure for electricity, heat and natural gas networks
4. Environment protection	Management of protected areas; National Waste Management Plan; Air pollution prevention	Implementation of the state policy on environmental protection; Conservation, sustainable use of soils	Environmental protection; Waste management; Sewerage systems; Development and implementation of programmes to decrease pollution levels; Local air quality maintenance
5. Housing and community amenities			Spatial planning; Water supply; Housing (together with housing associations); Urban heating; Urban rehabilitation and development plans

	Central government	Districts (deconcentrated administration)	Municipalities
6. Health	Drug prevention and public health services; Medical products; Primary healthcare		Municipal hospitals (exclusive) and district hospitals (shared); Nursery schools (shared)
7. Culture & recreation	Protection and development of culture	Protection of cultural heritage	Shared : Theatres, libraries; Local media; Sport; Leisure implementation of the cultural heritage preservation policy
8. Education	Higher education; Special and disciplinary schools	Employment and vocational training	Pre-school education; Early, primary and secondary education (delegated); Construction and upkeep of buildings; Canteens and extracurricular activities
9. Social welfare	The state is not a direct provider of social services. Its role is to form the policy in this area and to assure financing from the state budget for a certain number of services.	Planning of social services at the regional level	Child protection; Centres for homeless children; Home-based assistance for the elderly; Social inclusion; Residential homes for senior citizens (delegated)

Source: Provided by the Ministry of Regional Development and Public Works in the OECD questionnaire prepared for this multi-level governance review.

As a result, the level of local government expenditure is low in Bulgaria, accounting for 7% of GDP and 20% of public expenditure in 2018. Both spending ratios are significantly lower than EU-28 averages (15% of GDP and 34% of total public spending). Moreover, despite successive decentralisation strategies and programmes in the past two decades, this share has not increased (Figure 3.6). From 2000 to 2018, the share of subnational government spending in total public spending has been stagnant, with ups (a small peak in 2015 likely stimulated by the new decentralisation strategy and injection of EU funds) and downs (consolidation measures following the economic crisis).

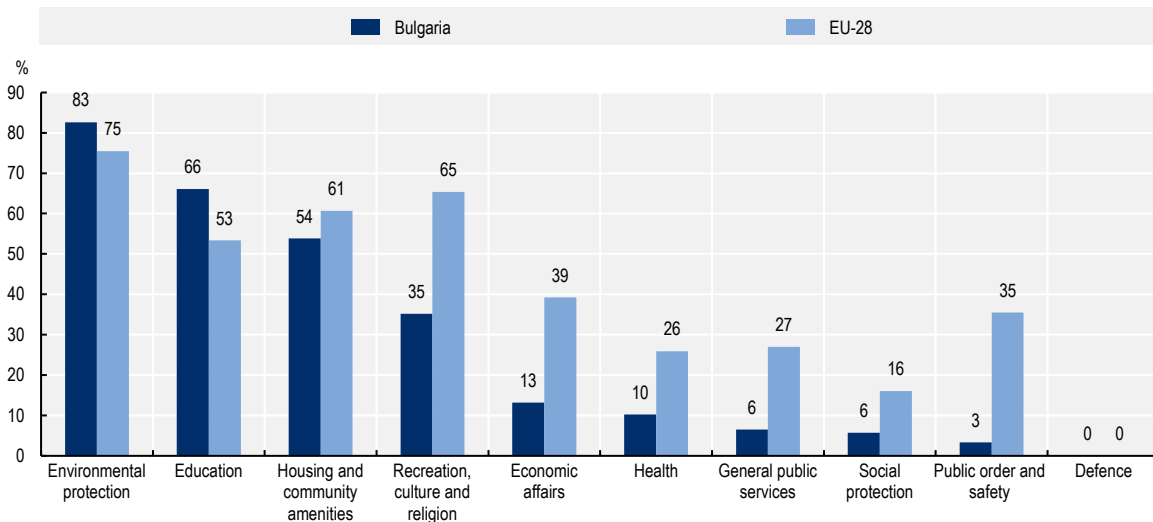
Figure 3.6. Subnational expenditure in Bulgaria, 2000-18, and its comparison with EU-28 countries in 2018



Note: The countries in a lighter shade are federal. In the right panel, the dotted lines suggest the EU-28 average levels.

Source: Authors' elaboration based on OECD national accounts and OECD (2019^[7]), *Key Data on Local and Regional Governments in the European Union* (brochure), https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf.

Figure 3.7. The share of subnational government spending in general government spending by the Classification of the Functions of Government (COFOG), 2017



Note: The total for general government is non-consolidated.

Source: Eurostat (2020^[44]), *General government expenditure by function (COFOG)*, https://ec.europa.eu/eurostat/databrowser/view/gov_10a_exp/default/table?lang=en, extracted in January 2020.

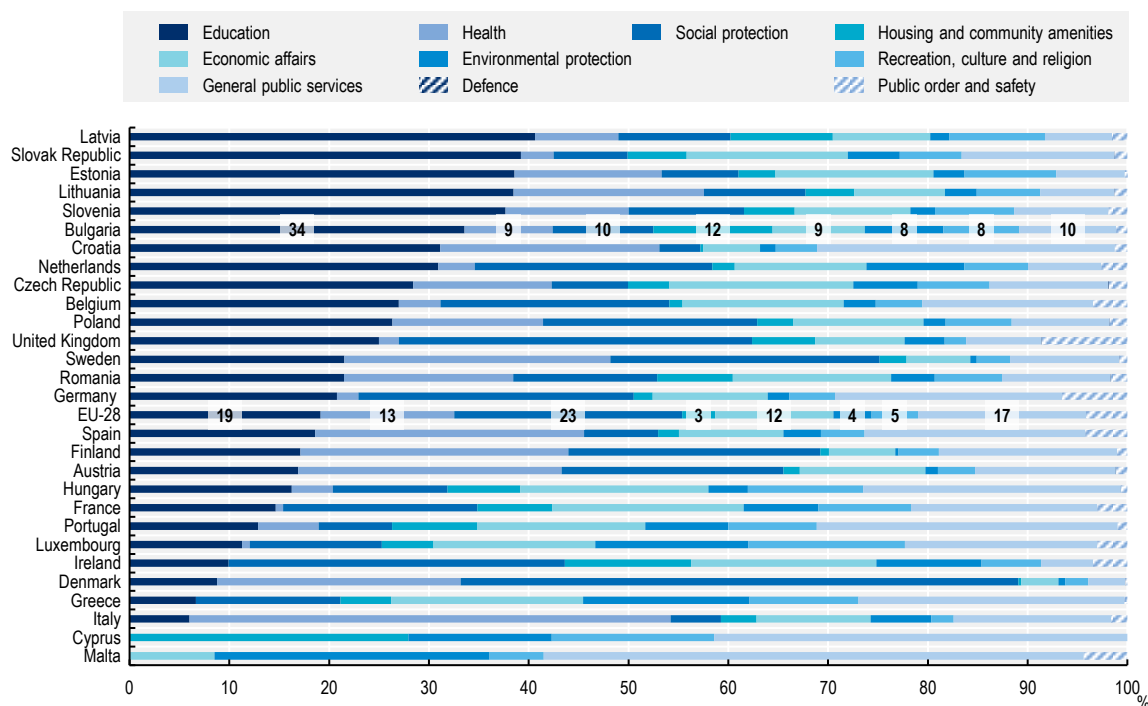
Municipalities also have limited spending autonomy and are empowered to take independent decisions for only a small percentage of their expenditure. The reason is that municipal expenditure includes a large share of state-delegated expenditure. In fact, since the fiscal decentralisation programme in 2002/03, municipalities have two types of spending tasks: state-delegated mandates and exclusive municipal responsibilities. Delegated spending mandates are mainly in the areas of education, social protection and healthcare but also include culture, public transport and public order and safety (Table 3.1). The central government is formally responsible for providing those services. Municipalities are mainly “service delivery and paying agents”: budgets “arrive” at the local level with almost all provision decisions already taken by the respective ministries (NALAS, 2018^[45]). Exclusive municipal responsibilities, financed from general transfers and own resources, mainly concern local public goods. Although municipalities have more autonomy in these areas, central regulations, norms and standards or budgetary rules may impose ceilings or compulsory expenditures.

In 2017, municipalities spent over half of their budget (53%) on state-delegated responsibilities (Figure 3.8). The latest data (2014) show that 58% of municipalities spent even more (between 50%-70%), with 5 municipalities spending over 70%. Education represents one-third of municipal total spending, almost double the EU-28 average (19%). While it is common that subnational governments in southeast Europe allocate a bulk of their budget to education, Bulgaria is the only case in which local governments need to cover the full costs from pre-education to secondary education,² including the maintenance of schools and teacher salaries (NALAS, 2018^[45]). Local governments do not have real decision-making powers regarding municipal school directors and teachers’ employment and compensation. Municipal councils can make proposals to establish, transform and close municipal schools but the Minister of Education has the final say (MRDPW, 2016^[2]). Municipal decision-making is restricted to the construction and maintenance of the municipal school buildings since they are public municipal property.

Health and social protection spending accounted for 9% and 10% of the municipal budget respectively, in 2017. In these two areas, spending is also strongly constrained by guidelines and requirements from line ministries. The quality, quantity and access to these services are mainly under the purview of the state

based on legally introduced criteria and standards (Ladner, Keuffer and Baldersheim, 2015^[46]). Local governments' influence on health and social services is minimal.

Figure 3.8. Subnational government expenditure by functional area (COFOG) in EU-28, 2017



Source: Eurostat (2020^[44]), *General government expenditure by function (COFOG)*, https://ec.europa.eu/eurostat/databrowser/view/gov_10a_exp/default/table?lang=en, extracted in January 2020.

In addition, it has become a common practice that line ministries and state agencies increasingly delegate additional tasks to municipalities in a sporadic manner, even if these tasks are beyond their scope of responsibility. When such obligation is stipulated by law, it leaves an “open door” for line ministries to create secondary legislation to add obligations to municipalities, given that district administrations in Bulgaria do not have adequate capacity to carry out these functions. Many of these delegated activities – typically administrative duties – are highly resource-intensive and not all municipalities have the capacity to implement these tasks. In some cases, the scope of these activities may be inappropriate and “atypical” to local governments, such as: controlling copyright compliance by shops, restaurants and hotels (2018 Copyright Act); implementing the 2019 national programme on wild animals through adopting local programmes (including monitoring stray dogs); ensuring the quality of timber woods (measuring the humidity level); allocating buried lands; and establishing and financing municipal police units among others.

The main objective of the 2002-03 fiscal decentralisation reform was well intended. Distinguishing between delegated and exclusive responsibilities would provide clarification and transparency on local budget planning. Its implementation, however, was problematic. Instead of first defining the tasks which should be purely local, purely national or having a significant spill-over beyond the local level, the reform drew the line between delegated and exclusive functions according to the source of funding (Nenkova, 2014^[3]). As a result, central authorities increasingly delegate functions to municipalities as long as they provide corresponding transfers, even if it is outside the scope of municipal responsibility. This increases the mismatch between municipal tasks and their capacity to perform them, leaving municipalities with the

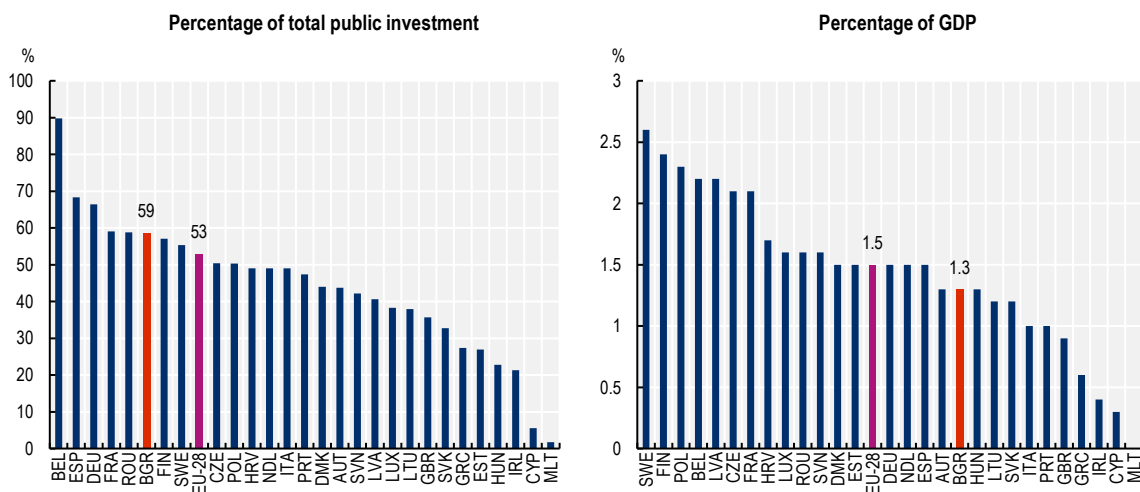
difficult task of ensuring the quality of these services. This is also detrimental to municipal fiscal stability and sustainability, especially in the context of underfunded delegated mandates.

Municipal investment is relatively small, fragmented and highly dependent on EU funds

In 2018, municipalities contributed around 43% of total public investment, equivalent to roughly 1.3% of GDP. Both ratios are lower than the EU average of 53% and 1.5% respectively (Figure 3.9). If measured by the amount per capita, subnational government investment in Bulgaria is extremely low (EUR 102 per inhabitant vs. EUR 465 in EU-28), making Bulgaria the third-worst performer in EU-28 – only higher than Cyprus and Malta.

Currently, most subnational investment (55%) is for housing and community amenities (housing, potable water, public lighting, etc.) which is significantly higher than in the EU-28 average (9%). Fifteen percent goes to education, mainly for building and maintenance of school infrastructure. Only 10% of local public investment is dedicated to economic affairs and transport, which is less than one-third of the EU average (32%). This may be one factor contributing to the low quality of municipal roads and it may signal local governments' limited development capacity in key areas that can promote local economic growth. This lack of transport and economic affairs investment is particularly challenging/detrimental for rural municipalities, which face the dual obstacles of poor transport accessibility and large distances from places of employment and services.

Figure 3.9. Subnational government investment in EU-28, 2018

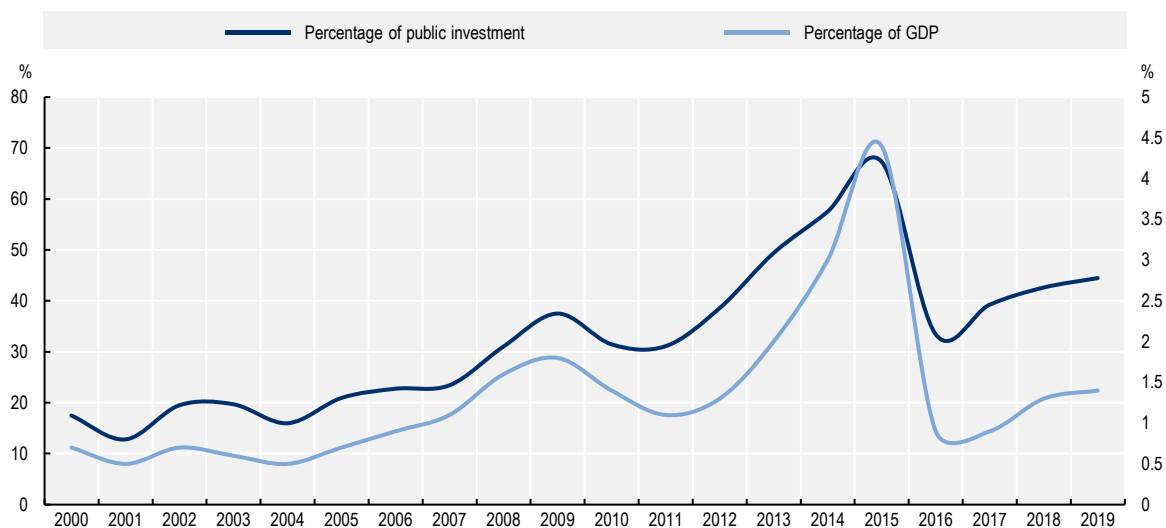


Source: OECD (2019^[7]), *Key Data on Local and Regional Governments in the European Union (brochure)*, https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf.

Municipalities do not have sufficient self-financing capacity to cover their investment needs because of the burden of state-delegated expenditure. A study conducted in 2017, revealed that only 12% of municipal budget revenues were available for local government investment³ (Kalcheva and Nenkova, 2019^[47]). The investment capacity of municipalities depends a lot on the central government and the availability of EU funds. Therefore, municipal investment is volatile, fluctuating according to EU funding cycles. Despite some large fluctuations, overall, local government investment in Bulgaria has substantially increased since 2000, in large part due to EU membership. In 2000, local government investment amounted to 17% of public investment and 0.7% of GDP, compared to 44% and 1.4% respectively in 2019.

Figure 3.10. Changes in local government investment in Bulgaria from 2000 to 2019

Local government as a share of public investment and GDP



Source: Authors' elaboration based on Eurostat (2021^[48]), *Government revenue, expenditure and main aggregates*, https://ec.europa.eu/eurostat/databrowser/view/gov_10a_main/default/table?lang=en, extracted on 23 July 2020.

In Bulgaria, central government capital grants are all earmarked. This system encourages municipalities to operate in silos, without co-ordination across sectors (e.g. education, transport, housing, health, etc.) or across levels of government. This is one of the major obstacles to effective public investment, not only in Bulgaria but in other countries as well.

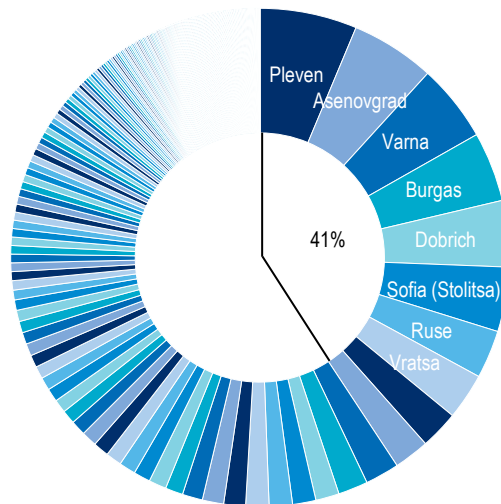
EU funds under Cohesion Policy are a major financial source for local investment in Bulgaria. It is estimated that Bulgarian municipalities receive over 60% of all the EU financial support to Bulgaria and almost all municipal investment come from this source (NALAS, 2018^[45]). EU funds are often the only source of funding for public investment in small municipalities. However, the use of EU funds appears to be highly concentrated in big cities, where large infrastructure is located. As of June 2019, 10 municipalities, accounting for 36% of the country's population and mostly in the southern part of the country, had absorbed 41% of total funds received by municipalities (Figure 3.11). By contrast, 123 municipalities – almost half – have spent less than BGN 1 million on average and 72 small municipalities with less than 6 000 inhabitants collectively accounted for 4% of EU funds absorbed by municipalities.

The pattern of polarisation in funding absorption is confirmed by measuring EU funds per capita across municipalities. By June 2019, on average, each inhabitant benefitted BGN 212 from EU funds received by local governments (NAMRB, 2020^[49]). Around 70% of municipalities were below BGN 250 per capita and 33%, including many small municipalities, were below BGN 100 per capita. The majority of municipalities received a small share of EU funds relative to the population that they serve, although some small municipalities receive a high amount of EU funds (Figure 3.12). Major reasons for that could be the limited administrative capacity of the small municipalities that does not allow them to compete effectively for European funding, the small size of the projects, the difficulty of co-financing EU funded projects (about 40% of local governments have difficulty in meeting their co-financing requirements) and the challenges of financing non-eligible costs for EU funding (e.g. land acquisitions). EU fund management authorities may tend to select more secure projects or those that are easier to implement, rather than projects that enhance convergence and regional development. This may consequently favour big municipalities that have better financial and administrative conditions (Schoenberg, 2018^[23]). This unbalanced use of EU support further

entrenches diverging growth and development trends among the municipalities, which contradicts the main objectives of EU Cohesion Policy for economic, social and territorial convergence (IME, 2019_[50]).

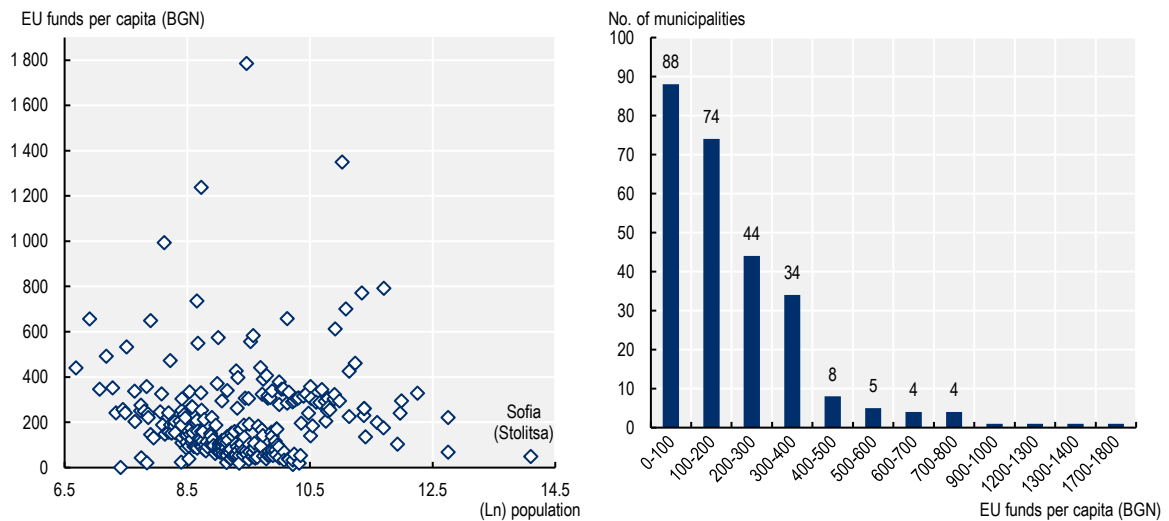
Figure 3.11. The distribution of EU funds across municipality is highly polarised

The share of EU funds spent in each municipality, by June 2019



Source: OECD elaboration based on NAMRB (2020_[49]), *Internet Platform for Local Finance (database)*, <http://www.namrb.obuchi-se.org/norway/bg-bg/%D0%BF%D1%80%D0%B8%D1%85%D0%BE%D0%B4%D0%B8.aspx>.

Figure 3.12. EU funds per capita in municipalities, by June 2019



Source: OECD elaboration based on NAMRB (2020_[49]), *Internet Platform for Local Finance (database)*, <http://www.namrb.obuchi-se.org/norway/bg-bg/%D0%BF%D1%80%D0%B8%D1%85%D0%BE%D0%B4%D0%B8.aspx>.

Multiple constraints on municipal administrative and strategic capacity hinder effective decentralisation

The effectiveness of administrative decentralisation also depends on the administrative capacity of subnational governments. Administrative capacity refers to the ability of a subnational government to deliver on its mission/mandate in an efficient, fair, accountable, incorruptible and responsive manner. In many countries, a lack of sufficient administrative capacity is probably one of the biggest challenges in the field of decentralisation (OECD, 2019^[25]). In Bulgaria, significant administrative capacity gaps prevent municipalities from properly fulfilling their tasks and functions. According to the National Audit Office (NAO) (2019^[51]), the causes for the common problems of municipalities in performing their functions are high turnover of staff, insufficient training of staff, improper division of responsibilities among municipal structural units and an insufficiently developed e-government framework. The following section does not cover all areas of administrative capacity but focuses on some bottlenecks which represent key challenges for further decentralisation: the lack of sufficient and adequate human resources, weak strategic capacity, the difficulty in delivering high-quality services and the lack of transparency and integrity to mitigate corruption (OECD, 2019^[25]).

There is a lack of staff and expertise in municipalities, especially in smaller ones

Despite the decentralisation process underway and concurrent capacity-building efforts, municipalities still struggle to effectively perform their duties due to a lack of human resource capacities and expertise, especially compared to the national government.

Bulgarian municipalities have the same public sector employment arrangements as the central government (notably the Civil Service Act and Labor Code) but they do not have the same employment conditions. Municipal staff are additionally regulated by the Local Administration Act.

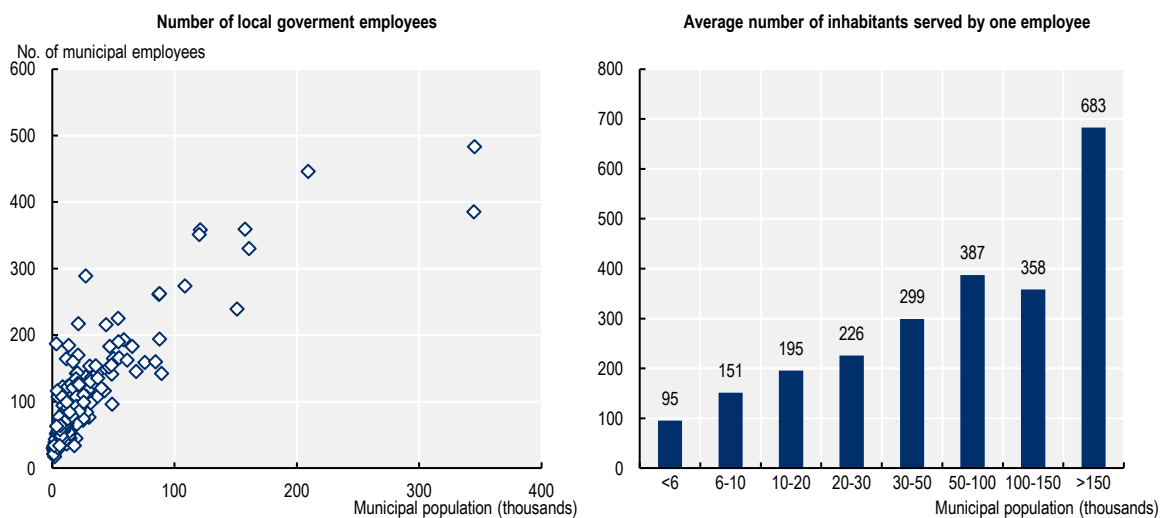
The municipal council has full discretion on municipal administration structure as well as the number and salaries of employees, within centrally-determined legal requirements and restrictions. There are two types of public employees: civil servants and other public employees. Municipal administration is divided into specialised administration and general administration. The general administration is composed of different units such as legal, administrative services, finance and accounting, human resources, etc. Specialised administration comprises all units that support the mayor in exercising his/her powers (e.g. municipal property management, spatial planning, social services, education, EU programmes management, culture, local taxes and fees, etc.). The functions of specialised administration differ substantially across municipalities, depending on their size. Municipalities can also have other functions outside the secretariat, such as legal advisors and information officers.

Bulgaria's 265 municipalities have approximately 24 600 employees (34 000 including sub-municipal administration), which is 93 employees per municipality on average. Municipal staff account for 23% of total public employees (see Figure 3.24), with great variation across municipalities. Stolitchna municipality (Sofia) has the highest number of public employees (1 161), followed by Plovdiv (483) and Burgas (446) (Figure 3.13, left panel). Around one-third of municipalities have less than 50 public employees. Many municipalities do not have enough staff to fulfil their assigned tasks. While small municipalities tend to have a smaller territorial and population scope of administrative work, this does not necessarily mean they have a smaller workload. Additionally, there is low administrative efficiency in small municipalities, as shown on the right side of Figure 3.13. In municipalities with more than 150 000 inhabitants, 1 employee serves around 683 citizens on average, while this ratio is around 95 in small municipalities with less than 6 000 inhabitants. Potentially, small municipalities are not able to streamline municipal work and optimise efficiency because of a lack of qualified employees and poor work organisation, among other factors.

Many municipalities have difficulty attracting and retaining personnel, especially staff with the necessary knowledge, skills and qualifications. While the municipal vacancy rate is 6% on average, it is above 15%

in 20 municipalities, with the highest being 57%. Low salaries and limited career opportunities prevent municipalities, especially small municipalities in remote areas, in attracting and retaining skilled employees. This is a pressing challenge. Municipalities must respond to increasingly diverse expectations from citizens, notably in terms of quality of services, and perform increasingly technical tasks, requiring a high level of expertise (e.g. public procurement, lawyers, chief architects, chief engineers, local developers). The systemic shortage of specialists is an increasingly common problem. For example, the same group of employees in the local revenue unit may perform the functions of a cashier, inspector and public contractor (NAMRB, 2018^[52]). Municipalities are also often forced to use services contracts to execute the work. In fact, only 22% of municipal staff are civil servants and there is a high turnover of staff in municipalities, which reduces institutional stability and continuity of municipal administration. Many municipalities are forced to outsource some of their tasks. An audit carried out during 2012-16 revealed that 11 out of 12 audited municipalities outsourced the preparation of municipal development plans and 2 outsourced the monitoring report.

Figure 3.13. Local government employment in Bulgaria



Note: The left scatter chart omits Stolitchna municipality (Sofia) data due to the significantly different magnitude. The population of Stolitchna municipality (Sofia) is 1 325 429, with 1 161 local government employees.

Source: OECD compilation and calculation based on the Integrated Information System of the State Administration (IISDA) (employee data) and the National Statistical Institute (NSI) (population data).

The other obstacle for enhancing local administration capacity is the lack of comprehensive, consistent and practical training that targets the needs of local administration. However, in recent years, many training programmes have been conducted involving a large number of municipal staff. There is a paradox in having a considerably high relative share of municipal employees participating in training sessions while still having such a large capacity gap. A large part of the training is provided by the Institute of Public Administration, the NAMRB, NGOs and other institutions. Moreover, this training is largely inconsistent in nature and focuses on a narrow range of subject areas, namely the absorption of EU funds and legislation in a few restricted areas (MRDPW, 2016^[2]). While it is legitimate to focus on EU funds, given that implementing EU projects is an important responsibility, the training is often technocratic and fragmented, targeting ad hoc topics of EU fund management instead of following a consistent structure or framework. In many cases, local staff do not understand the underlying objectives of EU funds being an instrument and driver for local development. In other cases, staff reported that many training courses organised by the Institute of Public Administration are mainly top-down and do not reflect their specific needs. There is a lack of significant focus on the practical aspects of the work – often employees only acquire theoretical

knowledge which cannot be used effectively in their daily activities. This disorganised training programme/scheme has resulted in several identified cases of municipal officials not being aware of their responsibilities as officials, leading to communication problems with the business community. Finally, there are large disparities in access to training across the country, and between large-, medium- and small-sized municipalities (MRDPW, 2016^[2]).

Municipalities have a limited strategic capacity

Strategic capacity refers to the ability to set strategic goals for social, political and economic outcomes. In Bulgaria, under the long tradition of centralisation, most local authorities play more of an administrative role than a strategic one. Currently, according to the IISDA website, municipalities are mandated through normative acts to carry out over 150 administrative services covering 14 areas,⁴ in addition to the services stipulated in the Local Government Act.

While local governments in Bulgaria are involved in a wide range of policy sectors, their capacity to regulate, design and plan activities remains limited. They mainly perform implementation functions, including operating and control, rather than strategic ones. For example, as already mentioned, they play a limited role in the elaboration of municipal development plans. The latter follow pre-made templates prepared by the central government. Therefore, municipal development plans, instead of serving as broad vision and long-term planning instruments for municipal development priorities, are often formal, top-down documents that do not adequately address local issues and respond to local needs.

Studies reveal that many municipal development plans are of poor quality. They often lack clear objectives and identification of the desired future state of the municipality, and when they exist, they are not sufficiently integrated to define a comprehensive and cross-sectoral local development strategy. Apart from the problem of objectives setting, 2007-13 municipal development plans have also been identified as having incorrect prioritisation and a lack of analysis (i.e. excessive emphasis on current state description) (Krumov, 2013^[53]).

Municipal development plans may not take into consideration long-term national priorities. Municipalities have substantial difficulties in ensuring the coherence between local, regional and national strategies. Municipal strategic documents are often disconnected from national sector strategies, while issues at each level may be interrelated, for example, between waste and water management, which are two high municipal priorities, and biodiversity protection and climate change, which are perceived as “non-local”.

Another issue is the fact that the identification of challenges and priorities tends to follow the funding sources, not vice versa as it should be. This is a common problem in many small municipalities with very limited funding sources. Local policies are often narrowed to government-subsidised activities instead of based on actual needs of local importance.

This absence of strategic capacity at the municipal level is particularly problematic in the context of EU cohesion policy and the need for a more localised approach (Box 3.3).

Box 3.3. The weak strategic role for municipalities in the use of EU funds for local development

In the 2014-20 programming period, the strategic role of municipalities in the implementation of EU funds remains limited. Municipalities, especially the small- and medium-sized ones, have a narrow role in partnership agreement design, OP programming, priority setting and other strategic planning processes. When municipalities do not play an active role in the design of national and regional development strategies or the OPs, they tend to have less buy-in or may not even understand the underlying rationale and concepts.

In the current programming period, 39 municipalities act as Intermediate Bodies (IBs) for the Priority Axis 1 of the OP “Regions in Growth”. This is the first time where municipalities act as IBs to participate in project selection. As for other Priority Axes where ministries are the “beneficiaries”, they tend to design the project in advance. One approach taken is that the ministry designs the project sets its budget and then lets the municipalities decide on the type of investment. Nevertheless, it is not unheard of for a line ministry to identify several municipalities as beneficiaries, establish the projects to be implemented in each and determine the project budgets. Once the technical documentation and specifications of the applications are confirmed by the originating line ministry, the selected municipalities then submit their ERDF project applications to the MA. As a result, while ministerial priorities are likely being met, municipal priorities may not be.

The other problem associated with the participation of municipalities in the OPRG is that the roles of IB and beneficiary are combined in the same institutional body for the 39 municipalities. Although officially there is a clear delimitation of functions and responsibilities, in reality, there are cases where municipalities just grant projects to themselves. From the institutional perspective, this provides very little incentive for local governments to use EU funds for local development strategically. This may entail the risks that local government mainly use EU funds in the areas of traditional public service provision, leaving fewer resources and attention for improving the business environment, attracting private investment or for sustainable local development.

Source: OECD (2019^[54]), “Strengthening governance of EU funds under Cohesion Policy: Diagnosis and roadmap for the Managing Authority of OP Regions in Growth in Bulgaria”, Unpublished, OECD, Paris.

Municipalities have difficulty delivering high-quality local services

Municipalities have difficulty delivering high-quality local services, both for delegated and exclusive functions. The scope and quality of exclusive local public services depend a lot on municipal own revenues, which may be very limited, especially in small municipalities. Great disparities also exist in the provision of delegated services, due to the centralised planning system, scarcity of funds and insufficient incentives and know-how to enhance the public service quality in some municipalities. Finally, other bottlenecks include the absence of an appropriate reference model, lack of guidance and technical assistance for services rendered at the municipal level, as well as the absence of monitoring and evaluation systems to track performance (Box 3.4).

Box 3.4. Municipalities have difficulties using performance and quality management tools

Local administrations have difficulties using objective and robust indicators, targets and cost-benefit analyses to measure the relationship between inputs, processes, outcomes and the impact of their administration (Government of Bulgaria, 2014_[18]). Municipalities lack a standardised approach to performance monitoring. Less than 60 municipalities reported having improved existing or introduced new organisational mechanisms to support result-oriented policy development and implementation. Only 37 municipalities reported having performed impact assessments on the regulations, acts and ordinances adopted, with most of them being big municipalities. Only around half of the Bulgarian municipalities indicated that they have introduced rules and concrete methodologies for monitoring, control and *ex post* evaluation of policy implementation (Houbenova-Delisivkova, 2017_[55]).

Other management tools and mechanisms have been developed, such as the functional analysis which examines the improvement of organisation, work processes and co-ordination within the structure, the municipal Good Governance Assessment Methodology, and ISO certified systems, which have been adopted in some municipalities. However, in practice, these tools are not widespread and are under-exploited. In some cases, they even reinforce established bureaucratic practices.

Source: Government of Bulgaria (2014_[18]), *Working for The People: Public Administration Development Strategy 2014-2020*, <http://www.strategy.bg/FileHandler.ashx?fileId=4647>; Houbenova-Delisivkova, T. (2017_[55]), "Financing regional development and competitiveness: Problems and challenges at macro and micro level in Bulgaria", <http://www.revecon.ro/articles/2017-1/2017-1-5.pdf>.

Social service provision is a particular challenge area for many municipalities. Social services in Bulgaria are characterised as low quality, with limited accessibility and a lack of an integrated approach. The situation is worse in small municipalities with scarce human and financial resources. An evaluation conducted in 2017 identified the insufficient provision of most types of social services across the territory. In smaller and rural municipalities, there is a serious shortage of services for children and adults, particularly for home-based care, day-care, and mobile and integrated services (EC, 2019_[56]). Insufficient funding is one of several underlying factors. From 2015-19, the share of delegated expenditure for social services out of total delegated expenditure decreased from 9.2% to 8.1% (IME, 2018_[57]). In addition, many social services dedicated to vulnerable populations are provided mostly based on the availability of resources instead of the needs. The assessment of individual needs is insufficient, at both the national and local levels.

To try to solve these issues, a new Social Service Act was adopted in March 2019 and entered into force in July 2020, although it is currently still in the implementation phase. The overall aims are to improve access to social services and enhance efficiency while addressing longstanding problems of underfinancing and uneven distribution of funds across territories (Box 3.5). Despite having the best of intentions, the act still has the potential to create an even more challenging situation for municipalities in providing social services. For example, from the funding perspective, the act obliges municipalities to provide free assistance to children and people without income, while user fees apply to everybody else, except for some services made universally available, e.g. support for the development of parental skills (OECD, 2021_[58]). This responsibility needs to be allocated in tandem with increased delegated funding for social service provision; it will otherwise create additional fiscal burdens for municipalities. From the perspective of administrative capacity, the implementation can be very demanding, both for local governments but also for the national government. For one, municipal services in the poorest municipalities will be required to meet the same quality standards that apply in the wealthiest municipalities and if these standards are not met the funding will be phased out. This places additional pressure on administrative capacity in municipalities who are already struggling in this area. In addition, the new act advocates the principle of integrated social service provision and introduces a more detailed approach to quality control. For example, the act defines the content of different types of social services and municipalities are required

to organise the complex provision of different services for the users. In addition, the National Map of Services is intended to be updated annually with information on the available services and needs of target groups throughout the country. While these changes are intended to tailor the social services to the real needs of the population, the implementation requires significantly more capable social workers and public administrators (EC, 2019^[59]).

Box 3.5. The 2019 Social Services Act

The parliament adopted a new Social Services Act in 2019, which aims to improve access to social services and enhance efficiency while addressing longstanding problems of underfinancing and uneven distribution of funds across territories.

The act introduces some significant changes to the parameters of the social service provision system, especially:

- A new Social Services Agency (operational as of 2020) will licence social service providers, develop common quality standards for providers, ensure that consumer rights are respected, carry out *ex post* control, monitor the quality of social services at the municipal level provided by both municipalities and other service providers and assess their efficiency.
- A definition of common standards and regulations for the suppliers.
- A National Map of Social Services, to be prepared jointly with the municipalities, that aims at addressing the uneven territorial distribution and insufficient coverage and quality of services. It will provide information on available services and the needs of target groups throughout the country. The map will determine the local needs – number and types of services and a maximum number of users – as well as some additional issues regulated by law.

While it is an important step forward, more attention will now be needed to plan the scale of services and their prices. At the national level, the administration of the Social Services Agency will need to be trained and able to apply and implement the objectives of the law.

Source: EC (2019^[59]), *New Social Services Act finally Adopted in Bulgaria - ESPN Flash Report 2019/37*, European Social Policy Network, European Commission; OECD (2021^[58]), *2020 Economic Assessment of Bulgaria*, OECD Publishing, Paris; IME (2018^[57]), “The new law on social services: forward, sideways or there again? [Новият закон за социалните услуги: напред, встрани или пак там?]”, <https://ime.bg/bg/articles/noviyat-zakon-za-socialnite-uslugi-napred-vstrani-ili-pak-tam/>; EC (2019^[56]), *Country Report Bulgaria 2019 Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances*, https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-bulgaria_en.pdf.

The provision of social housing, a responsibility of municipalities, is also inadequate both in terms of quality and quantity. This is mainly due to a lack of funding and insufficient technical capacity at the municipal level to plan for, or implement, social housing programmes and estimate the housing demand. Therefore, a third of municipalities have no social housing at all. Overall, there is a large deficit in social housing. Municipal social housing stock, accounting for just 2.4% of the inhabited housing stock in 2015 according to the Draft National Housing Strategy, is poorly maintained and inefficiently managed (Gabova, 2020^[60]; OECD, 2021^[58]). Furthermore, while social housing should be targeted to the most needed households, this is not the case as municipalities are free to establish their own eligibility criteria for social housing which therefore vary from one municipality to another (World Bank, 2017^[61]).

Since 1992, the public healthcare sector has been partially decentralised. Municipalities own local hospitals, outpatient clinics and other healthcare facilities. They also participate in the ownership of district multi-profile hospitals (joint ventures). However, the overall system remains highly centralised. Municipal healthcare offices organise healthcare within municipal boundaries under the responsibility of the Regional Health Inspectorates, which are the deconcentrated structures of the Ministry of Health in the 28 districts.

Bulgarian municipalities play an insignificant role in health policy development (WHO, 2018^[62]). Healthcare services facilities and professionals vary substantially in terms of quality and accessibility among the districts (National Health Strategy 2014-20). Overall, the effectiveness of the healthcare system in Bulgaria remains low in comparison to other EU member states. Currently, there are plans for healthcare reforms, including long-term care services, which are becoming even more crucial given the COVID-19 outbreak (EC, 2020^[24]).

In the education sector, the centralised approach has failed to curb the deterioration of education quality and an increase in school dropouts. In this sector, a uniform standard cost formula has been adopted for all municipalities to allocate funds accordingly. However, the same standards do not translate into standardised quality. Schools use budget funds to "purchase" very different products and services. Fundamentally, the current funding system does not provide incentives to improve the quality of education. To a certain extent, the system encourages schools to focus on retaining students at all costs as funding is tied to the number of students and not to the quality of education provided. Another example is that the number of teachers in schools or their level of professional qualification cannot be included in the formula defined by individual municipalities. While this is justified as preventing the risk of recruiting more teachers than needed, or of there being vicious competition to attract teachers among schools, it in effect weakens the incentives to invest in teachers. Schools in small municipalities that receive limited funds feel even more reluctant and have greater difficulty investing in teachers (Nikolov, 2017^[63]).

Administrative services to businesses are another area where quality is low and not conducive to an enabling environment for business. Many services are shared between national authorities and municipalities for the same process. For example, there are 18 procedures for dealing with construction permits in Bulgaria. The municipality is responsible for 7 and each procedure takes several weeks. Overall, it takes 97 days to deal with the 18 procedures.

To maximise the efficiency of service delivery or pooling of external financial resources, municipalities can establish local enterprises. By 2016, there were 581 fully or majority-owned municipal enterprises, compared to 350 state-owned enterprises at the central level. They provide utility services (electricity, gas), transport and other community services, e.g. waste management, water supply, cultural centres, etc. Municipalities can also establish municipal hospitals, homes for medical and social care, and primary healthcare facilities upon approval of the Ministry of Health. These local enterprises represent around 43 000 employees and a total value of over USD 600 million (around BGN 1 billion). Over half of them concentrate on the health and social sector (22 000 employees) (OECD, 2019^[64]). However, regulating the management of municipal enterprises can be very challenging. There is neither a legal requirement nor a widespread practice of municipal enterprise boards of directors carrying out self-evaluations to appraise their performance and efficiency at either the national or the municipal level. As a result, misconduct, non-compliance and varying practices are often identified.

Deficiencies, irregularities and low transparency in municipal budget management and procurement

Corruption is considered as one of the most worrying governance issues in Bulgaria, together with the low performance in rule of law (World Bank, 2020^[65]). In 2017, the Local Integrity System Index developed by Transparency International Bulgaria showed that the 27 municipalities-district centres had an average score of 3.29 (on a scale from 1 to 5), ranging from 2.91 to 3.74 (Transparency International Bulgaria, 2017^[66]). The EU Cooperation and Verification Mechanism (CVM) specifically includes a recommendation concerning the need to fight against corruption at the local level. In 2016, the Institute for Market Economics (IME), a Bulgarian think tank, reviewed the audit reports released by the Bulgarian National Audit Office. The results revealed that close to 70% of Bulgarian municipality expenses can be classified as "failures" (IME, 2016^[67]). The main issues are primarily related to budget management, public procurement and arranging municipal property. They include outright waste of public resources, non-economic use of funds, unexplained debt, bad property management or violations of public work procurement procedures.

Sometimes inefficient administrative performance is due to a lack of capacity and funds, insufficient stimuli and/or bad planning. In other cases, the data in the reports point to the suspicion for the existence of corruption and the pursuit of personal gain.

This high level of inefficiency and administrative failure cost the Bulgarian government BGN 3.5 billion in the 2011-14 period – more than two-thirds of all municipal expenses during that time (Altas Network, 2016^[68]; IME, 2016^[67]). The information in the audit reports also raises doubts about corruption, noting that 21 reports (about a quarter of all audit reports) have been sent to the Prosecutor’s Office because of the presence of incriminating information (IME, 2016^[67]).

Procurement is one of the most challenging issues. An average of around BGN 5 billion is spent annually through public procurement in Bulgaria (partnership agreements), while the infringements found in municipal public procurement procedures amounted to over BGN 200 million. The amount of allegedly corrupt procurement represented 36% of the total public funds spent by municipalities in 2015. In total, 214 violations were found in the 614 cases checked. Half of the deficiencies and irregularities were found in the preparation stage, not so much in the process of completion and finalisation (IME, 2016^[67]).

Overall, the major issue is the lack of transparency, encountered at all stages of planning, spending, reporting and control of municipal budgets. The average active transparency rating for all 265 municipalities is 39% of maximum transparency. For the budgetary process specifically, the average municipal result is 41%.

Inter-municipal co-operation is underdeveloped in rural or urban areas

Inter-municipal co-operation can be a valuable development strategy for many different types of municipalities. It can be particularly beneficial for rural, urban and metropolitan areas in facilitating the provision of joint municipal services and ensuring investment at the right scale instead of fragmented investment projects. Inter-municipal co-operation is now a widespread practice in OECD member countries and is firmly rooted in European and OECD municipal management practices. In Bulgaria however, as in many European countries in transition (EBRD, 2019^[69]), inter-municipal co-operation is underdeveloped. The Bulgarian practice shows that even though, on a purely rational level, the benefits of the inter-municipality co-operation might be evident, this does not always lead to a fast and smooth implementation of the practice (Kalfova, 2017^[70]).

Bulgaria has a history of regional-based associations of municipalities dating back to the early 1990s, many of which, however, were phased out after the establishment of the NAMRB. Today, around 10 regional associations of municipalities are still active. These associations are “transregional”, based on common economic or natural features. They primarily focus on information exchanges, mutual assistance, economic promotion (local economy, tourism, etc.) rather than delivering public services or realising joint investment projects (Box 3.6).

Moreover, Bulgaria has a legal framework that supports inter-municipal co-operation through Article 137 of the 1991 Constitution and regulation under the Local Government and Local Administration Act (LGLAA). Chapter 8 of the LGLAA (Articles 59-61) provides the legal foundation for co-operation among municipalities on a voluntary principle for the resolution of tasks of common interest (as well as between the municipalities and districts). In 2006 and 2017, amendments to the LGLAA set out a more precise regulatory framework. Municipalities can adopt co-operation agreements to realise three forms of co-operation: co-operation on a specific project or activity; creation of a non-profit association of municipalities; and creation of a business or non-profit legal entity. The co-operation agreement must also define the participation share of each party in terms of financial means, property and/or any other forms of participation, as well as the rules for the creation of inter-municipal councils and/or commissions and their responsibilities. The general principles of implementing inter-municipal co-operation in Bulgaria include voluntary participation, mutual interest, active choice, flexibility and dynamism, transparency and responsibility.

Box 3.6. Regional associations of municipalities in Bulgaria

Regional associations of municipalities were formed on geographical principles to assist each other in solving common regional issues, such as rendering assistance in a broad range of consultancy services among each other. Examples include the Association of Rhodope Municipalities founded in 1992 with 17 municipalities, the Association of Black Sea Municipalities founded in the same year with 18 municipalities and the Association of Danube River Municipalities founded in 1993 by the mayors of 10 municipalities. These associations were developed bottom-up through the initiatives of individual mayors rather than as the result of a government policy.

A common feature of these associations was to represent and defend the interests of the participating municipalities *vis-à-vis* the state and other authorities. However, this role was transferred to the NAMRB, created in late 1996, and regional associations steadily decreased in importance thereafter. Many of them dissolved shortly after because of difficulties in readjusting the nature of their activities towards developing investment projects or joint service provision (MRDPW, 2016^[2]).

Today, there are around ten active regional associations in Bulgaria. They include the Association for the Development of Mountain Municipalities of the Republic of Bulgaria, the Regional Association of Municipalities “Maritsa”, the Association of the Black Sea Municipalities, the Association of Rhodope Municipalities and the Association of Danube River Municipalities (ADRM “Danube”) among others.

For example, today, ADRM “Danube” brings together 35 municipalities with a combined population of over 800 000 inhabitants along the Danube River in the central part of the Danube region and is registered under the Law for Non-Profit of 16 May 1993. The main objective of ADRM Danube is to promote the social and economic development of the Danube region. It seeks to do this by working to establish a common concept and strategy of regional development, furthering the joint implementation of socio-economic policies, enhancing co-operation with all the stakeholders in the sub-region and developing a common regional identity. Furthermore, it works to achieve the objectives of the EU Strategy for the Danube Region. The association achieves its strategic objectives through the facilitation of the work of local administrations, businesses, universities and research institutions, and NGOs in the priority areas of transport, ecological and energy infrastructure, social and economic development, science and technology, education, and security (<http://www.adodunav.org/>).

Source: MRDPW (2016^[2]), *Decentralisation Strategy 2016-2025 of Bulgaria*, Ministry of Regional Development and Public Works; Association of Danube River Municipalities “Danube” (2021^[71]) Association of Danube River Municipalities “Danube” – About us, <http://www.adodunav.org/bg/page/misiia>.

Despite this legal framework, inter-municipal co-operation is not widely accepted and practised in Bulgaria. There are few examples of effective inter-municipal co-operation initiatives, except where it is legally mandated, as is the case for the provision of water, sewerage, and waste management (Box 3.7). That said, the success or failure of inter-municipal co-operation for joint investment is largely contingent on the intervention of the central government. While the district administrations are supposed to foster local development and encourage municipalities to unite to work together on large-scale projects, their extremely limited administrative capacity and political power prevents them from executing this function. There are also some examples of inter-municipal co-operation resulting from EU policies, e.g. to promote rural-urban partnerships and common strategies for local development via the LEADER⁵ approach to Community-Led Local Development (CLLD) but the Bulgarian experience was not very successful (Angelov, 2019^[72]). Furthermore, these forms of co-operation (Local Action Groups) are complex and not always sustainable.

Box 3.7. Inter-municipal associations in Bulgaria

Waste management

In early 2000, despite the existence of an EU funding opportunity and the poor situation in numerous municipalities in terms of waste management, a majority of the Bulgarian local authorities rejected participation in regional waste management associations. Thus, the central government made it mandatory in 2010 through legislative amendments, as a way to fulfil the commitments made to the EU for the National Waste Management Programme. A municipality that rejects participation causing delays or thwarting the creation or functioning of a regional association shall cover the damages and missed benefits of the remaining municipalities in the region.

Water and sanitation

The Waters Act that came into force in 2000 imposed the creation of Water and Sanitation (W&S) associations – one for each district. The participation of municipalities, however, is not obligatory. The main incentive for them to participate is EU funding, as only W&S associations are eligible for funding in the 2014-20 programme period. To date, 29 regional W&S companies have been established. However, there are still reluctant municipalities. For example, in 2010, 15 municipalities refused to join the created W&S associations due to financial considerations. In fact, the price of the W&S services for municipalities in the mountainous area is far below the average, since they can use an entirely gravity-driven water supply thanks to the mountain geography.

Source: Kalfova, E. (2017^[70]), “Inter-municipality cooperation in Bulgaria - Between the necessity and impact of EU policies”, 25th NISPAcee Annual Conference.

The critical problem is that the use of inter-municipal co-operation for scaling-up investments and joint service delivery is much more difficult and limited in practice. Co-operation for collective local investments is not rooted in Bulgaria’s local governance and administrative culture. Local governments are not always motivated to participate since the inter-municipal co-operation arrangements may or may not address their local needs and interests.

The existing financing mechanisms for public investment do not facilitate collaboration across municipalities and hence may impede the creation of a co-operative culture. Funding is largely determined by line ministries without an integrated approach, which leads to a high level of competition among municipalities for resources, notably EU funds. There are no incentives or requirements to encourage inter-municipal co-operation. For example, while over half of the OPRG 2014-20 budget is dedicated to integrated urban development, the majority of these projects are designed to meet the priorities of a single municipality and do not require partnerships or administrative co-operation (OECD, 2019^[54]). Distrust may also exist between municipalities and the central authorities. On the one hand, line ministries tend to favour big municipalities in the distribution of EU funding; while on the other hand, some municipalities may associate inter-municipal co-operation with the risk of “losing” their municipal companies or weakening their power over their own jurisdiction, especially when the central government directly participates in the co-operation arrangements (Kalfova, 2017^[70]).

The 2016-19 Decentralisation Strategy Programme aimed to develop a uniform model for inter-municipal co-operation for the provision of services of general interest and BGN 50 000 was allocated for drafting proposals for changes to the regulatory base, but the implementation and outcomes of this initiative remain unclear.

The lack of inter-municipal co-operation in metropolitan areas

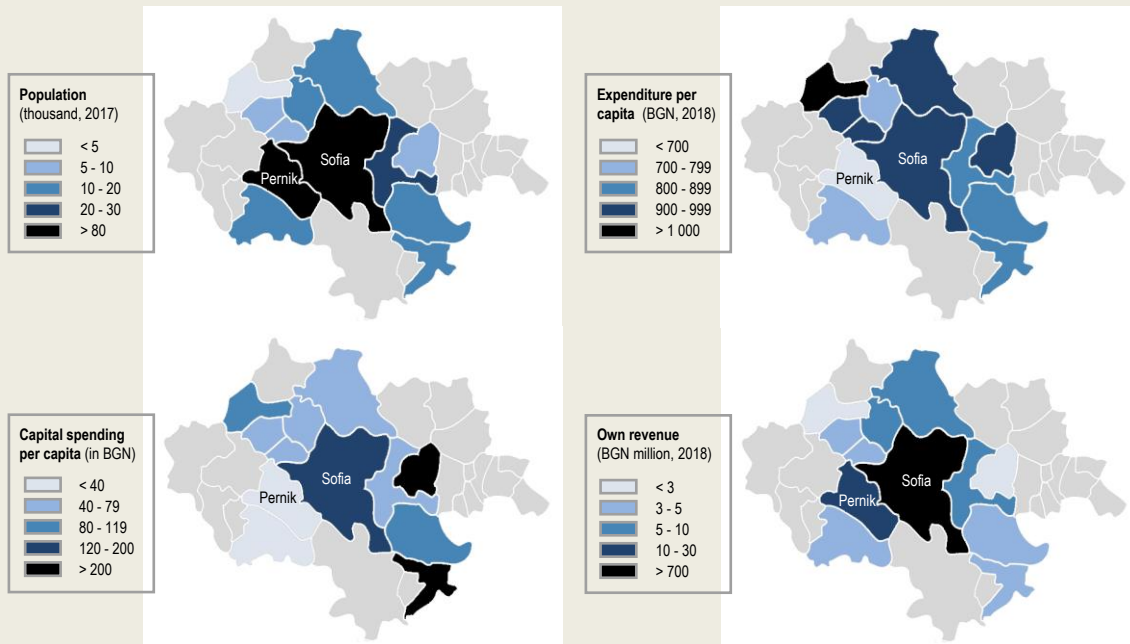
Issues of public investment efficiency, jurisdiction fragmentation and inter-municipal disparities are often multiplied in metropolitan areas. Bulgaria has defined 17 functional urban areas (FUA), including 18 cities having great importance for the country's economic and regional development. At the end of 2018, these 17 FUAs accounted for 59.3% of the Bulgarian population (compared to 57.4% in 2010-12). More than three-quarters of the FUA's population live in the city centre (NSI, 2019^[73]). There are 7 FUAs above 150 000 inhabitants (Burgas, Pleven, Plovdiv, Ruse, Sofia, Stara Zagora and Varna), representing around 36.6% of the country's population. Applying the EU-OECD definition of a metropolitan area, Bulgaria has four metropolitan areas (Burgas, Plovdiv, Sofia and Varna), Sofia being classified as a "large metropolitan area".⁶

Metropolitan areas are increasingly facing new challenges of working across physical, sectoral and organisational boundaries. This requires addressing the governance of metropolitan areas, in particular by enhancing co-operation and co-ordination of public policies to provide public infrastructures and services on a metropolitan-wide basis and by reducing intra-metropolitan disparities. In Bulgaria, there is no governance structure for these metropolitan areas, meaning there is no decision-making body that governs or co-ordinates municipalities within the urban area.

For example, integrated planning covering the entire Sofia metropolitan area does not yet exist. A Master Plan for Sofia Metropolitan Municipality was adopted by the parliament in 2007 but it is rather indicative and advisory (Schmitt, 2013^[74]), primarily focusing on the Stolitchna municipality (Sofia) instead of the entire metropolitan area. The only co-operation structure is the Regional Association of Municipalities Centre (RAMC), a non-statutory body created in 2010 by the mayors of 11 municipalities (Stolitchna municipality (Sofia) plus 10 other municipalities) covering the FUA of Sofia (which includes Pernik). The association is responsible for strategic planning and technical infrastructure, in particular, to use Trans-European Transport Networks (TEN-Ts) to strengthen its transport corridors with neighbouring countries and regions, connecting axes in southeast Europe. It aims to set up a common strategy for polycentric development on the territory of the associated municipalities (Eurocities, 2013^[75]). However, this municipal co-ordination effort has yet to produce a more integrated governance body for the metropolitan region. The Sofia metropolitan area remains characterised by high internal disparities, which will need to be addressed at a metropolitan scale (Box 3.8).

Box 3.8. Disparities within Sofia metropolitan area

Twelve municipalities are identified as urban centres, sprawling across the Sofia (capital) district, Pernik and Sofia district. Figure 3.14 illustrates the disparities among municipalities within the metropolitan area, with Sofia (capital) district strikingly outperforming the others in various dimensions. The population is highly concentrated in Pernik and Stolitchna municipality (Sofia) – the two municipalities also see a high amount of own-source revenues. In terms of public spending and investment per capita, there are significant imbalances across the municipalities within the administrative district. The divide between Pernik district and Sofia (capital) district is particularly stark, with the two urban centres in Pernik district having the lowest level of investment per capita of less than BGN 40, whereas this ratio is 4 times higher in Sofia (capital) district. It demonstrates that the spill-over effect into the territories and communities outside the Pernik and Sofia administrative boundaries is very limited.

Figure 3.14. Disparities within the Sofia metropolitan area

Note: The coloured (darker) zones represent the urban centres. The grey (lighter) zones are other non-urban centre municipalities in the Pernik and Sofia district jurisdiction.

Source: OECD based on NAMRB (2020^[49]) Internet Platform for Local Finance (database), <http://www.namrb.obuchi-se.org/norway>

Fiscal decentralisation is the weakest dimension of decentralisation in Bulgaria

Financial provisions are provided by the constitution (amended in 2007 to grant taxing powers to municipalities), the Local Self-Government Act and the Local Administration Act, the Local Taxes and Fees Act (enacted in 1999 and amended in 2018) and the 2014 Law on Public Finance. Since 2002, a series of reforms have been implemented to provide municipalities with more fiscal autonomy but despite these efforts, the fiscal framework remains characterised by a low level of fiscal autonomy and unsustainable fiscal conditions for many municipalities, especially small and rural ones. Municipalities depend mainly on EU funds and central government transfers, the latter of which are earmarked and often insufficient to cover spending needs. Municipalities have a limited own-source revenue-generating capacity, especially regarding tax revenues and, therefore, there are large vertical fiscal gaps. In addition, access by municipalities to borrowing is restricted, while fiscal discipline rules have been strengthened. These unsustainable fiscal and financial conditions entail additional risks in the advent of external shocks. The COVID-19 crisis may exert short-, medium- and long-term pressure on subnational public finance, similar to the 2008 global crisis (OECD, 2020^[76]).

Municipalities are financially dependent on the central government

Grants and subsidies make up the bulk of local government revenue

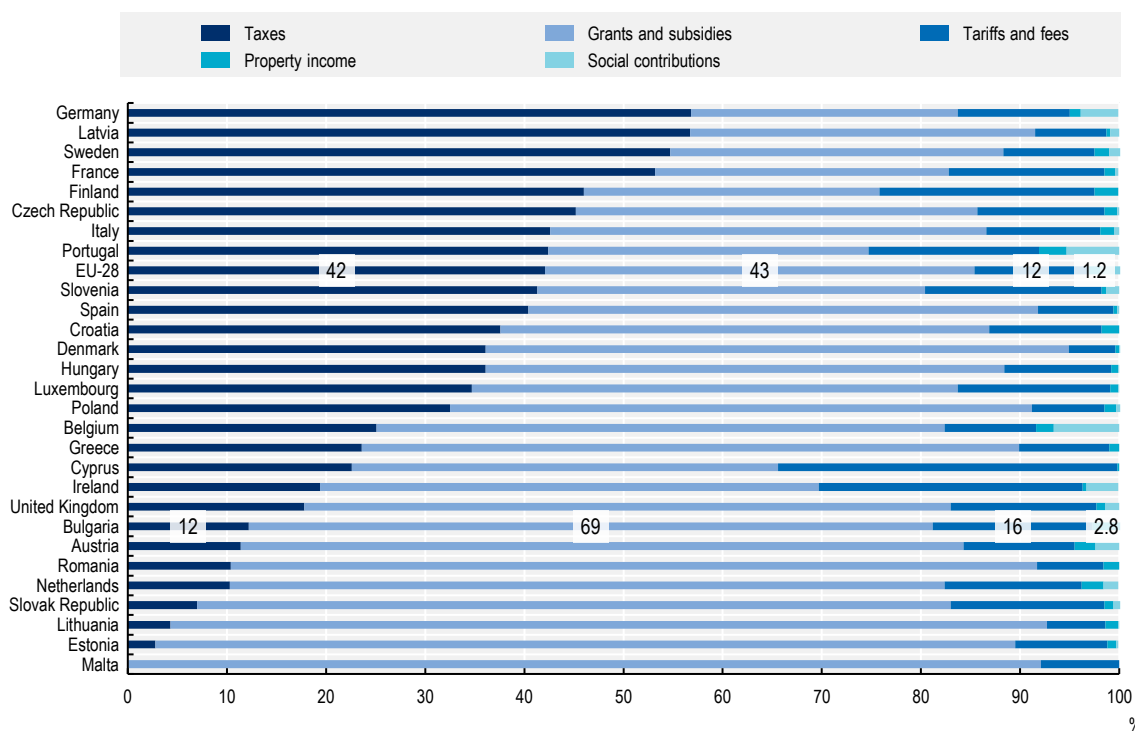
In 2018, local government revenue accounted for a relatively small share of GDP and public revenue, 7.5% and 20.5% respectively, well below the EU-28 average (15.5% of GDP and 34.4% of public revenue). Despite recent reforms aimed at increasing tax revenues, the share of grants and subsidies in subnational revenue remains very high, well above the EU-28 average (69% vs. 44%) (Figure 3.15). As a

consequence, the share of tax revenues in Bulgaria is significantly below the EU-28 average (12% vs. 42%) while other revenues (tariffs and fees and property income) accounted for a relatively large share of revenue (19% vs. 13% in EU-28). The share of tariffs and fees is particularly high compared to the EU-28 average (16% versus 12%) as well as the share of property income (2.8% vs. 1.2%).

Grants and subsidies have increased over the past 10 years, with an average annual growth rate of 3.2%. The increase has been particularly significant since 2015 (from BGN 3.2 billion to BGN 5.1 billion by 2018). However, the share of grants and subsidies in total municipal revenues has remained quite stable, fluctuating around 68%. The average annual growth rate of municipal own revenue (local taxes, user charges, fees, property income) was 2.8% between 2008 and 2018. Overall, the share of own-source revenue has been also quite constant around 32% (Figure 3.16).

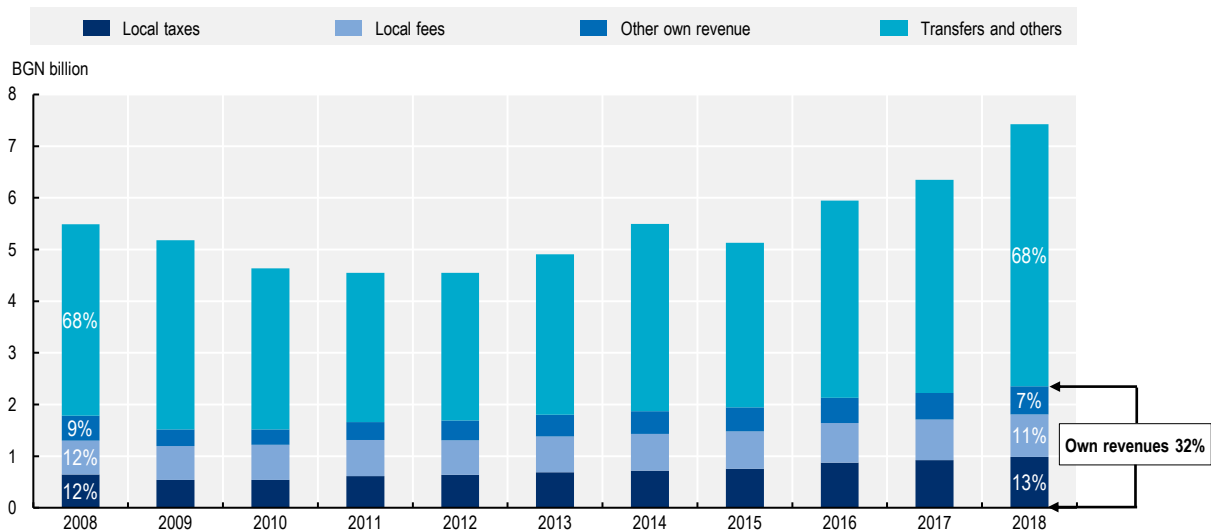
Despite the increase in grants to local governments over the past ten years, these resources are still insufficient to cover both delegated functions and newly mandated functions by line ministries, resulting in underfunded mandates. Municipalities have to compensate for the gaps by using their own revenue to maintain the provision of delegated services, often at the expense of local investment (MRDPW, 2016^[2]). It is estimated that in 2017-18, underfunded delegated functions “drained” EUR 50 million out of municipalities’ own revenues (NALAS, 2018^[45]). The NAMRB identified the chronic shortage of funds for municipal roads, social services and public transport as key challenges for local governments. The national grants allocated to municipalities are often significantly lower than the amount requested. For 2020, municipalities sought an additional BGN 120 million in transfers for maintaining the road network but received BGN 20 million. They also requested an additional BGN 100 million to cover some social services and received BGN 30 million (SEGA, 2019^[77]).

Figure 3.15. Subnational government revenue breakdown by category in EU-28 countries, 2018



Note: Data for local government differ from those for municipalities as the local government sector (S.1313 in the national accounts) includes municipalities and municipally-owned hospitals.

Source: OECD (2019^[77]), *Key Data on Local and Regional Governments in the European Union (brochure)*, https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf.

Figure 3.16. Municipal revenue structure in Bulgaria, 2008-18

Note: Before 2008, municipalities still received shared tax (PIT) and thus were not able to calculate own-source revenue. Since 2008, the shared PIT has been completely phased out.

Source: NAMRB (2020^[49]), *Internet Platform for Local Finance (database)*, <http://www.namrb.obuchi-se.org/norway/bg-bg/%D0%BF%D1%80%D0%B8%D1%85%D0%BE%D0%B4%D0%B8.aspx>.

This funding shortfall may derive from the deficiency of the quantitative appraisal, i.e. a mismatch between population needs and funding allocation. For example, the allocation of education block grants is based on the uniform standard cost per student. Local governments consider that they are in general under-consulted during the process of determining the range of delegated activities, the standard for their valuation and quantitative appraisal (Nenkova, 2014^[3]). As a result, the funding allocation formula may not reflect the needs in reality or, in some particular cases, the formula lags behind inflation without timely adjustment. New obligations from secondary legislation are also often transferred to local governments without preliminary discussion or co-ordination, and/or without a robust financial impact assessment to take into account whether municipalities can indeed carry out these activities. As such, some small municipalities may not be able to cover the gaps with their own revenues, which can lead to reinforced territorial disparities in public service delivery.

Almost 90% of grants and subsidies are earmarked and/or conditional

The 2003 reform that eliminated tax sharing was accompanied by a change in the intergovernmental system, increasing central government transfers to compensate for the loss of PIT revenue. There are three main categories of grants: a general grant aimed at financing state-delegated responsibilities, a general equalisation grant and earmarked grants for capital investment (Box 3.9). Except for the general equalisation grant which is unconditional, all other grants are earmarked, leaving very little leeway for municipalities to decide on their use. This means that municipalities enjoy some autonomy on only 5% of their grant revenues via the equalisation grant. The vast majority of central government transfers are for delegated functions (87%), while capital grants account for 8% of total grants. Among the subsidies for delegated services, 74% are for education, 9% are for staff expenditure and 8% are for social services (Figure 3.17).

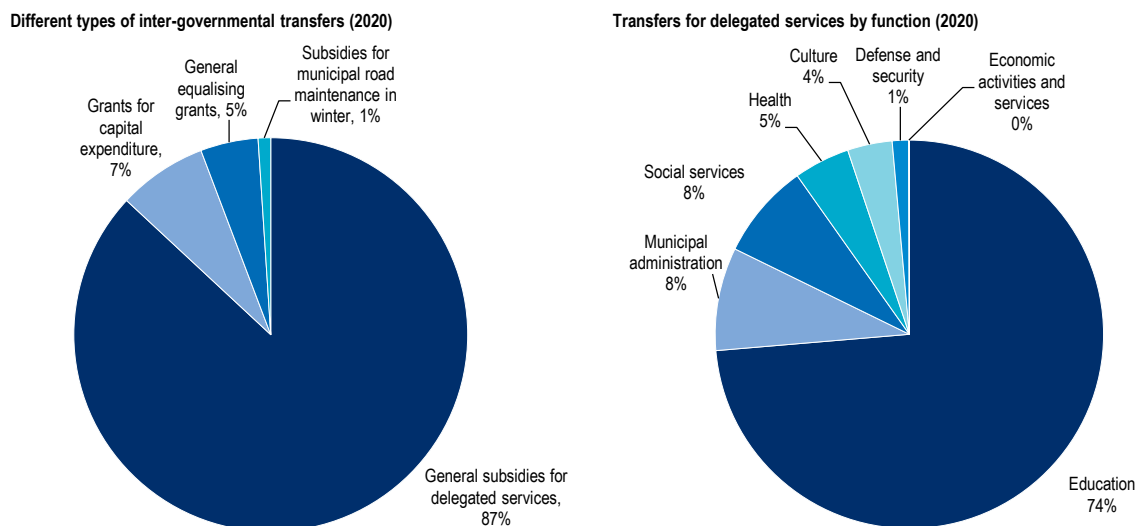
Box 3.9. The system of intergovernmental grants in Bulgaria

There are three main categories of intergovernmental grants: a general grant aimed at financing state-delegated responsibilities, a general equalisation grant and earmarked grants for capital investment.

- The **general grant**, despite its name, is a specific-purpose grant aimed at financing state-delegated responsibilities (social services, education, health, culture, municipal staff, etc.). The calculation of the amount is based on service costs, in accordance with established cost standards and socio-demographic indicators that vary according to the expenditure area (population size, number of pupils, municipal staff, etc). This grant is conditional, meaning it is allocated to a specific sector such as education, social assistance, culture or healthcare. The corresponding financing standards are annually negotiated between the central government and the National Association of Municipalities (NAMRB) and then adopted by the Council of Ministers (CoM). They are therefore subject to central government budget constraints. For education, for example, funds are determined on the base of uniform expenditure standards per pupil that are approved by the CoM. At least 80% of the funds must be allocated based on the formula.
- The **general equalisation grant** is unconditional. Municipalities have full autonomy over how they spend it. It aims to ensure a minimum level of local service provision by each municipality. By law, the annual size of the equalisation subsidy cannot be less than 10% of the own revenues of all municipalities in the previous year. Its total amount is 10% of all transfers. The allocation between municipalities is based on 2 criteria (defined in the annual budget law, they may vary from year to year): revenue potential – it benefits municipalities whose per capita own-revenues fall below 90% of the national average; and expenditure needs based on standard costs for pre-schools and homes for the elderly, combined with the municipality's surface area. Municipalities with per capita expenditures of less than 100% of the national average are entitled to 100% of the difference. Municipalities whose expenditures are higher than the national average receive 50% of the difference.
- A small share of transfers is made up of **earmarked grants for capital expenditure**, which can be disbursed for both local and delegated activities. The total amount of the investment grant is determined annually in the state budget laws (8% of all transfers). Its allocation is based on objective criteria – number of inhabitants, number of settlements and surface area, to name a few. Since 2007, these transfers have mainly been used for rebuilding municipal roads and streets. Bulgarian municipalities have also received nearly EUR 4 billion in grants from the EU to improve their environmental, social and technical infrastructure (municipalities receive up to 60% of the EU funds allocated to Bulgaria).

In addition to these three major grants, the Public Finance Act also allows for other earmarked expenditures and financial compensation by the state. The NAMRB plays an important role in negotiating standards, allocation mechanisms and annual levels with the Local Government Financing Directorate at the Ministry of Finance.

Source: OECD/UCLG (2019^[78]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>; Nenkova, P. (2014^[3]), "Fiscal decentralization and local finance reforms in Bulgaria: A review of ten years' experience", <http://dx.doi.org/10.5901/mjss.2014.v5n23p342>; Geißler, R., G. Hammerschmid and C. Raffer (2019^[79]), *Local Finance in Europe - Country Reports*, BertelsmannStiftung & Hertie School; Nenkova, P. (2019^[80]), "An analysis of equalizing capacity of state transfers for local government activities in Bulgaria", *Economics Alternatives* 4, pp. 627-640; NALAS (2018^[45]), *Fiscal Decentralisation for South-East Europe*, http://www.nalas.eu/Publications/Books/FDReport_18.

Figure 3.17. The majority of transfers are for delegated functions

Note: The 0.1% of transfers for delegated services for economic activities is only allocated to Beloslav Municipality.

Source: Ministry of Finance of Bulgaria (2020^[81]), *State Budget Law for 2020*, <https://www.minfin.bg/bg/97>.

These earmarked grants are associated with guidelines, norms and strict controls. In addition to limiting local autonomy, micromanaging at the central level via earmarked transfers impedes the effective use of the funds, especially when norms and controls are excessive. These earmarked funding may also not adapt to local circumstances, i.e. not taking into account the regional disparities (NALAS, 2018^[45]). The earmarked and ad hoc nature of the investment grants also makes this transfer highly volatile and thus municipalities are not able to incorporate these resources into long-term investment planning. Many municipalities often increase their investment due to the additional funds received that are made on a provisional and discretionary basis. Such a piecemeal approach prevents municipalities from financing integrated local development programmes and co-ordinating different sub-projects, and significantly reduces the stability of public investment.

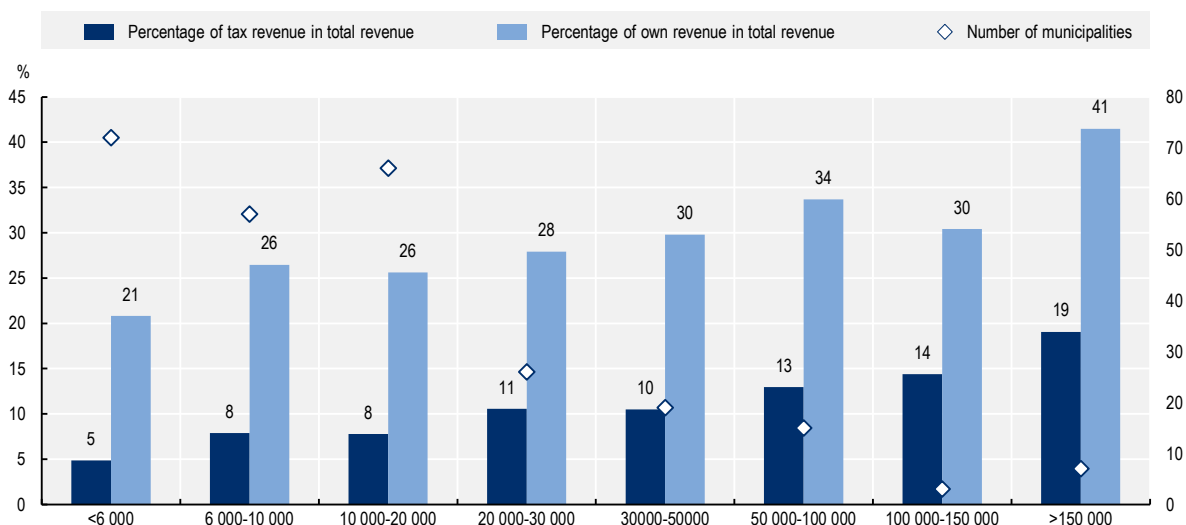
Some improvements to intergovernmental transfers have recently been made. For example, since 2018, the unused funds from the central government transfers can be used for capital expenses in their corresponding function/sector (e.g. education, transport, etc.), as long as this is not contradictory to the conditions defined in the legal act. However, some stakeholders stated that changes to the allocation methodology were made without consultation with the NAMRB and several municipalities are not satisfied with the adjustments.

The share of own-revenue in municipal revenue is small and mainly composed of non-tax revenues

The share of own-revenues in municipal revenue has increased very slightly since 2008 to 32% of municipal revenues in 2018 (see above Figure 3.16). User charges, fees and property income account for almost 60% of municipal own-revenue while tax revenues account for the remaining part. However, these averages hide significant disparities amongst municipalities. Only a small number of municipalities enjoy a relatively high level of own revenues i.e. tax and non-tax revenues. Figure 3.18 reveals that larger municipalities receive a larger portion of their income from local taxes and fees, whereas smaller municipalities depend heavily on state budget subsidies and other grants. In addition, larger municipalities also tend to have a higher share of local taxes than fees in their own revenues.

Figure 3.18. Small municipalities have a lower share of own revenues and tax revenues than larger ones

The average percentage of tax revenue and own revenue in total revenue, by different sized municipalities, 2018



Source: OECD elaboration based NAMRB (2020_[49]), *Internet Platform for Local Finance (database)*, <http://www.namrb.obuchi-se.org/norway/bg-%D0%BF%D1%80%D0%B8%D1%85%D0%BE%D0%B4%D0%B8.aspx> and NSI (2020_[82]), *Population by Districts, Municipalities, Place of Residence and Sex*, <https://www.nsi.bg/en/content/6704/population-districts-municipalities-place-residence-and-sex>.

Municipality size, however, is not the only criteria. Some municipalities along the Black Sea Coast and in the mountainous areas, such as Mirkovo, Nesebar, Primorsko, Sozopol and Tsarevo, stand out for strikingly high proportions of own-revenue in their total revenue, over 60%, even more than that of Stolitchna municipality (Sofia). Except for Mirkovo, which is located in the Sofia district, these are all major seaside resort cities, comprising between 2 400 to 27 000 inhabitants, that benefit from a very dynamic economic development and real estate market. By contrast, studies confirm that municipalities under 10 000 inhabitants (103 municipalities) are unable to conduct effective local development policy if they purely rely on own revenues (i.e. without central government transfers) (Houbenova-Delisivkova, 2017_[55]).

User charges, fees and property income: A relatively significant source of revenues

Municipalities have more autonomy regarding setting user charges and fees compared to taxes. Since 2003, the Local Taxes and Fees Act assigns full legal rights to the municipal council to set the base and size of local fees by application of the cost-recovery principle. However, revenues generated by fees (35% of municipal own revenue) are less “flexible” compared to tax revenues, as they cannot be used to finance local capital expenditure (Kalcheva and Nenkova, 2019_[47]). In addition, according to experts, the fee in many cases does not cover the actual cost of the service provided (Geißler, Hammerschmid and Raffer, 2019_[79]). Waste fees represent the biggest relative share of user fees (72% of municipal fee receipts) over which municipalities have full autonomy to set the rate and base by municipal order. Other fees include water tariffs (set by the central regulation with municipalities having little discretionary power) as well as kindergarten fees, retail and wholesale markets, fairs, specialised social services institutions, technical and administrative services, dog ownership and the use of sidewalks, squares and roadways.

Property income accounts for 23% of municipal own revenue, which is high by international comparison. They are composed of revenues coming from the sale and management of municipal properties, fines, penalties, dividends from municipal enterprises and revenues from concession contracts. Over the years,

local governments have sold property largely to balance their cash flows (Nenkova, 2014^[3]; OECD/UCLG, 2019^[78]).

Tax revenue is low, with structural deficiencies in the local tax system

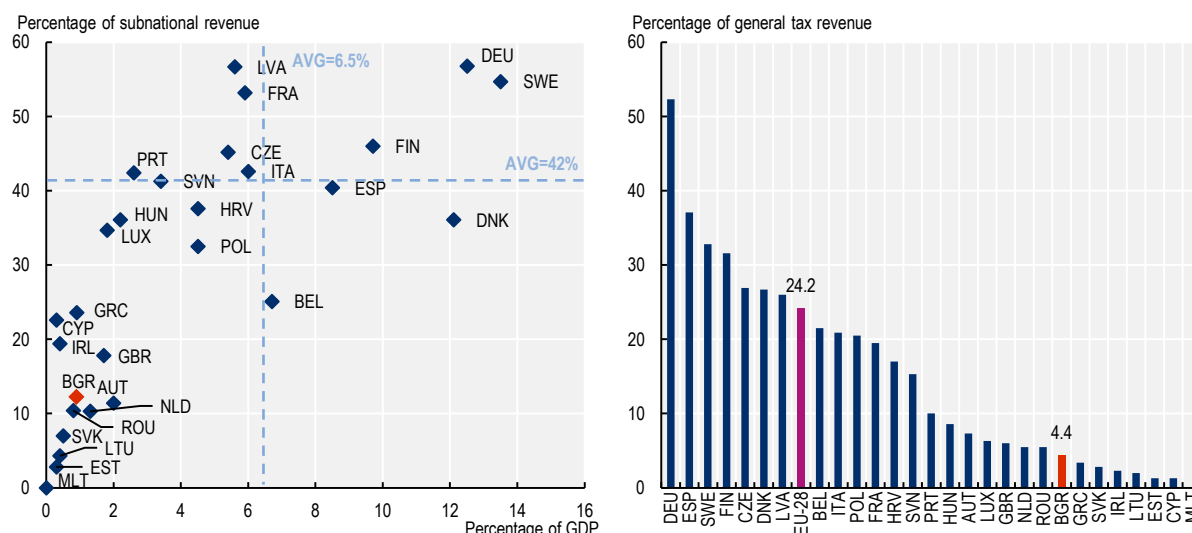
The structure of tax revenue has significantly changed since the 2003 and 2007 fiscal reforms, which abolished the tax sharing arrangements to replace them by sectoral block grants (see above) but also by own-source taxes. Since then, municipalities generate tax revenue exclusively from local taxes, which is a rare feature in the EU and OECD where subnational governments largely receive revenues from shared taxes or surcharges on national taxes.

While providing taxing power to municipalities represents great progress towards fiscal autonomy, this has not improved the fiscal situation of municipalities as revenues generated by local taxes have remained low since the reform (see above Figure 3.16). In addition, the taxing power of municipalities remains constrained. Municipalities can set tax rates but only within legally predetermined brackets. Furthermore, local governments cannot set the local tax base, nor do they have the right to modify or create taxes or to provide additional (or remove existing) legal tax breaks for certain taxpayers (Stoilova, 2013^[83]). However, it is also reported that not all municipalities realise the full potential of their existing taxing power. For example, they rarely increase rates up to the maximum allowable limit and since increasing tax rates is rather unpopular, some municipalities have barely raised rates since 2008 (Geißler, Hammerschmid and Raffer, 2019^[79]).

Finally, while decentralising local tax collection in 2006 was a first step towards improved efficiency in Bulgaria (with tax revenues increasing between 2005 and 2007), local tax collection performance still faces three main challenges: the administrative burdens embedded in the local tax system, the weak capacity of local administration for effective tax collection, including a lack of technological tools (IT systems, e-Government – to date, electronic payment only exists in around half of all municipalities) and the expensive administrative costs, especially for small municipalities with limited capacity. Some municipalities try to address this capacity deficiency by outsourcing the collection of some local taxes to concessionaires. Moreover, as municipalities are not able to perform a forced collection of unpaid voluntary tax liabilities for local taxes, they struggle to collect unpaid taxes. Therefore, there remains significant room to reach a higher local tax collection rate. In 2018, the average collection rate of local taxes was slightly above 70%, and mainly for the collection of property and transport vehicle taxes (NALAS, 2018^[45]). There are municipalities where local tax collection is between 20%-30% of total possible tax revenue.

In 2018, tax revenues accounted for around 12% of local government revenue (versus 42% in the EU on average), 0.9% of GDP (versus 6.5% in the EU) and 4.4% of public tax revenues (versus 24.2% in the EU) (Figure 3.19). It is important to note, however, that in many other countries subnational tax revenue includes both local taxes and shared taxes.

Figure 3.19. Subnational government tax revenue in EU-28 countries, 2018

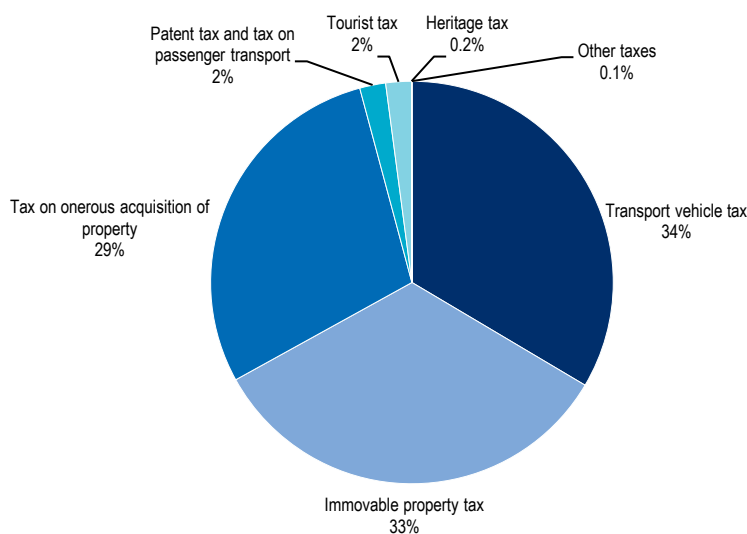


Source: OECD (2019^[7]), *Key Data on Local and Regional Governments in the European Union (brochure)*, https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf.

As outlined above, there are substantial disparities among municipalities regarding the level of local tax revenue. In 2018, the average local tax revenue per capita in Bulgaria was BGN 139. However, 240 municipalities (90%) are below this average, meaning only 25 municipalities perform above average. In around three-quarters of municipalities, tax revenue accounts for less than 30% of their total municipal revenue – this ratio is below 10% in 8 municipalities (see above Figure 3.18).

Out of 8 categories of local taxes, only 3 are significant, accounting for 96% of all municipal tax revenues in 2018 and 11.5% of total municipal revenues from all sources. These three taxes (transport vehicle tax, immovable property tax and property transaction tax) are all related to property and have about the same weight in municipal tax revenues (Figure 3.20).

Receipts from vehicle taxes, the leading local tax accounting for 34% of local tax revenues, have been steadily rising over the years due to enhanced revenue collection, increases in tax rates and fewer exemptions. In 2019, a new method for determining the tax on light vehicles and trucks was introduced into the Local Taxes and Fees Act and is expected to increase municipal tax and fee revenue by BGN 20 million (0.02% of the projected GDP).

Figure 3.20. Share of different local taxes, 2018

Source: Provided by the Ministry of Regional Development and Public Works in the OECD questionnaire prepared for this multi-level governance review.

The immovable property tax on land and buildings is the second most important tax for municipalities (33% of total local tax revenues). It ensures steady receipts which continue to grow over the years. Following a 2006 reform, the tax is no longer based on the assessed value of the property and, since a 2011 reform expanded the tax base, municipalities now have the ability to tax the higher value/real value in a property value assessment, instead of using the book value (historical price) as was done previously. Despite these reforms, this revenue stream remains low. Property tax rates are determined by an Ordinance of the Municipal Council within the range of 0.1 to 4.5 per thousand of the tax value of the immovable property. Other deficiencies limit the efficiency of this revenue source. In 2016, the immovable property tax accounted for 0.3% of GDP compared to 1.1% in the OECD on average. In countries like Canada, France, the United Kingdom or the United States, property taxes reach between 2.5% and 3.5% of GDP (Box 3.10).

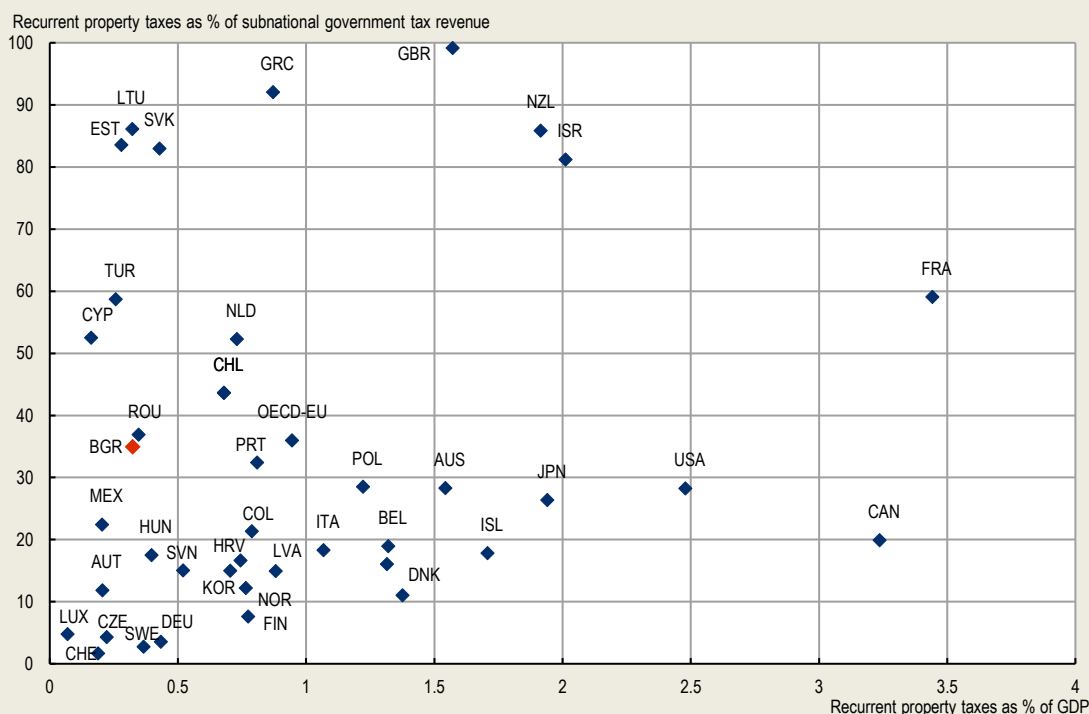
The property transactions tax revenue represents a similar share of 29% of local tax revenues but this tax is volatile, subject to economic fluctuations and difficult to manage at the local level. Rate increases tend to discourage transactions that would allocate properties more efficiently and may have a negative impact on labour mobility.

In general, the remaining categories of taxes account for a negligible proportion of total local tax revenue, with some exemptions being the tourist tax and the taxi passenger transport tax in large municipalities and those with strong tourism sectors (NALAS, 2018^[45]).

Box 3.10. International comparison of immovable property tax in subnational governments

Although being a local tax “par excellence”, the significance of recurrent taxes on property in subnational tax revenue and GDP remains modest. There is considerable variation across countries, with immovable property tax representing between 90% and 100% of local tax revenue in Australia, Ireland, Israel, New Zealand and the United Kingdom, which are mostly Anglo-Saxon countries. At the other end of the spectrum, it is a minor local tax revenue source in Nordic countries, Luxembourg and Switzerland (Figure 3.21).

Figure 3.21. Subnational government recurrent property taxes as a percentage of GDP and percentage of total subnational government tax revenue in EU and OECD, 2016



Source: Authors' elaboration based on OECD/UCLG (2019^[78]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>.

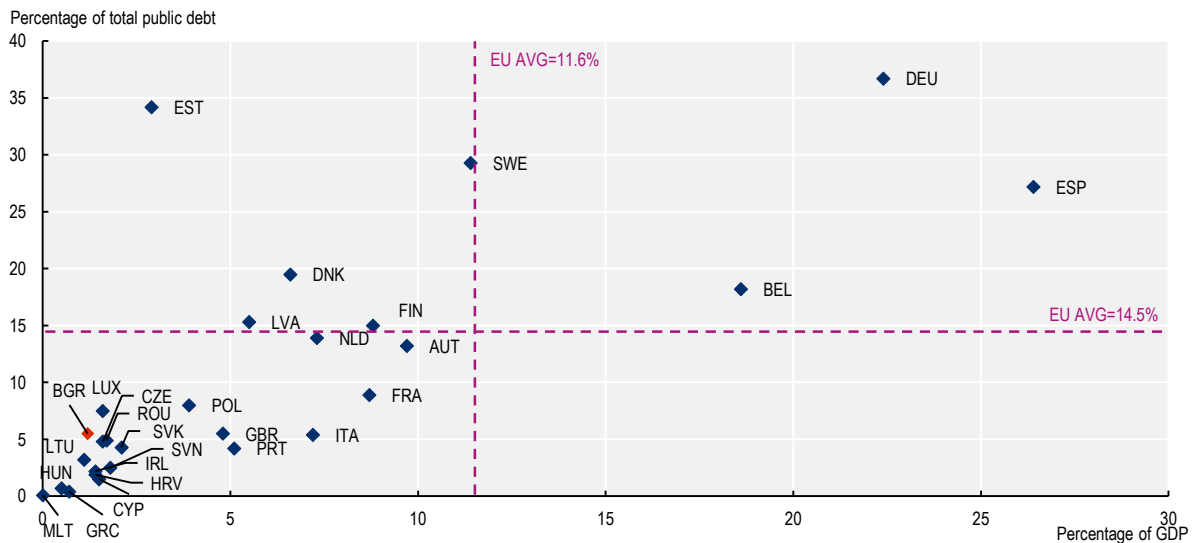
Municipal borrowing is low and constrained by fiscal capacity and debt rules

Despite a substantial increase in municipal debt in the past two decades, largely driven by the 2008 global crisis and the creation of the Fund for Local Authorities and Governments in Bulgaria (FLAG) to support local government absorption of EU funds (Box 3.11), the level of local government debt remains moderate by international standards. In 2018, the local government debt accounted for 1.2% of GDP and 5.5% of total public debt, well below the respective EU averages of 11.6% and 14.5% (Figure 3.22).

Bulgarian municipalities can tap into the credit and capital markets by issuing bonds, without prior authorisation from the central government. Although, as in many other EU unitary countries, loans remain the dominant credit instrument. In 2018, almost 90% of the outstanding financial debt was composed of loans. Municipalities can also borrow through financial leasing, for example, leasing a fleet of government

vehicles or waste collection equipment. Municipalities can borrow from commercial banks and foreign creditors but also from the Fund for Local Authorities and Governments in Bulgaria (FLAG), from the central budget through interest-free loans and from special sectoral funds created by the central government such as Enterprise for Management of Environmental Protection Activities (EMEPA) and the Energy Efficiency and Renewable Sources Fund (EERSF) (i.e. for environment and energy efficiency). The latter are targeted at municipalities with weak financial capacity but also groups of municipalities. In 2014, FLAG borrowing accounted for 41% of the municipal debt (Kalcheva, 2015^[84]).

Figure 3.22. Subnational government debt in EU-28 countries, 2018



Source: OECD (2019^[7]), *Key Data on Local and Regional Governments in the European Union (brochure)*, https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf.

Box 3.11. Fund for Local Authorities and Governments in Bulgaria (FLAG)

The Bulgarian government established the FLAG in 2007. Its mandate is to provide financial assistance to municipalities (and groups of municipalities) for the absorption of EU funds for municipal infrastructure and to support the required administrative capacity of municipalities for project development and implementation.

FLAG is an independent legal entity with the status of a joint-stock company that is fully owned by the state. To be able to finance projects, FLAG is assisted by a managing bank (UniCredit Bulbank). FLAG provides bridge financing in the form of low-interest loans only to “beneficiaries” that are eligible for EU funding – municipalities, groups of municipalities and public entities that are owned or controlled by municipalities. The loans provided by FLAG are repaid by municipal budgets as due debt. Between 2009 and 2016, FLAG provided loans with an aggregate value of over BGN 1 billion for 931 co-financing EU projects from municipalities. At the end of 2015, FLAG funding constitutes about 41% of the domestic municipal debt incurred through municipal loan contracts (debt paper).

On 17 January 2020, a memorandum of understanding was officially signed between the European Investment Bank (EIB), the Fund of Funds and FLAG, the purpose of which was to establish a Bulgarian Investment and Co-ordination Platform for Urban Development to support sustainable urban development projects in Bulgaria.

Source: FLAG (2020^[85]), “Additional funds mobilized for the development of Bulgarian cities”, <https://www.flag-bg.com/en/?cid=3&NewsId=132>.

Municipal debt in Bulgaria is very unevenly distributed. Large municipalities, which are in a good fiscal position with a high share of own revenue, financial assets and easier access to international creditors, represent the bulk of the municipal debt stock. By the end of 2015, the debt exposure of Stolitchna municipality (Sofia) was around 47% of total municipal debt, whereas Burgas, Plovdiv, Stara Zagora and Varna jointly accounted for another 25% of the total domestic municipal debt (Kalcheva, 2017^[86]).

This low level is the result of both the strict borrowing framework and the weak creditworthiness of a large number of municipalities. The first comprehensive borrowing framework for municipalities was established in 2005 with the adoption of the Municipal Debt Act. Short-term and long-term borrowing is permitted under some prudential rules: long-term borrowing is authorised only for investment projects (“golden rule”), refinancing of existing debt, ensuring payments required for municipal guarantees and municipal public-private partnerships projects (OECD/UCLG, 2019^[78]). The 2014 Public Finance Acts clarified the legal requirements regarding municipal debt and municipal guarantees. Municipalities’ annual debt payments must be lower than 15% of the annual average sum of their own revenues and the block equalising grant for the last 3 years. Article 94, paragraph 3, point 1 of the Public Finance Act regulates the allowable level of debt for expenditures and caps it at 15% of the average annual amount of reported expenditures for the previous 4 years which should not be exceeded (OECD, 2019^[87]). Additionally, the nominal value of municipal guarantees may not exceed 5% of the same amount (Ladner, Keuffer and Baldersheim, 2015, p. 120^[46]). The Local Government Financing Directorate of the Ministry of Finance maintains the Central Municipal Debt Register.

Despite sound fiscal conditions for the overall local government sector over the last year (local government balance accounted for only 0.1% of GDP in 2018), some municipalities are confronted with a difficult fiscal situation and weak creditworthiness. Creditworthiness depends on the municipality’s capacity to raise own-source revenues, on the stability, predictability and to some degree “unconditionality” of intergovernmental grants, as well as on the technical capacity to manage their debt. The majority of Bulgarian municipalities do not meet these criteria, in particular that of own-revenue. For many municipalities, debt financing is almost impossible or simply too risky. While bank loans remain the major financial instrument for public investment, financial institutions are often reluctant to lend to these municipalities with poor fiscal conditions.

The fiscal framework for municipalities is sound

Bulgaria has a strict fiscal framework for municipalities, which has been further strengthened by the 2014 Public Finance Act adopted to implement the EU Stability and Growth Pact in Bulgaria. It imposes a balanced budget on municipalities. The law also strengthened the medium-term budgetary framework (MTBF) and enforced fiscal discipline. Similarly, it also introduced a new fiscal rule determining that the average growth of local expenditure must not exceed the average growth rate of local expenditure as reported over the previous four years.

Compliance with the fiscal rules is monitored by the Ministry of Finance through a set of six indicators. If a municipality does not comply with at least three indicators, it is considered in financial difficulty and put under a programme aimed at restoring local financial soundness. An unbalanced budget three years in a row, for example, counts as one of the six criteria as well as a high level of indebtedness or a low rate of own-revenue collection. Municipalities cannot officially declare bankruptcy. Instead, per the 2014 Public Finance Act, they are placed under a fiscal recovery programme established by the Ministry of Finance in 2016. By March 2019, 17 municipalities were part of the programme versus 32 when it started (Box 3.12).

Box 3.12. Recovery programme for municipalities in financial difficulties

In the post-crisis period, as part of the implementation of the stricter EU legal framework for fiscal discipline, the Bulgarian government adopted the Amending and Supplementing Act of the Public Finance Act. The act identified the need to take action to set the municipality budget position in accordance with national fiscal requirements.

The Ministry of Finance introduced the financial recovery programme for municipalities in financial trouble. Municipalities identified as being in financial distress according to a set of fiscal indicators (debt, compliance with fiscal rules, own-source tax revenue collection rate, expenditure commitments, budget balance, indicators of financial independence, sustainability and efficiency, etc.) are put under strict monitoring for the execution of their budgets. The plans include measures to increase the financial sustainability and stability of municipalities under monitoring by optimising municipal expenditure, increasing the revenue collection rate, decreasing and liquidating overdue obligations, and reducing the municipal budget deficit. The programme also provides participants with access to interest-free loans and additional subsidies from the central government.

At the beginning of March 2019, 17 municipalities were classified as being in financial difficulty versus 13 municipalities in 2018. Four municipalities were removed from the list from 2018 to 2019, while eight were added in 2019. Seven municipalities have consistently been in financial difficulty, remaining on the list from 2016 until 2019.

Source: Ministry of Finance of Bulgaria (2019^[88]), *Convergence Programme 2019-2020*, <https://www.minfin.bg/en/868>.

Within the past several years, Bulgaria has made substantial progress in strengthening its accountability systems. This effort has included enhancing public accounting, restructuring the internal audit system and improving external auditing through the establishment of the NAO (Hawkesworth et al., 2009^[89]). At the municipal level, internal audits are made by municipal auditors. Municipalities, in particular smaller ones that do not have their own unit for internal auditing, can also hire private auditors. For large municipalities with budgets exceeding BGN 10 million (EUR 5 million), the external control over the implementation of the budget and other public resources rests with the Ministry of Finance and the NAO. According to the Bulgarian Law on Internal Audit in the Public Sector, these large municipalities must establish a unit for internal audits. Smaller municipalities with lower budgets do not have to be audited annually; audit dates are specified by the NAO or based on a risk assessment. These small municipalities may also establish mutual auditing units with neighbouring municipalities (Geißler, Hammerschmid and Raffer, 2019^[79]). The NAO conducts three types of audits: financial, compliance and performance. Recent NAO performance audits include one audit entitled the “Optimisation of the transport connectivity among districts of the Northwest region for the period 2014-2016”, and another on the “Conditions for balanced and sustainable regional development for the period 2012-2016” (NAO, 2019^[51]). In addition, the State Financial Inspection Agency and the Agency for Public Procurements perform regular audits and surveys.

Diagnosing regional governance for regional development

An effective intermediate level between the central and municipal levels is missing in Bulgaria. In practice, there are several actors responsible for implementing national and sectoral policies at the territorial level, including the 28 districts and the 6 planning regions, as well as the numerous territorial units and directorates of line ministries and national agencies. These “regional” actors however do not participate in designing or implementing actual regional development policies for the country; rather, this mandate mainly

falls on the Ministry of Regional Development and Public Works. Ultimately, a fit-for-purpose and robust regional governance structure is not in place to enable a place-based regional development policy. This section diagnoses the challenges in public administration at the district and the regional planning levels in Bulgaria. The current regional governance model is not conducive to effective regional policy. Districts lack resources, capacities and authority to carry out their functions and implement regional policy, which should be one of their main functions. Planning regions have no legal personality and therefore are not equipped to develop regional development policies.

Districts lack resources, capacities and authority to carry out their functions and implement regional policy

On paper, districts are a key component of the state territorial administration

Districts are an administrative territorial unit recognised in the 1991 Constitution as representing the central government at the regional level (NUTS 3). According to Article 142 of the constitution, districts are in charge of regional policy, implementing state governance at the local level and ensuring the alignment between national and local interests.

They are headed by a governor appointed by the CoM, who is supported by a deconcentrated administration. Therefore, district governors ensure the implementation of the state's policy, the safeguarding of national interests, law and public order, the management of state property located in the regional territory, and administrative control, i.e. the monitoring of the compliance of municipal decisions with the law as well as the control of acts and actions of other governmental entities located in the region. The administrative control of municipal acts is a strict control of legality (and not of appropriateness or efficiency) and can be done only when it is authorised by law, as it is the norm in decentralised systems. Beyond this control function, districts have played an important role as “mediators” between the central and local governments since 1999 (Stoilova, 2007^[4]). District governors also have specific tasks assigned under sectoral acts, such as the control over water infrastructure or dams.

Although being a state deconcentrated administration, each district also contains a deliberative organ, the district development council (DDC), whose main responsibility is regional development, according to the 1999 Regional Development Act. DDCs are in charge of several tasks related to the regional plan for the spatial development of the district, the district development strategy and the co-ordination of municipal initiatives, including their financing. DDCs can also sign co-operation agreements with other districts inside or outside Bulgaria, for carrying out joint activities in the area of regional development and territorial co-operation. Thus, they play an important role in cross-border co-operation (Troeva, 2016^[90]).

Chaired by the district governor, DDCs are comprised of the mayors of all municipalities within the respective district, representatives of the municipal councils and representatives of organisations of employers and employees. The heads of the regional units of the Ministry of Regional Development and Public Works (MRDPW) (based in planning regions) also participate as members of DDCs with voting rights in the discussion of issues related to their mandate.

In practice, districts have insufficient human and financial resources to fulfil their mandates

Districts do not have sufficient authority, human capital and financial resources to carry out their mandated responsibilities, which include: implementing regional policies, designing development plans, co-ordinating line ministries' work at the district level, controlling municipalities' work and conciliating national and local interests. The current level of human resources in districts is far from adequate. District staff account for around 1% of all government employees – around 1 050 employees for all 28 districts or roughly 35 staff in each administration. In fact, all districts are below this average, except for Burgas, Plovdiv, Sofia (capital) district, Sofia district and Varna, which have between 43 and 58 employees (IISDA, 2020^[91]). Even though the districts co-ordinate national and local interests, they do not perform executive functions.

The district budget is very small, on a relative scale, as it is a second-level spending unit under the budget of the CoM, accounting for only 0.1% of the consolidated public expenditures and 0.04% of GDP. In some cases, district administrations can pool resources from the municipal budget, EU funds and international assistance, which in itself can be administratively demanding and yet, this additional funding is still far from being sufficient to finance their activities (NAO, 2019^[17]).

Districts cannot be considered as leaders or “engines” of regional development policy

The DDCs are also unable to effectively carry out their numerous tasks related to regional development. Besides a lack of resources, there are also organisational problems. Not all districts have adopted internal rules for the organisation of the DDCs’ work to ensure the correct, timely and effective implementation of their activities beyond the basic national legislative requirements. Additionally, not all DDCs take the opportunity, provided by the law, to set up permanent or temporary committees to further incorporate expertise and support the council’s work in a variety of areas, such as spatial development, spatial planning and construction, new technologies, transport and energy, tourism and environment, healthcare, education and labour market. These committees could be helpful for strengthening DDC administrative capacity, yet few DDCs have set them up. Finally, although DDCs are the ones responsible for designing district development plans, they do not implement or finance any programmes or projects. This disconnect prohibits the development of a realistic and robust regional development strategy for the district. To some extent, the district development plans are mainly an aggregation of municipal development plans. In the current programming period, DDCs play a negligible role in EU fund programming or implementation and it is very rare that districts are considered as eligible partners in the development of EU fund programmes or regional development policies. According to the latest amendments to the Regional Development Act in 2020 (see below), the district development strategies have been removed from the system of strategic documents (MRDPW, 2019^[92]).

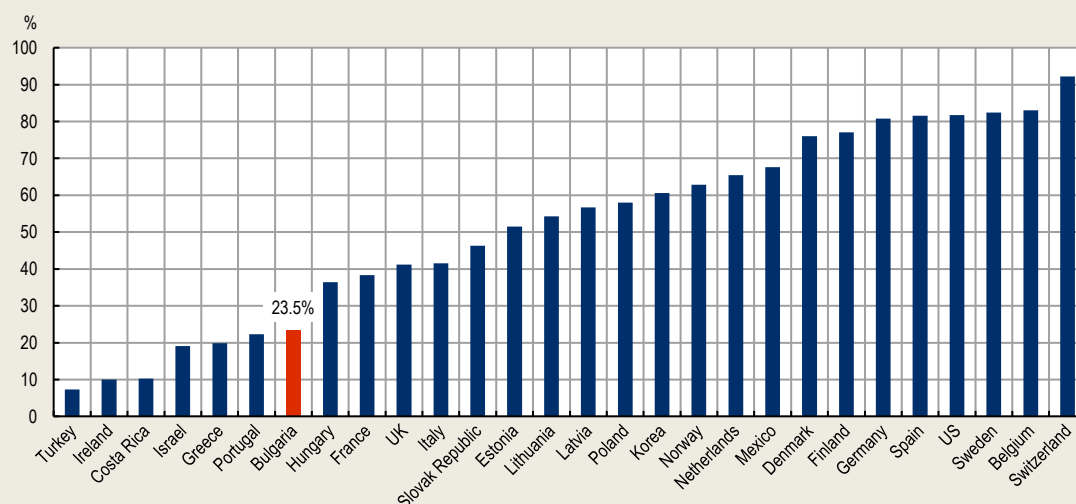
Districts lack the authority to fulfil their co-ordination role across and within levels of government

Districts are unable to properly fulfil their role of “vertical co-ordinator” or “mediator” between the central government and the municipalities. The main reason is that districts do not have authority over the deconcentrated territorial unit of line ministries and state agencies, making it impossible for them to fulfil their co-ordination function as set out by the constitution. These territorial units are more vertically tied and hierarchically subordinate to the line ministries and national agencies (Kalfova, 2019^[15]). Apart from the loophole in the authority hierarchy, the problem is also related to the absence of specific, clearly stated co-ordination mechanisms and procedures between district governors and territorial administrations.

Box 3.13. Public employment significantly concentrates at the central government level

By 2019, there were around 150 000 general government employees in Bulgaria, serving a total population of 7 million inhabitants. Seventy-six percent of them are employed at the central level, a significantly higher share than in many OECD countries (Figure 3.23). Among those employed at the central government level, around half are in the Ministry of Interior and the Ministry of Defence. The territorial level (deconcentrated and decentralised units) constitutes the remaining 24% with a great majority of them at the municipal level (23%, including sub-municipal administration). The district-level accounts for less than 1%, i.e. around 1 050 employees for 28 districts. This central-local distribution of public workforce in Bulgaria clearly demonstrates the high level of centralisation and the weaknesses of districts and has remained almost unchanged over the past decade (Figure 3.24).

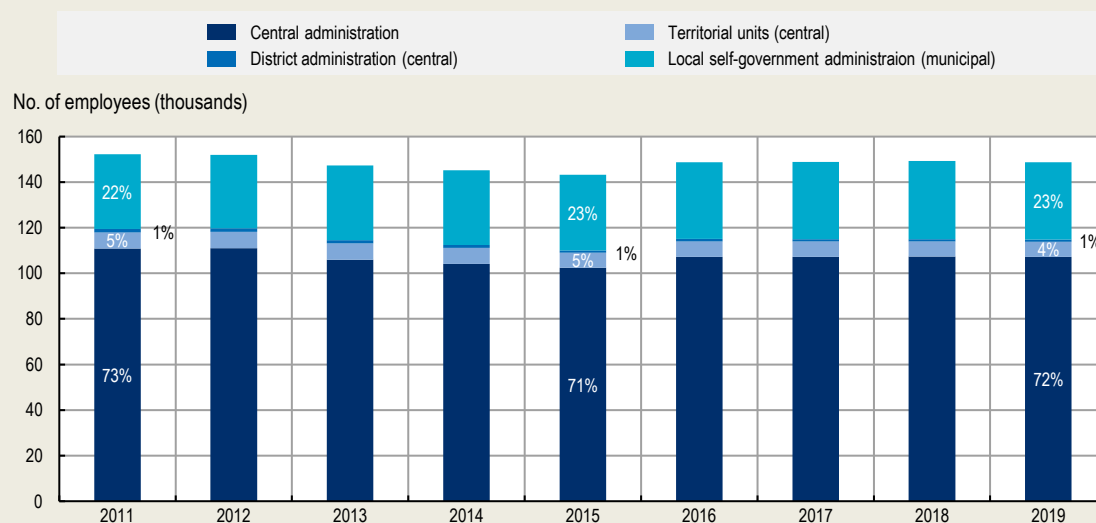
Figure 3.23. Share of sub-central government employment as a percentage of general government employment, 2017



Note: Sub-central government employment in Bulgaria comprises of district and municipal level administration.

Source: OECD (2019^[93]), *Government at a Glance 2019*, <https://dx.doi.org/10.1787/8ccf5c38-en>; IISDA (2020^[91]), *Homepage*, <http://iisda.government.bg/> for Bulgaria.

Figure 3.24. Breakdowns of general government employment in Bulgaria, 2011-19



Note: Central government data includes employees in the Ministry of Interior and the Ministry of Defence.

Source: IISDA (2020^[91]), *Homepage*, <http://iisda.government.bg/>; NSI (NSI, 2020^[94]), *Homepage*, National Statistical Institute of Bulgaria, <https://www.nsi.bg/en>.

This is also the result of a highly fragmented deconcentrated territorial administration. Currently, there is no legislation or regulation in place to regulate the establishment and structure of territorial deconcentrated bodies. As a result, the territorial scope of these structures is extremely diverse, with different administration statuses and territorial coverage that may or may not coincide with the territorial divisions

(e.g. 28 regional departments for the Ministry of Education, 16 Regional Inspectorates of the Environment, 28 Regional Health Inspectorates, 5 territorial directorates for the National Revenue Agency, etc.) (Kalfova, 2019^[15]). There are also around 190 special territorial units, which execute the functions of ministries and national agencies mostly at the district level, including overseeing national parks, water catchment areas, etc. Around 6 500 employees (4% of total public employees) work in 190 special territorial units under line ministries and executive agencies. This complexity entails huge difficulties for any kind of efforts aiming to mobilise and co-ordinate various ministries. This fragmentation also leads to the duplication and overlapping of functions that hinder the implementation of sectoral and horizontal policies at the regional level. A lack of political will has also been one of the major bottlenecks preventing the restructuring and enhancement of the state territorial unit system in the past two decades.

Planning regions are weak

The six planning regions were established by the 1999 Regional Development Act to create NUTS 2 statistical regions, access the EU funds and develop regional development policies. However, they do not have an administrative status and, therefore, they do not have the human and financial resources to carry out their functions. Similarly, they suffer from a lack of representativeness and legitimacy. Despite several regional development responsibilities, the planning regions mainly act as consultative bodies and “conduits” for regional planning and EU funds programming but with limited powers.

Planning regions are just territorial units, with low capacity and representativeness

Planning regions are just territorial units without an administrative status. They do not have their own budget nor do they manage a budget for regional policy implementation. Their operational funds are allocated from the budgets of the relevant district administrations chairing the council during the respective year to cover urgent operational needs. This budgetary method does not provide security or stability to the resource allocated to Regional Development Councils (RDCs) and makes it impossible to conduct multi-year planning, as funds remain highly insufficient. For example, according to the legislative framework, the RDCs should discuss and approve the draft of the regional spatial development scheme and regional development strategies. These obligations cannot be fulfilled, given that a minimum amount of merely BGN 10 000 was requested for the preparation of the regional spatial development schemes of the six planning regions. For comparison, the cost of developing the spatial development scheme for the Pleven District alone totalled BGN 243 600 (NAO, 2019^[17]).

Planning regions do not have their own administration or permanent staff nor do they exercise any administrative functions. The secretariat of each region is carried out by the central government (MRDPW), through its deconcentrated regional offices (Troeva, 2016^[90]). In addition to preparing and co-ordinating regional development plans and monitoring reports, regional offices also assist the MRDPW in its role as MA of OPRG 2014-20. However, the rules of procedure do not clearly specify the functions of regional offices.

The 2009 Regional Development Act introduced some governance tools, in particular, regional development councils (RDCs). RDC members are appointed by the central government and comprise representatives of almost all ministries, district governors of the region, representatives of municipalities and partner organisations of employers and employees. Municipal representatives are appointed by each district governor depending on the population of the district; it ranges from 2 representatives for districts below 200 000 inhabitants to 6 representatives for districts above 500 000 inhabitants. This composition further entrenches a centralised and siloed approach to regional policy design and development. Currently, RDC membership is dominated by representatives of the individual ministries. The quota-based system limits the representation of municipalities and is unfavourable to districts with small and rural municipalities, calling into question the representativeness and legitimacy of planning regions. Under the current system, municipalities do not feel included in the RDCs (NAO, 2019^[17]). Representatives of universities, research

organisations, natural persons and legal entities, and NGOs may attend the sessions but only in an advisory capacity at the invitation of the governor. This composition does not reflect an effort to open up the governance process, which would involve local government and other stakeholders for a place-based approach to regional development.

RDCs are chaired by a “rotating” governor, i.e. by one of the district governors on a rotational basis for a six-month period. In performing his/her functions, the governor is supported by a deputy chairperson, who is a representative of a municipality in the same district the RDC governor comes from. While having a rotating governor allows for equity between districts, it does not enable the design and implementation of any long-term policies. This instability is an obstacle to the development of a regional vision going beyond the interests of the district alone.

To help carry out the RDCs’ co-ordination function in the implementation of OPs, co-financed by EU funds, RDCs establish regional co-ordination committees. Chaired by the regional governor, they are composed of representatives of different bodies including RDCs, managing bodies of the OP, the central co-ordination unit of the administration of the CoM, and district governors. To reinforce its expertise and support its activities, RDCs can also set up specialised committees in the areas of public infrastructure, competitiveness, human resource development and environmental protection, however, not all the RDCs have exercised this right.

Planning regions are mainly consultative bodies

The main responsibilities of RDCs are to discuss and approve a series of regional documents, including regional development plans, regional spatial development schemes, regional strategies, resource support schemes and more. They are also in charge of discussing, approving, co-ordinating, monitoring and controlling the implementation of strategic and planning documents for regional development as well as assessing the impact of OPs co-financed by EU funds in the region. Furthermore, they discuss and co-ordinate the drafts of district development strategies included in their regional area as well as *ex ante*, interim and *ex post* evaluations. This provides an opportunity to co-ordinate actions and concentrate resources on the implementation of priorities that are common for several territorial communities (Troeva, 2016^[90]). However, with such a weak institutional and operational setup, planning regions play a limited role. They discuss and co-ordinate but cannot make decisions on the implementation of projects of regional and interregional importance. They perform a consultative role as decisions are taken at the central level, and for some areas, at the municipal level.

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Notes

¹ The partnership principle suggests that each programme be developed through a collective process involving authorities at the European, regional and local levels, social partners and civil society organisations. This partnership applies to all stages of the programming process, from design through to management, implementation, monitoring and evaluation. The principle is provided in Article 5 of the Common Provision Regulation.

² Within education spending, almost two-thirds were spent on secondary education.

³ 12% = (own revenues - expenditure for local responsibilities + capital transfers) / municipal revenues.

⁴ The 14 areas are: green system, cadastre, construction control, local taxes and fees, notary activities, civil registration and drafting, advertising, agriculture and ecology, social services, transport, trade and tourism, municipal property, spatial planning and legal issues.

⁵ LEADER: *Liaison Entre Actions pour le Développement de l'Economie Rurale* – Links between the rural economy and development actions.

⁶ According to the EU-OECD definition, an FUA consists of a cluster of local administrative units that are either part of a city or the commuting zones of that city. Local units in the commuting zones have at least 15% of their working population commuting to the city for work (Dijkstra, Poelman and Veneri, 2019^[95]). Metropolitan areas are FUAS of more 250 000 inhabitants. “Large metropolitan areas” have between 1 and 5 million inhabitants and “very large metropolitan areas” have more than 5 million (OECD/EC, 2020^[96]).

4 Avenues towards place-based regional policy and governance

To design and implement place-based regional development policies and ultimately reap positive regional development outcomes, Bulgaria needs to renew its multi-level governance model and establish effective co-ordination mechanisms across levels of government. This should be done by revisiting the current decentralisation strategy and reforming both municipal and regional governance systems. Reforming municipal governance involves enhancing intra-municipal decentralisation and civil society participation, generating more effective administrative decentralisation and horizontal co-operation and strengthening fiscal decentralisation and responsibility. To enhance regional governance, both the district level and the planning regions need to be considered, given the strong interconnections between the two layers. One approach is to reinforce the role of the districts as state territorial administration while enabling planning regions to become regional development bodies with a legal personality and adequate resources. Two potential models of regional organisation for planning regions are proposed based on a typology developed using examples from OECD and EU countries.

New impetus for renewed multi-level governance for regional development

Moving towards a place-based and integrated approach for regional development policy post-2020

For many European Union (EU) and OECD countries, continuous acute territorial disparities can have a destructive/detrimental impact on living standards and socio-economic growth within the country. It is crucial now to achieve a significant shift in the attitude, views and perspectives towards regional development by moving towards a place-based and integrated approach for regional policy for post-2020. Place-based policies are all the more important in light of growing public discontent with the economic, social and political status quo in many regions. Place-based policies will become even more important in the future due to several technological, demographic and environmental megatrends (OECD, 2019^[1]).

Bulgaria is gradually becoming aware of these issues. Based on the National Regional Development Strategy (NRDS) 2012-22 and the National Concept for Spatial Development (NCSD) 2013-25, there is a clear shift of the national regional development policy towards a more balanced territorial development. Amendments to the Regional Development Act in March 2020 are also a step in the right direction but their implementation – still under discussion and public consultation – will need to consolidate these positive orientations.

Bulgaria has defined new regional development priorities and regulations

For 2021-27, Bulgarian regional policy is evolving towards a more integrated and place-based approach. The objective is to create vital, economically strong and sustainable regions as a response to adverse demographic trends and deepening inter- and intra-regional disparities. The specific objectives include:

- Addressing negative demographic trends and reducing regional population disparities.
- Enhancing the economic growth of the Bulgarian regions.
- Promoting balanced territorial development through a polycentric network of cities and towns supported by integrated investments.

Bulgaria has taken several steps to improve its regional policy instruments. The Regional Development Act was amended in early 2020 to strengthen the importance of the territorial dimension of sectoral policies, improve cross-sectoral co-ordination, develop a polycentric model of hierarchical city centres and ensure the effective implementation of Integrated Territorial Investments (ITI) developed by the EU (EU, 2014^[2]).

The RDA contains three main improvements aimed at optimising strategic planning, improving the governance of regional and spatial development policy and effectively implementing ITI during the next programming period 2021-27:

- The number of levels of strategic planning for the regional policy has been reduced to three: national, regional (NUTS 2) and municipal. It means that the district level is no longer a regional planning level. Similarly, there are now only three types of planning documents: the National Regional/Spatial Development Concept; Integrated Territorial Strategies (ITS) for the development of the six NUTS 2 regions and the Integrated Municipal Development Plans (IMDPs). The first two are prepared at the national level while the IMDPs are prepared by the local authorities.
- Planning regions will play a stronger role in policy implementation. A restructuring of regional development councils (RDCs) is planned to reinforce their role. Furthermore, these new RDCs will be the territorial authorities responsible for the implementation of ITI and for the selection of projects to be financed from different financial sources, including European Structural and Investment Funds (ESIF).

- The ITS and IMDP should play the role of territorial strategies for the implementation of the new 2021-27 Programme for the “Development of the Regions” (PDR) which is currently under preparation and which will include integrated territorial development instruments.

The regulations for the implementation of the Regional Development Act came into force in August 2020. The new regulations are intended to ensure more clarity, better quality and enhanced co-ordination in the design and management of strategic planning documents, RDCs and ITS.

The draft 2021-27 Partnership Agreement and the new Programme for the “Development of the Regions” (PDR) promote a territorial approach

The draft Partnership Agreement for the 2021-27 programming period, as well as the new PDR 2021-27, are under preparation. The PDR will focus on Objective 5 of the New Cohesion Policy 2021-27 – “A Europe closer to the citizens”. The programme will include two dedicated priorities – one for integrated urban development and another one for integrated territorial development of the NUTS 2-level regions. Under the first priority, the PDR will support the ten largest urban municipalities (i.e. the growth centres) with infrastructure investment, development and maintenance. Key areas for investment include business and industrial activities, energy efficiency, sustainable urban mobility, green urban infrastructure, education infrastructure and municipal housing among others. Under the second priority, the other “smaller” municipalities will receive support for investments in similar areas: health and social infrastructure (e.g. day nurseries), educational infrastructure (e.g. kindergartens), cultural and sports infrastructure, housing and energy efficiency, etc.

The implementation of PDR 2021-27 is expected to adopt a mix of top-down and bottom-up approaches. Bottom-up as in the activities to be supported have to be pre-identified in the IMDPs and elaborated on by the local municipal authorities. Top-down refers to the measures tied to sectoral policies and which have to be based on the pre-mapping of needs at the national level by the state institutions and agencies responsible for the development of those policies. These measures will also need to be duly reflected within the integrated municipal development plans. In addition, the PDR will be implemented through integrated territorial development instruments, such as ITI, which aims to achieve a better investment focus, more effective and efficient interventions, enhanced cross-sectoral dialogue between different stakeholders and an integrated approach to regional development.

Regional development policy can benefit from decentralisation

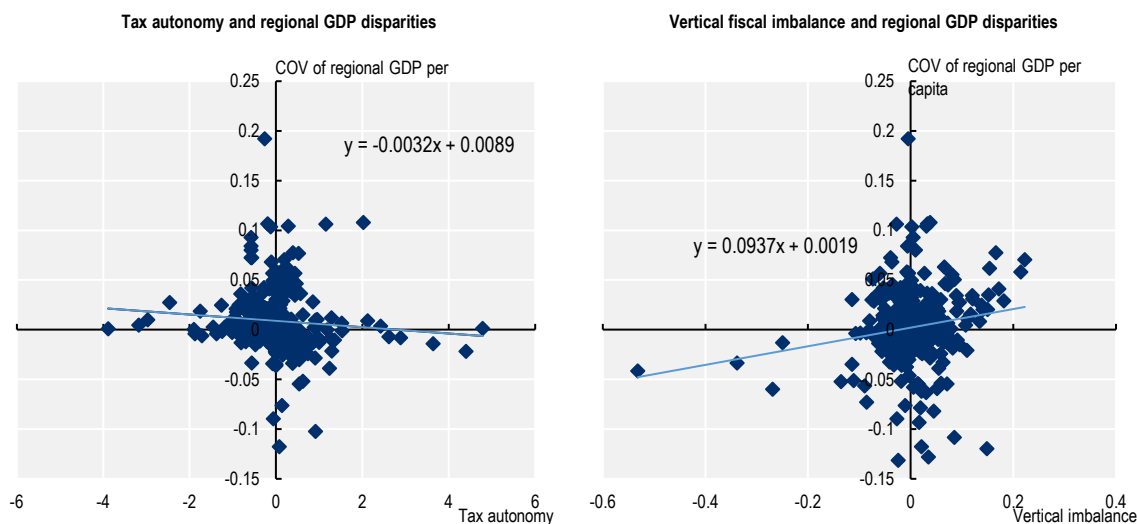
Making the most of decentralisation for regional development seems particularly crucial in the current context of growing “geography of discontent” and increasing divides between territories, in particular between places that have felt left behind by globalisation and technological change and those which have seized the opportunities offered by these megatrends. Subnational governments are the ones facing this discontent of their communities and they are also particularly well placed to act more effectively at the regional and local levels, in urban and rural areas, by identifying local comparative advantages and designing relevant development policies. But this implies that subnational governments enjoy some autonomy and capacity to act, including adequate clarification of responsibilities and resources.

While decentralisation is often associated with a more efficient provision of local public goods and services and a better match between policies and citizens’ preferences, there are concerns about whether all regions will gain from more autonomy thanks to decentralisation. Decentralisation may not lift all boats, with “poor” regions losing their ability to compete with better ones, thus increasing regional disparities. However, recent empirical evidence based on the analysis of taxing powers, spending autonomy and the vertical fiscal imbalance suggest that a balanced fiscal structure, where local spending is mainly financed by local taxation, reduces regional disparities, by providing an incentive to better use local resources and implement policies that favour economic development (Bartolini, Stossberg and Blöchliger, 2016^[3]). Therefore, revenue decentralisation seems to be associated with smaller regional economic disparities

and to spur growth and convergence dynamics in poorer regions (Figure 4.1). Similarly, decentralisation has been found to reduce disparities in a sample of EU countries (Ezcurra and Pascual, 2008^[4]). Regionalisation may as well correct inter-regional disparities and give local actors the means to implement better regional development policies, such as, in EU countries, the ability to manage EU funds (OECD, 2020^[5]).

To mobilise the regional productivity catch-up potential as well as to ensure that growth and productivity will be more balanced and inclusive across the territory, an efficient multi-level governance system is therefore required, based on an enhanced role for subnational governments, especially the regions, capable to design and implement context-sensitive interventions (OECD, 2017^[6]).

Figure 4.1. Tax autonomy and balanced fiscal decentralisation tend to be associated with lower disparities



Note: The sample covers 20 OECD countries (19 for tax autonomy) and the years 1995 to 2011. Each point reflects the coefficient of variation of regional gross domestic product (GDP) per capita in one country in one year. The lines indicate the results of a bivariate Ordinary Least Squares (OLS) regression. Variables are normalised using the respective country means to net out differences between countries that are persistent over time.

Source: Blöchliger, H., D. Bartolini and S. Stossberg (2016^[7]), "Fiscal Decentralisation and Regional Disparities", <https://doi.org/10.1787/5f1pq7v3j237-en>.

Updating the 2016-25 decentralisation strategy

The lack of progress in Bulgaria's decentralisation process calls for updating the current decentralisation strategy and preparing a new programme for 2021-25. The update should focus not only on the content of the strategy but also on its method. Regarding the method, the update should take into consideration the difficulties encountered in implementing previously planned measures (see Chapter 3). These difficulties have been already been well highlighted in the "analytical part" of the 2016-25 strategy, which underlined that they were often more political than technical in nature. These challenges remain highly relevant and should be effectively addressed as preconditions to ensure the success of the implementation of the updated decentralisation strategy. Designing a "good reform" is not sufficient as it may not, or only partly, be implemented in practice.

Regarding the content, it is proposed to revise the current strategy and prepare a new programme for 2021-25. It is necessary to implement measures which were planned in the 2016-19 programme. Decentralisation and regionalisation should be better linked through enhancing the regional approach and

thus better interconnecting and “bundling” the municipal and regional dimensions of the strategy. In addition, it is necessary to implement measures which were planned in the 2016-19 programme and include further measures to strengthen political, administrative and fiscal decentralisation and to reorganise regional governance in such a way that ensures good governance and effective regional development.

On the method: Preparing an implementation strategy based on dialogue, monitoring and experimentation

Beyond the decentralisation strategy itself, it is necessary to pay special attention to the implementation process. How reforms are implemented is as crucial as the nature of the reforms themselves. Based on this perspective, an implementation strategy should be prepared that identifies the necessary steps for the successful execution of the reform. There are potential strategic levers for policymakers planning to introduce multi-level governance reforms with some chance of success. These are:

- Developing an informed dialogue with key stakeholders involved in the reform.
- Establishing a multi-level governance “forum” for decentralisation and regionalisation.
- Developing effective tools for monitoring and assessing the implementation of the reform.
- Conducting pilot programmes and experiments to demonstrate the effectiveness of the reforms and to pave the way for change on a larger scale.

Developing an informed dialogue on decentralisation and regionalisation at the national, regional and local levels

It is uncertain as to whether the decentralisation and regionalisation topic has been sufficiently debated amongst Bulgarian politicians and civil society. Opposition can be overcome and support gained through the development of a multi-level co-operation culture and practice, based on wide-reaching consultations, discussions and negotiations. Without a common vision shared by all stakeholders, decentralisation and regionalisation become secondary priorities or simply an instrumental position and thus not implemented. All stakeholders must reach, and share, a deep understanding and consensus on decentralisation and regionalisation.

In particular, the benefits of decentralisation and regionalisation for Bulgaria should be better explained to the different stakeholders in Bulgaria. There is still plenty of resistance that needs to be overcome by evidence and dialogue. Of course, this is not an easy thing to do as decentralisation is first and foremost a political issue, often criticised from different parts of society. It often has both fervent supporters and detractors. But it should be argued that the question is not whether decentralisation is good or bad in itself but that decentralisation outcomes – in terms of democracy, good governance, efficiency and accountability, regional and local development – depend greatly on the way decentralisation is designed and implemented. Therefore, the government should present evidence on the benefits of decentralisation and regionalisation without minimising the risks (Box 4.1).

In the case of Bulgaria, policy tools could be used to bring more objectivity to the debate and to foster a dialogue among politicians and civil society. An in-depth analysis of the rationale and effects of decentralisation and regionalisation is needed and an objective and pragmatic approach should be considered. To gain support from civil society, it is necessary to listen to their views. From this perspective, public debates and consultation mechanisms could be mobilised, such as roadshows, consultation roundtables, conferences and virtual communication tools including Internet tools, virtual events, etc. Several countries also privilege a “white paper process”, such as Australia, Ireland or the United Kingdom (England). Poland for example has been an exemplar in the way it conducted its multi-level governance reforms through intense public discussions which were held before the adoption of the law. These discussions marked an important period of extensive democratic debate, whereby all stakeholders were invited to the proceedings to share their views on the law. This occasion was an interesting opportunity to

hear the ideas and visions that local citizens had for their region and to see how the memories of ancient regional administrative divisions remain (OECD, 2020^[5]).

Box 4.1. Benefits and challenges of decentralisation

Decentralisation should not be considered a panacea for any type of problem a country may face, nor should it be seen as an objective in and of itself. Rather it is a means to achieve certain goals (OECD, 2017^[8]; 2019^[9]). The three most common arguments made by proponents of decentralisation reforms are that it enhances stability, local democracy and citizen participation, and it promotes economic development. In particular, decentralisation is presented as a way of: attaining a more efficient use of public resources; increasing spending effectiveness; improving efficiency and equity in public service provision and access; tailoring policies to local contexts and population needs; reducing regional disparities; and boosting regional development (see also above). On the more negative side, as with any kind of reform, there are also some risks and challenges associated with decentralisation which need to be properly addressed. Some of these challenges relate to decentralisation in general but problems may also arise because of partial or unbalanced implementation of decentralisation reforms (Table 4.1).

Table 4.1. Benefits and challenges of decentralisation

Benefits	Challenges
Economic and administrative effects	
<ul style="list-style-type: none"> - <i>Allocative efficiency</i>: Services are aligned with local demand, provided that subnational governments (SNGs) have adequate spending autonomy. - <i>The efficiency of public service provision</i>: SNGs have better information on local circumstances and conditions. This enables cost-efficient service provision. - <i>Service quality and availability</i>: Yardstick competition incentivises local elected decision-makers to focus on high-quality service delivery at a reasonable cost. - <i>Innovation and experimentation</i>: A higher number of jurisdictions combined with local autonomy facilitate local experimentation and promote policy innovation, which benefits all tiers of government. - <i>Fiscal responsibility</i>: Spending and revenue autonomy of SNGs limits spending growth, which contributes to lower tax rates. Local taxing rights with a considerable share of spending financed from own-revenue sources limits risks for overspending. - <i>More efficient revenue collection</i>: Mobilisation of local resources in the case of taxing power decentralisation. - <i>Economic growth</i>: Decentralisation contributes to better public services through competition and accountability. This can have a positive effect on the economic growth and well-being of the population. - <i>Regional convergence</i>: Decentralisation can help lagging regions to catch up. 	<ul style="list-style-type: none"> - <i>Benefit spill-overs</i>: With a large number of small SNGs, externality problems may intensify. To solve this, extensive equalisation/transfer systems may be needed, which can make the funding system complex. - <i>Diseconomies of scale</i>: If SNGs are unable to co-operate and if they are not allowed to outsource service production, inefficient service provision may result due to the small scale. - <i>Overlapping responsibilities</i>: Unless proper assignment of functions is ensured, administrative costs and waste may result from duplication of services. - <i>Lack of capacities</i>: Adequate human and technical capacity is a prerequisite for successful decentralisation. Without sufficient capacities at the local level, decentralisation can be a risk, especially from the equity aspect. However, decentralisation can also create responsibility and ownership of public programmes, which may help in building capacity. - <i>Destructive competition</i>: Fierce competition between SNGs of taxpayers can lead to a “race to the bottom” – a type of competition, which can have a negative effect on services. - <i>Macroeconomic stability</i>: If the central government is weak, it may not be able to resist demands for local bailouts. This can soften SNG budget constraints. If local debt is allowed to accumulate without limits, the sustainability of public finances may be endangered. - <i>Disparities</i>: Without policy measures that strengthen the capacity of the poor regions, the benefits of decentralisation may accrue only to the most developed and prosperous regions.
Political effects	
<ul style="list-style-type: none"> - <i>Accountability</i>: Decentralisation changes the incentives of authorities serving local populations. Residents can express their 	<ul style="list-style-type: none"> - <i>Local elite takeover</i>: Particularly in poor countries, local jurisdictions may be vulnerable to capture by local elites, who may then receive a

<p>opinion by voting (voice) or by moving to another jurisdiction (exit). These are powerful forces that strengthen the accountability of public decision-making.</p> <ul style="list-style-type: none"> – <i>Participation</i>: Decentralisation increases the number of political arenas and provides more opportunities for local politicians. Voters will have more opportunities to express their opinions on local services and problems. This can increase participation in both local and central level decision-making. – <i>Minorities</i>: Decentralisation facilitates minorities' participation, which improves the status and position of minority groups. – <i>Rent-seeking and corruption</i>: Decentralisation reduces the size of government units which can make rent-seeking less interesting. More importantly, decentralisation increases competition between jurisdictions, which reduces opportunities for corruption and rent-seeking. – <i>Political stability</i>: Decentralisation can reduce tensions arising from various historical, ethnic or cultural reasons by accommodating heterogeneity in public policy. Autonomic decision-making can suppress local motives for conflict with central administration. – <i>Number of political institutions</i>: Decentralisation increases the number of independent political actors, which divides power both vertically and horizontally. This has a stabilising effect on society. 	<p>disproportionate share of spending on public goods. This can also create corruption.</p> <ul style="list-style-type: none"> – <i>Central elite takeover</i>: SNGs, especially in poor countries with weak democratic traditions, may be unable to resist suppression and pressure of the corrupt central government, for example, if the transfer system is used to strengthen the ruling parties' position. – <i>Low political participation</i>: Political participation may be low especially if SNGs do not have real spending or taxing autonomy. – <i>Non-solidarity</i>: Unless wide disparities are tackled with equalising transfer system, decentralisation may increase accusations of favouritism. This can reduce consensus and agreement between regions and eventually increase political tensions in local and national politics. – <i>Risk of slow development and stagnation</i> if decentralisation results in an increased number of veto players in important decisions.
<p>Source: OECD (2019^[9]), <i>Making Decentralisation Work: A Handbook for Policy Makers</i>, https://doi.org/10.1787/g2q9faa7-en; OECD (2017^[8]), <i>Multi-level Governance Reforms: Overview of OECD Country Experiences</i>, https://doi.org/10.1787/9789264272866-en.</p>	

Overcoming opposition from municipalities is another crucial step to ensuring successful multi-level governance reform. Municipal opposition can be a major obstacle to changing and potentially leading to water-downed reform plans that give rise to inconsistencies during implementation, as has been observed in many OECD countries. It is necessary to envisage a wide-reaching consultation with local representatives, starting in the early stages of the reform process, as well as involving them in the reform design, implementation and monitoring phases (OECD, 2017^[8]).

Mobilising and generating acceptance from central government civil servants through good communication practices, incentives and training activities are also key factors for success, as decentralisation reforms affect central government structures at ministerial and territorial levels and can be perceived as a threat.

The central government should provide expertise, communication tools (including Internet tools), guideline documentation, explaining the objectives and expected outcomes of the decentralisation, and a regionalisation strategy for each category of stakeholders.

decentralisation promotion committees in Japan, and expert committees in Australia, Norway and Sweden (OECD, 2017^[8]).

Apart from a forum or an expert advisory committee, Bulgaria could establish a permanent multi-level governance platform for dialogue and co-ordination across levels of government (see below “Establishing a multi-level governance platform for dialogue and co-ordination”).

Developing effective tools for monitoring and assessing the implementation of the reform

The implementation strategy should include tools and indicators to constantly monitor the progress of the decentralisation strategy and regularly assess the reform’s outcomes. The lack of evaluation of governance reforms is a strikingly common feature amongst OECD countries. In Bulgaria, this concern has been voiced in previous strategies and specific tools have already been established, in particular the Council for Decentralisation of State Governance (CDSG). However, although well-intended, the council has not been effective, holding few meetings with a low rate of participation and a limited agenda (Box 4.3). According to the annual evaluation of the activities of the CDSG, it did not meet its priority objectives which were to serve as a place of dialogue between the central and local governments and to shape the national policy of decentralisation. The CDSG is not active enough and does not contribute to the decentralisation process. Since 2011, the implementation of the decentralisation strategy has been practically discontinued (MRDPW, 2016^[11]).

Box 4.3. Inefficient work of the Council for Decentralisation of State Governance (CDSG)

The CDSG was established by Decision No. 540 of the CoM, dated 2006, as an advisory body to manage and co-ordinate the process of decentralisation. Chaired by the Minister of Regional Development and Public Works, members are deputy ministers, district governors and representatives of the NAMRB. Central and local governments should be represented in equal parts. The Secretariat of the CDSG is carried out by a department of the CoM. Its functions were the following:

- Supporting the CoM in the implementation of the state policy in the sphere of decentralisation.
- Monitoring, analysing and co-ordinating the implementation of the strategy and its programme.
- Discussing drafts of statutory instruments, which have a substantial impact on districts and municipal administrations as well as legal proposals to the state authorities.
- Submitting proposals to the CoM for changes in national legislation on decentralisation.

The CDSG did not hold regular sessions during 2006-15. In addition, the rate of participation in these rare sessions from incumbent members was very low (less than 30%), reflecting the low level of interest in the topic of decentralisation and the sessions’ agenda (mainly on organisational matters and often insignificant or irrelevant to decentralisation process). Most of the indicators used to assess the decentralisation process were not updated regularly and thus became irrelevant.

In addition, between 2011 and 2013, the CDSG was abolished and its functions were passed to the Administrative Reform Council (ARC). This was done with the aim of better co-ordinating the process of decentralisation with administrative reform. In the end, the topic of decentralisation never made it onto the ARC’s agenda and, as a result, the implementation of the decentralisation strategy was essentially discontinued after 2011 (MRDPW, 2016^[11]).

Source: MRDPW (2016^[11]), *Decentralisation Strategy 2016-2025 of Bulgaria*, Ministry of Regional Development and Public Works.

However, international experience shows that having such councils can bring a lot of value to the multi-level governance process. It is proposed to reactivate the CDSG but with a different structure and role. This committee should be permanent and involve key ministries, the National Association of Municipalities in the Republic of Bulgaria (NAMRB) and other vital stakeholders. It would have a permanent secretariat co-ordinated by the Ministry of Regional Development and Public Works (MRDPW) or the Council of Ministers (CoM). Its role would include spearheading the monitoring and assessment of the progress of the decentralisation strategy and programme. It would also include promoting effective involvement of municipalities and civil society in the reform process and dealing with the strategic implementation of the strategy, not organisational matters. Indicators should be decided jointly between the members and updated regularly to remain relevant.

Conducting pilot programmes and experiments

Conducting pilot programmes and experiments would demonstrate the effectiveness of reforms and pave the way for change on a larger scale. While this kind of reform process is slower than a “big bang” reform, it enables learning-by-doing and revision of decisions throughout the process, if needed (OECD, 2017^[8]; 2019^[9]).

Such an experimental approach could be useful for Bulgaria, both at the municipal and regional levels, to test the relevance of differentiated governance models, sets of responsibilities or funding mechanisms. There are some interesting experiences in OECD countries such as the “free commune experiments” in Denmark, Finland, Norway and Sweden (testing of the devolution of various functions to local governments), experimental regionalisation in Finland and Sweden and the “right to experimentation” in France which has been enshrined in the constitution in 2003 and regulated by an organic law the same year.

Box 4.4. Experimental governance in Finland, France and Sweden

Finland: Considered as a test case for a possible generalisation of regionalisation to the whole country, the experiment consisted of giving extensive responsibilities to the Kainuu regional council, democratically elected for a 4-year term (the region of Kainuu is situated in Eastern Finland, with a population of around 73 000 in 2019). These responsibilities included part of those traditionally carried out by the central government and around 60% of those carried out by the municipalities within Kainuu’s territory (as measured by costs). However, the experiment started in 2005 was stopped in 2012. One municipality refused to carry on, illustrating the political difficulties associated with municipal co-operation (OECD, 2017^[8]). The impact on cost savings, the main motivation behind the reform, was contested, although the experiment may have generated other benefits, such as improvements in service availability and quality (André and García, 2014^[12]).

Sweden: In 1997/98, Sweden launched a reform to transfer regional development responsibility from the county administrative boards (CABs, central government agencies) to self-governing counties. However, it was decided not to impose a single model on the counties but instead allow for different regionalisation options, based on an experimental, asymmetric, gradual and bottom-up process (OECD, 2010^[13]).

From 1997 onwards, Sweden developed various regionalisation options permitting heterogeneity across regions in terms of governance bodies and responsibilities: “pilot regions” with directly elected regional councils (counties of Skåne and Västra Götaland), an indirectly elected regional council (Kalmar county) and a municipality with regional functions for Gotland. In 2002, a second wave started with the Parliamentary Act that made it possible for counties, if all local municipalities agreed, to form regional co-ordination bodies (indirectly elected bodies similar to the Kalmar model) to co-ordinate regional development work. In 2007, a third phase started based on the extension of the “pilot region”

model providing counties with more responsibilities, in particular for regional development. As a result, since 2007, Sweden has further extended the transfer of regional development competencies to 10 out of 21 county councils.

The approach chosen by Sweden has created scope for learning, fine-tuning the reform and fostering consensus. However, it has also shown some limitations. The regional governance system that emerged has become complex, relying on the co-ordination of several counterparts: county councils (with directly elected regional assemblies and dissimilar responsibilities), regional co-ordination bodies (alliances of municipalities) and CABs (national government agencies at the regional level). In 2016, the Swedish government decided to launch a new process for the entire territory, to merge counties and create larger regions (OECD, 2017^[14]). While the process of merging regions was rejected in 2017, the government decided to put an end to asymmetric regionalisation and provide counties with the same governing bodies (directly elected councils), including Gotland Island, a municipality with county responsibilities and larger responsibilities. They are now called regions.

France: The “right to experimentation” has been enshrined in the constitution since 2003 and is regulated by an organic law with the objective of facilitating the modernisation of public services. It makes it possible to test a new measure on a small scale to assess its advantages and disadvantages, to make improvements before adopting it, or to abandon it if it proves to be irrelevant. This experimental method also helps to dispel fears and relieve the reluctance that often arouses any prospect of change. An additional hope is that once better accepted on a small scale, the reform will achieve its objective faster and more efficiently when implemented at a larger scale. Some measures are led by the central government (e.g. the organisation of state deconcentrated services at the regional level), others by local governments (French Senate, 2003^[15]).

Experimentation at the subnational level has been particularly important in the context of decentralisation across several policy areas including: social services (experimentation with a minimum income in the department of Ille-et-Vilaine in 1986, which prefigured the law that generalised it at the national level; experimentation of a specific long-term care benefit), equalisation mechanisms supporting inter-municipal co-operation, regional railways, regional port, airport and cultural policies, management of structural funds (Alsace) and metropolitan governance (2014 MAPTAM law). To promote further experimentation, the bill, called “4D” (Decentralisation, Deconcentration, Differentiation and Decomplexification) envisages facilitating the implementation of local experiments (Ministère de la Cohésion des Territoires et des Relations avec les Collectivité Territoriales, 2020^[16]).

Source: OECD (2017^[8]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>; André, C. and C. García (2014^[12]), “Local Public Finances and Municipal Reform in Finland”, <https://dx.doi.org/10.1787/5jz2qt0zj024-en>; OECD (2010^[13]), *OECD Territorial Reviews: Sweden 2010*, <https://dx.doi.org/10.1787/9789264081888-en>; OECD (2017^[14]), *OECD Territorial Reviews: Sweden 2017: Monitoring Progress in Multi-level Governance and Rural Policy*, <https://dx.doi.org/10.1787/9789264268883-en>; French Senate (2003^[15]), *Projet de loi organique relatif à l'expérimentation par les collectivités territoriales*, <https://www.senat.fr/rap/102-408/102-40810.html>; Ministère de la Cohésion des Territoires et des Relations avec les Collectivité Territoriales (2020^[16]), *Projet de loi “3D” : Décentralisation, différenciation et déconcentration*, <https://www.cohesion-territoires.gouv.fr/projet-de-loi-3d-decentralisation-differenciation-et-deconcentration>.

Revising the decentralisation strategy

The content of Bulgaria’s current strategy is very comprehensive and gradual. However, despite this well-defined approach, it seems necessary to update the content of the strategy.

The current decentralisation strategy covers many important dimensions of decentralisation in an integrated and balanced way. In particular, it includes the 3 main and interdependent components of a decentralisation process (political, administrative and fiscal decentralisation) and is accompanied by a detailed programme of 4 objectives, 12 priority areas and 32 measures for implementing the strategy over 2016-19.

Box 4.5. Objectives and priority areas of the 2016-25 Decentralisation Strategy

The new 2016-25 strategy has 4 main strategic objectives and 12 priority areas:

- The transfer of powers and functions from central to local authorities in key sectors.
- Fiscal decentralisation with better assignment of revenues across levels of government to expand municipalities' revenue bases.
- Development of civil control of public institutions.
- Increasing the role of regional institutions for the implementation of co-ordinated policy for regional development.

A programme for the implementation of the decentralisation strategy for the period 2016-19 has also been prepared, with clearly defined objectives, priority areas and measures. This programme aims at ensuring the internal and external consistency of factors affecting the process of decentralisation. It defines the resources which are necessary for implementing each of the 32 measures contained in decentralisation strategy, the source of funding (Operational programme [OP] "Good governance" or planned budgets), the leading and partner institutions (mainly ministries and NAMRB) and the timeline for each measure.

Table 4.2. Strategic objectives and priorities of the Decentralisation Strategy 2016-25

Strategic Objective 1 – Transfer of powers and functions from central to local authority in key sectors
Priority 1. Increasing the capacity of local authorities for the provision of additional municipal services.
Priority 2. Transformation of municipal delegated services into local ones.
Priority 3. Establishing conditions for the participation of municipalities in the development of municipal educational institutions.
Priority 4. Increasing the powers of town halls and directors of municipal institutions.
Strategic Objective 2 – Establishment of the optimum distribution of resources between the central and local levels
Priority 1. Expansion of municipalities' revenue bases.
Priority 2. Analysis of municipal responsibilities.
Strategic Objective 3 – Civil control on actions of public institutions
Priority 1. Equal participation of local authorities in the development of the regulatory basis concerning local self-government.
Priority 2. Increasing participation of municipal structures in decision-making, affecting their competency.
Priority 3. Promotion of the establishment of civil structures on a territorial basis and their participation in the process of formation, adoption, implementation and monitoring of the implementation of local policies.
Strategic Objective 4 – Increasing the influence of regional institutions for the implementation of co-ordinated policy for regional development
Priority 1. Creation of deconcentrated institutions at the regional level.
Priority 2. Strengthening the capacity of regional institutions and broadening their field of competency.
Priority 3. Research on the options for the establishment of a second level of local self-governance.

Source: MRDPW (2016^[11]), *Decentralisation Strategy 2016-2025 of Bulgaria*, Ministry of Regional Development and Public Works.

However, despite this well-defined approach, it seems necessary to update the content of the strategy. First, because several measures included in the 2016-19 programme have not been implemented. Second, because the 2016-25 strategy now needs to integrate the impact of the COVID-19 crisis and subsequent recovery packages. Differentiated territorial effects call for differentiated policy responses which should be targeted towards the most impacted regions and municipalities. The current critical juncture presents an opportunity for Bulgaria to review its multi-level governance framework and to take actions to enhance resilience at the regional and local levels. Third, because the strategy still needs some adjustments to promote a systemic and integrated approach across policy areas and government levels:

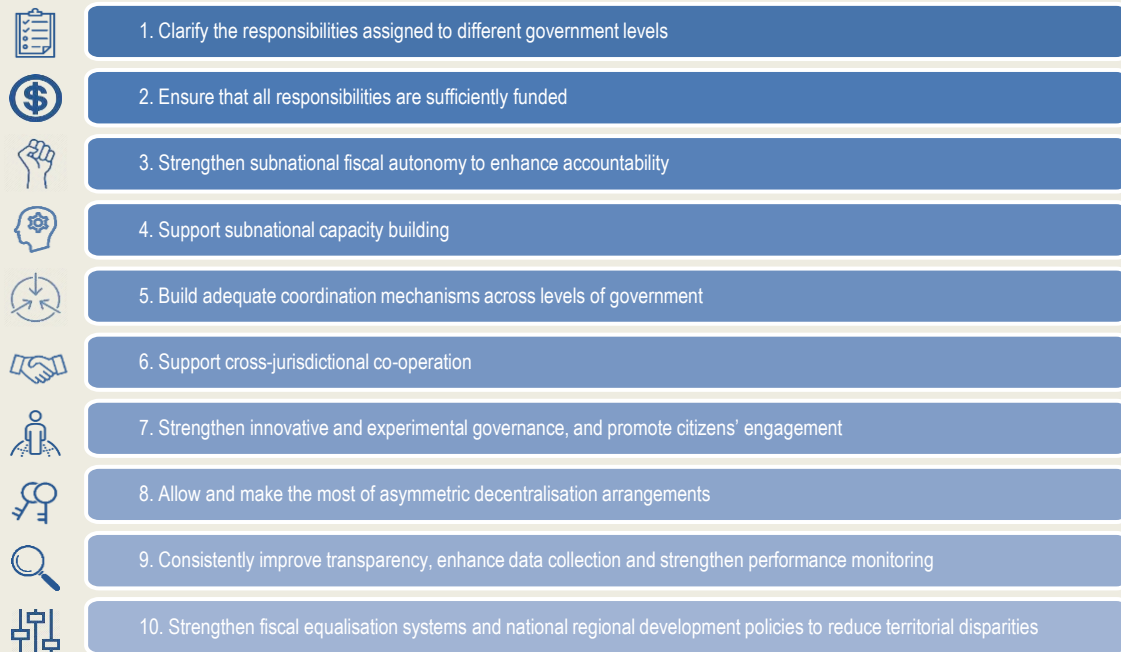
- **Rebalancing political, administrative and fiscal decentralisation:** Although present in the previous strategy, the three dimensions of decentralisation were not well balanced in their implementation. Fiscal decentralisation, in particular, remains a weak component of past reforms. As underscored by the OECD, finding the right balance between these three dimensions is key to the process: ignoring or under-estimating one dimension may hinder the entire decentralisation process and undermine the benefits of decentralisation. In addition, decentralisation should not be seen as a collection of separate policies or measures but as a unique and comprehensive system of policies.
- **Addressing decentralisation in a “whole-of-government perspective”:** Decentralisation does not concern only subnational governments but also the central government at the national and territorial levels when the central government is represented locally, as is the case in Bulgaria. The impacts of decentralisation on the central government are often underestimated and failing to consider this may be detrimental to the reforms. The fiercest opponent to decentralisation efforts is often the central government itself, as decentralisation may be perceived as a threat. A decentralisation reform implies anticipating profound changes to organisation, practices, culture and skills within the central government. It requires contemplating a renewed, more strategic role for the central government, one where it is less directly involved in service delivery and instead focuses on enabling, advising and providing assistance to ensure consistency. It should facilitate the work of local governments and occasionally help share best practices across local governments. The role of the central government should be also more focused on creating the conditions for proper co-ordination and alignment of policy objectives, monitoring the performance of regions and cities, and ensuring balanced development of all parts of the national territory.
- **Connecting decentralisation, regionalisation and regional development:** The decentralisation strategy should be better connected to other regional development and planning strategies, including the National Regional Development Strategy (NRSD) 2012-22, the National Concept for Spatial Development (NCSD) 2013-25 and the Public Administration Development Strategy 2014-20. In addition, the regionalisation component of the decentralisation strategy should be front and centre. “Bundling” regional reform to municipal reform can better facilitate the reform process, given the strong interrelations between the two reform areas. Connecting municipal decentralisation reform to the need for a stronger regional level and vice-versa could make the entire reform process run smoother. Losses on one side may be compensated with gains on another. In other words, the creation of stronger planning regions, perceived as a threat by municipalities, could be compensated for by providing municipalities with more powers and resources. In the same vein, districts would lose some responsibilities (regional development) but could also gain new co-ordination functions.

In revising its decentralisation strategy, Bulgaria could also be inspired by the OECD’s “Ten guidelines for effective decentralisation conducive to regional development”. These guidelines can help policymakers to implement decentralisation reforms in a way that avoids major pitfalls (Box 4.6).

Box 4.6. Ten guidelines for effective decentralisation conducive to regional development

In its publication *Making Decentralisation Work: A Handbook for Policy-Makers* (OECD, 2019^[9]), the OECD developed ten guidelines to support countries in identifying the conditions that help make decentralisation work. The guidelines, tailored to both federal and unitary countries, are more than just recommendations. They include practical guidance, pitfalls to avoid, good practices and a checklist for action.

Figure 4.3. The OECD ten guidelines for effective decentralisation

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1. Clarify the responsibilities assigned to different government levels
 2. Ensure that all responsibilities are sufficiently funded
 3. Strengthen subnational fiscal autonomy to enhance accountability
 4. Support subnational capacity building
 5. Build adequate coordination mechanisms across levels of government
 6. Support cross-jurisdictional co-operation
 7. Strengthen innovative and experimental governance, and promote citizens' engagement
 8. Allow and make the most of asymmetric decentralisation arrangements
 9. Consistently improve transparency, enhance data collection and strengthen performance monitoring
 10. Strengthen fiscal equalisation systems and national regional development policies to reduce territorial disparities

Source: OECD (2019^[9]), *Making Decentralisation Work: A Handbook for Policy Makers*, <https://doi.org/10.1787/g2g9faa7-en>.

The proposed process for renewing the multi-level governance framework towards better regional development

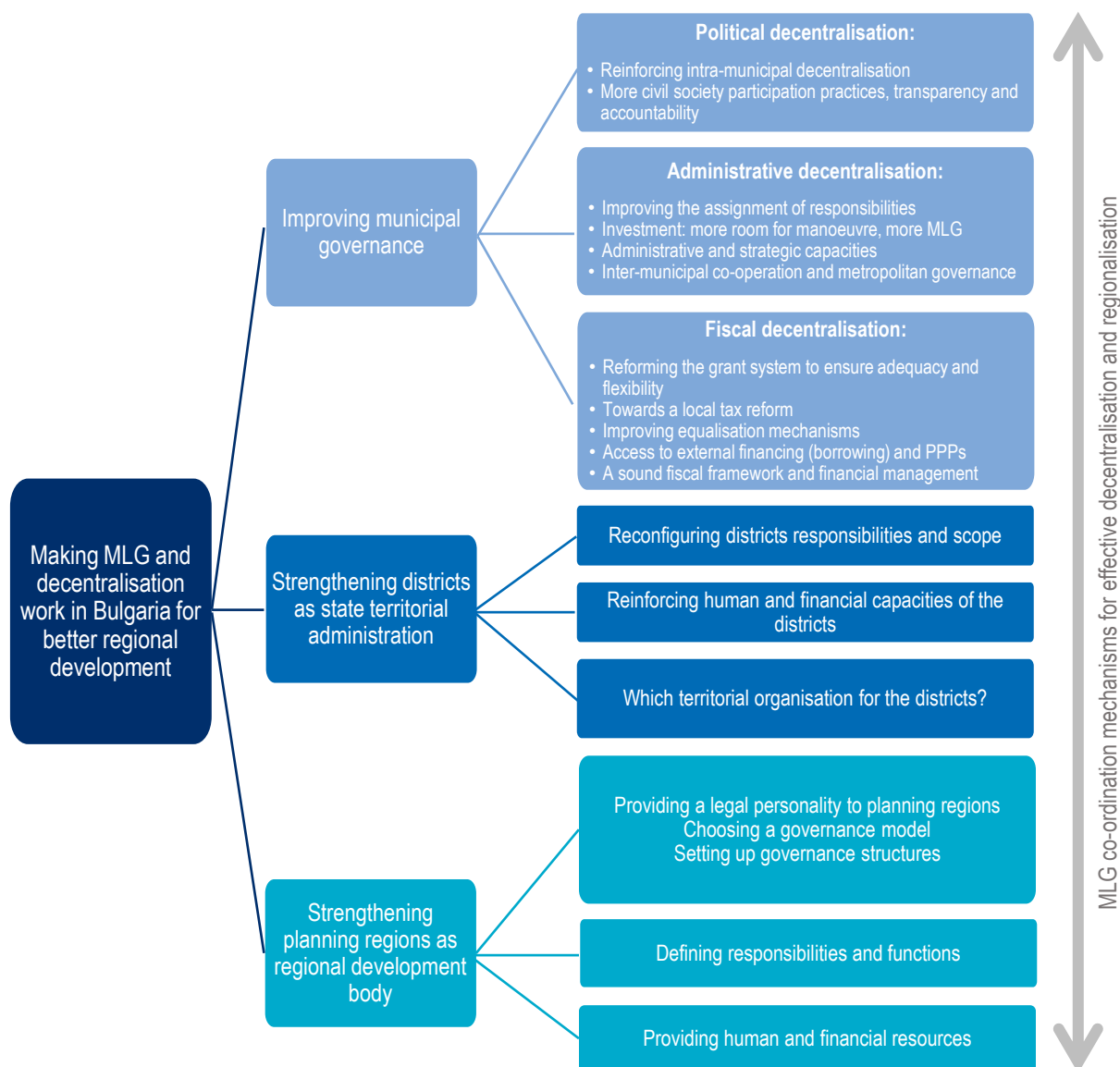
A comprehensive approach linking enhanced municipal and regional governance

Figure 4.4 summarises the proposed process for renewing the multi-level governance (MLG) framework towards better regional development.

Establishing a multi-level governance platform for dialogue and co-ordination

A frequent obstacle to achieving an efficient decentralised multi-level governance system is a weak or lacking, framework for intergovernmental co-ordination. In fact, in a decentralised governance system, there is strong mutual interdependence across levels of government. Outcomes of such a system depend, to a large extent, on how the complex relationships between levels of government are managed, i.e. on the quality of co-ordination across and within levels of government.

Figure 4.4. Towards enhanced decentralisation and regionalisation: A mental map of the proposed process



Establishing effective multi-level governance co-ordination mechanisms across levels of government

Vertical co-ordination between the central and subnational levels of government is key. OECD country experience illustrates the crucial need to set up formal and informal mechanisms to reinforce multi-level dialogue and foster effective and efficient co-ordination. This includes dedicated structures (permanent intergovernmental committees or fora) or contractual arrangements. However, establishing a multi-level dialogue is not an easy task and may be met with resistance. Managing “mutual dependence” requires a profound change of structure, practice and culture within the central government itself as well as within the local government (OECD, 2019^[9]; 2017^[8]).

One major tool for vertical co-ordination between the central government and local governments is the NAMRB (Stefanova, 2018^[17]). The association acts as an intermediary in the interaction of local and central governments and as a platform for dialogue, policy reform proposals and negotiation, especially concerning public finance.

Box 4.7. A brief history of the National Association of Municipalities the Republic of Bulgaria (NAMRB)

The NAMRB was established in 1996 by one-third of all Bulgarian municipalities but since 1999, all the municipalities are NAMRB members. Since its establishment, the NAMRB's influence on the central government's policymaking has gradually increased. The association represents the municipalities before state bodies, provides statements on legislative drafts for improvement of the legal framework in the scope of local self-government, prepares proposals on the municipal section of the state budget, and more.

In 1998, the NAMRB signed a protocol with the Ministry of Finance for consultations on the draft state budget for the parts concerning the municipalities, which has since become a regular practice. In 1999, the NAMRB started to develop its own draft amendments to the acts that legislate local self-governance. In 2000, the NAMRB signed agreements for co-operation with ministries and parliamentary committees and held meetings with the leaders of these committees to ensure better conditions for municipalities in the state budget. Representatives of the NAMRB also began to regularly participate in the meetings of the Parliamentary Committee on Local Government, Regional Policy and Public Works. In 2002, the NAMRB signed a programme for the gradual decrease of the unpaid expenditures of municipalities with the Ministry of Finance, as well as for procedural rules for conducting negotiations on the draft state budgets regarding the parts that concern municipalities. In the same year, the Concept and Program for Financial Decentralisation were adopted with the crucial input of the NAMRB. The association had a substantial influence on the development of decentralisation strategies and programmes, adopted in 2006 and 2010 respectively. In 2006, the NAMRB signed a programme for effective interaction with the Ministry of Finance and participated in the establishment of the Council on Decentralisation, in which central and local authorities participate on an equal basis. In 2013, the Law on Public Finance stipulated that the drafts of the schemes for the distribution of the equalisation subsidy and the target subsidy for capital expenditures must be agreed on with the NAMRB. In 2015, the NAMRB developed a draft concept for amending the Local Taxes and Fees Act, which included substantial changes to the municipal own-revenue base.

The NAMRB helps municipalities to carry their responsibilities through a variety of activities such as: studying municipal opinions and developing consensus positions and strategies; providing a wide range of consulting services and training programmes; issuing thematic and advisory guides; providing its own training centre for municipalities; and developing databases (e.g. local finance, town twinning).

Source: NAMRB (2017^[18]), *Missions and Activities*, <https://www.namrb.org/mission-and-activities>.

In addition to the NAMRB, there are some co-operation measures that have been established at the behest of the central government to specifically conduct regional policy including the Regional Coordination Directorate within the CoM, and the Central Coordination Unit within the MRDPW. At the lower level (but still under the CoM), a Regional Development Council was established with the participation of several ministries, district governors and representatives from the NAMRB. There are co-ordination networks in other sectors as well. For example, the Bulgarian Association of Municipal Environmental Experts, established in 1995, gathers environmental experts from more than 65% of the municipalities. It has

become an important institutional actor in local environmental governance and has a significant impact on legislation, policymaking and knowledge exchange.

However, the potential of other vertical co-ordination mechanisms has not been fully explored in Bulgaria. The NAMRB alone is probably insufficient to address co-ordination issues between the central and local level, taking into consideration the diversity of municipal investment and development needs. While regional development policies are now more decentralised, the role of the central government is increasingly important for providing an overarching framework and guidelines and ensuring effective co-ordination (OECD, 2019^[9]). In the context of the global and multi-dimensional COVID-19 crisis, co-ordination across levels of government is crucial as a co-ordinated response by all levels of government can minimise crisis-management failures (OECD, 2020^[19]).

Creating a culture of co-operation and regular communication is essential to achieving effective multi-level governance and long-term reform. OECD countries have developed a broad set of mechanisms to promote co-ordination and collaboration ranging from soft instruments to more “binding” ones. Platforms of dialogue, standing commissions and intergovernmental consultation boards or councils, where actors from different levels of government and sectors can have formal dialogue, have proven to be effective in several OECD countries (Box 4.8).

Bulgaria could establish a more institutionalised permanent forum on multi-level governance between the central government and local governments, which would also involve representatives of the citizens, business, academia and other NGOs. This type of co-ordination platform will become even more necessary in the perspective of a reinforced regional level, both at the level of the districts and planning regions.

Box 4.8. Multi-level governance co-ordination platforms: International experiences

Dialogue across different levels of government has been institutionalised in several OECD countries.

- **In Australia**, a new model for managing intergovernmental relations has been established with the objectives to streamline processes and improve collaboration, communication and effectiveness across levels of government. The core of this new model is the National Cabinet, which was initially established in March 2020 to endorse and co-ordinate national actions in Australia in response to the coronavirus pandemic. Since, the National Cabinet, composed of the prime minister and state and territory premiers and chief ministers, has become the new intergovernmental decision-making forum. It will oversee 7 ministerial reform sub-committees in select areas, consolidating the work of 19 ministerial fora and 9 regulatory councils. These areas include: rural and regional development; skills; energy; housing; transport and infrastructure; population and migration; and health. The National Cabinet together with the Council on Federal Financial Relations (CFFR) and the Australian Local Government Association (ALGA) form the new National Federation Reform Council (NFRC), which replaces the 30-year-old Council of Australian Governments (COAG). The NFRC will meet once a year to focus on national priority issues. It held its inaugural meeting in Canberra in December 2020 and established three taskforces to help progress matters critical to the national agenda: women’s safety; indigenous affairs, and veterans’ wellbeing.
- **Italy** has three levels of “conferences” between the central and subnational governments, serving as fora for intergovernmental co-ordination: a Conference of State-Regions, a Conference of State-Municipalities and other Local Authorities and a Unified Conference of State-Regions-Municipalities and Local Authorities, which includes all members of the two other conferences.
- **In France**, the government established the National Conference of Territories (*Conférence nationale des territoires*, CNT) in 2017 as a new platform of dialogue and concertation across

levels of government. Chaired by the prime minister, the CNT is composed of members of the government, representatives of local and regional government associations, the parliament and the Committee on Local Finance. The NOTRe Law has also reinforced the role of the French Observatory on Local Finance and Public Management (*L'observatoire des finances et de la gestion publique locales*, OFGL). The group was established as a partnership between the French government and the associations of local governments to form a neutral platform to gather, analyse and share information on local finances and public management.

- **In Spain**, vertical co-ordination between the central government and the autonomous communities is conducted, on a voluntary basis, through the Conference of Presidents (*Conferencia de Presidentes*) created in 2004. Vertical co-ordination also takes place through sectoral conferences such as the Council of Fiscal and Financial Policy (*Consejo de política fiscal y financiera*, CPFF) for economic, fiscal and financial matters. Vertical co-ordination between the central government and local governments takes place through the National Commission for Local Administration (*Comisión Nacional de Administración Local*), which was created in 1985. Autonomous communities have their own fora for co-ordinating with local governments under their jurisdiction.
- **In Sweden**, the Forum for Sustainable Growth and Regional Attractiveness is considered an important tool for multi-level governance and to support national- and regional-level policy development through dialogue and co-operation. It facilitates and maintains a continuous dialogue among a wide and diverse array of stakeholders, e.g. central government, central government agencies, regional governments, municipalities, third sector actors and the private sector. The forum is part of the implementation of Sweden's National Strategy 2015-20. It is divided into two groups: one that promotes dialogue between national- and regional-level politicians, and one that fosters dialogue between national- and regional-level civil servants (director-level). The forum also serves as a "regional lens" or "prism" through which to consider diverse sector initiatives, e.g. in housing, innovation and transport.

Source: OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, OECD, Paris, http://www.sng-wofi.org/reports/SNGWOFI_2019_report_country_profiles_DEC2019_UPDATES.pdf; OECD (2017^[8]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>; OECD (2020^[21]), *The Future of Regional Development and Public Investment in Wales, United Kingdom*, <https://doi.org/10.1787/e6f5201d-en>; Australian Government (2020^[22]), *National Federation Reform Council*, <https://pmc.gov.au/domestic-policy/national-federation-reform-council>; OECD (2019^[9]), *Making Decentralisation Work: A Handbook for Policy Makers*, <https://doi.org/10.1787/g2g9faa7-en>.

Developing multi-level governance instruments such as multi-level contracts

Formal instruments, such as contracts for regional development, are also helpful for building trust between parties and providing a long-term perspective (OECD, 2019^[9]; 2007^[23]; Charbit and Romano, 2017^[24]). Several examples of "deal-making" or contractual arrangements are found in OECD countries: France has a particularly strong tradition of state-region planning contracts, although there are more recent examples in Australia (city and regional deals), Colombia (*Contratos plans*), the Netherlands (City Deals) and Poland (territorial contracts).

The design of these types of contracts needs to be as flexible as possible so that they can adapt to different circumstances and local characteristics. The key point is to specify the regional development priorities supported by contracts, possibly through a careful assessment of needs and opportunities. Another key issue concerning the effectiveness of these contracts is being able to guarantee the credibility of the commitments made within them. Constant enforcement and evaluation are essential for overcoming this challenge. Finally, contracts are also a way to involve civil society, such as citizens associations or businesses, in the decision-making process.

Box 4.9. Contractual arrangements for regional development: International experiences

- Regional and city deals in Australia:** City Deals are a new approach in Australia to bring together the three levels of government (federal, states and local councils), the community and the private sector. The partnership focuses on aligning planning, investment and governance to accelerate growth and job creation, stimulate urban renewal and drive economic reforms that secure the future prosperity and liveability of Australian cities. Seven City Deals have been agreed to thus far and two others have been announced. Building on the success of City Deals, the government also launched Regional Deals to bring together all levels of government around a clear set of objectives. Regional Deals are tailored to each region's comparative advantages, assets and challenges and reflect the unique needs of regional Australia. These deals support "a place-based approach" by putting community-identified priorities at the centre of the plan (Australian Government, 2020^[22]).
- The Colombian *Contratos Plans*:** Introduced in 2012, these contracts are signed between the central government and departments or groups of municipalities. Their aim is to combine a shared medium-term strategic vision on territorial development, focused on key sectors, with stable financial commitments. The first 7 *Contratos Plans* included 9 departments and 272 municipalities with a timespan of between 3 and 8 years. They primarily focused on lagging regions and areas with weak capacities. According to recent evaluations, *Contratos Plans* have been effective in strengthening co-ordination, supporting capacity-building and developing infrastructure. However, there have been some issues with enforcing the contracts (OECD, 2018^[25]).
- The state-region planning contracts in France:** The *Contrats de plan État-Région* (CPER) have been in operation since 1982 and are important tools in regional policy in terms of planning, governance and co-ordination. They are characterised by their broad thematic coverage and cross-sectoral nature, with a territorial approach being applied across diverse policy fields including industrial, environmental and rural issues. Currently, these contracts are managed by Agence nationale de la cohésion des territoires (ANCT, National Agency for Territorial Cohesion), created in 2020 from the merger of the Commissariat général à l'Égalité des territoires (CGET, General Commission for Territorial Equality), Epareca and the Digital Agency. The President of the Regional Council and the prefect as the representative of the central government make the contract. The co-financing of interventions is seen as an important co-ordination mechanism. There are also inter-regional contracts for mountainous and fluvial basins. The next generation of contracts (2021-27) is being prepared but negotiations have been delayed by the COVID-19 crisis.
- The experience of City Deals in the Netherlands:** Under the National City Agenda, the national government, cities and social partners have committed themselves to fostering growth, liveability and innovation in cities. Partners from cities and the public and private sectors work with the national government on urban issues, challenging established models and working methods. To date, 19 City Deals have been established. The first City Deal was the Roadmap Next Economy. Its purpose was to establish a development strategy to prepare a large urban region for future economic challenges. Unlike the UK model, they do not rely on central funding and they can operate over shorter periods. Dutch City Deals are vehicles for co-operation, which allow stakeholders to pool resources to work together outside of standard operating procedures (OECD, 2020^[26]).
- Regional and territorial contracts in Poland:** Beginning in 2011, contracts across levels of government in Poland have supported vertical co-ordination and capacity-building. Negotiated and agreed on between the Ministry for Regional Development and regional governments,

regional contracts were initially designed to serve as a learning device preparing regional governments for the management of the EU structural funds in a multi-level governance setting. They established a legal agreement under which regions received a budget for investment in a range of policy fields (e.g. road infrastructure, healthcare, educational facilities, sports infrastructure, tourism and leisure or cultural facilities). More recently, “territorial contracts” replaced the regional contracts. This new generation of contractual arrangements represents an effort to create synergies between all policy instruments with a territorial dimension. These territorial contracts aim to ensure the effective co-ordination of initiatives jointly implemented by the regional and national governments, as well as, for initiatives jointly implemented at the municipal level (Ministry of Investment and Economic Development of Poland, 2019^[27]; OECD, 2017^[28]).

Source: Australian Government (2020^[22]), *National Federation Reform Council*, <https://pmc.gov.au/domestic-policy/national-federation-reform-council>; OECD (2018^[25]), *Asymmetric Decentralisation: Policy Implications in Colombia*, http://www.oecd.org/colombia/Asymmetric_decentralisation_Colombia.pdf; OECD (2020^[26]), *Enhancing Productivity in UK Core Cities: Connecting Local and Regional Growth*, <https://doi.org/10.1787/9ef55ff7-en>; Ministry of Investment and Economic Development of Poland (2019^[27]), *Regionalisation Processes in Poland*; OECD (2017^[28]), “Country profile - Poland - Multi-level governance of public investment 2017”, <https://www.oecd.org/effective-public-investment-toolkit/Poland.pdf>.

Improving municipal decentralisation: more capacities and resources and better municipal governance

As stressed in the previous chapter, municipalities are key actors for economic and social development at the local level. However, there is room for improvement for municipalities in terms of promoting socio-economic development in areas under their jurisdiction. They could do more to foster this development if they were to have access to adequate financial and staffing resources to act more effectively. Similarly, municipalities could better promote socio-economic development if they were to improve their internal functioning and enhance co-operation with the central government, neighbouring municipalities, regional structures and civil society. In other words, they need more powers and capacities but they also need to improve their governance. To achieve this, it is proposed to take measures on each of the three dimensions of decentralisation, which are complementary and interconnected, as underlined above.

Enhancing intra-municipal decentralisation and civil society participation for better political decentralisation

Political decentralisation aims to give citizens and their elected representatives more power in public decision-making and in formulating and implementing policies. This involves strengthening participatory governance at the local level through both elected officials (mayors, municipal councils and sub-municipal entities) and civil society (NGOs, organisations, citizens and businesses). In Bulgaria, several issues have been raised in this respect, in particular: i) the insufficient recognition and participation of localities in municipal activities ii) the minimal participation of civil society in the development, adoption and control over the implementation of municipal policies.

Reinforcing intra-municipal decentralisation

Sub-municipal institutions can be effective actors in reinforcing local democracy, bringing citizens closer to policymaking and political life, providing proximity public services and thus reaping the benefits of decentralisation. In particular, in the Bulgarian context, the mayors of most mayoralties are directly elected

by the population, acting as important representatives of the voices of the population. They should by no means be left out of the decentralisation process.

Sub-municipal governance can be a very innovative tool if well designed and implemented. Bulgaria should make the most of its existing well-developed network of localities. It would allow maintaining a certain level of proximity, in particular in remote and isolated areas or, on the contrary, in large cities, to better address local needs in terms of services and to overcome issues related to community identity, historical legacies, traditions and local democracy. In particular, mayoralties and wards could represent a form of “intra-municipal decentralisation”, as experienced in several EU and OECD countries (Box 4.10). In many countries, such sub-municipal bodies play a role in providing services to communities, in assuring democratic representation and on pursuing a role of territorial identity and cohesion mechanism (Hlepas et al., 2018^[29]).

Deconcentrating some functions and resources to the sub-municipal level, in particular via an independent budget, is one option available to help balance the workload of municipal administrations and free up their capacity to focus more on strategic tasks. “Service centres” could be established in villages to provide some basic services. This policy would also help reduce service delivery times for citizens and businesses, an objective identified in the public administration strategy (Government of Bulgaria, 2014^[30]). Another recommendation is to increase the powers of village mayors regarding municipal property located on village territory. Finally, municipal council voting rules could be modified (for example, via the formation of electoral districts) to ensure better representation of villages (Bobcheva, 2008^[31]).

Box 4.10. Experiences of sub-municipal governance in EU and OECD countries

Several EU and OECD countries have similar sub-municipal administrative subdivisions, especially countries with predominantly large municipalities. Such subdivisions also appeared following municipal amalgamation policies, to mitigate the negative effects of consolidation. Sub-municipal units are often former municipalities that have been merged.

Even if they depend on the municipalities, sub-municipal entities may have legal status under public law with a deliberative assembly and a delegated executive body (mayor, council) sometimes elected by the population as well as their own budget and staff. These smaller sub-localities are generally established at the initiative of the municipality (optional) but their existence can be also embedded in the law in the case of a municipal merger reform. They can have also different names, status and delegated responsibilities according to their “mother-municipality”. This network of localities can exist all across the country, even if they do not systematically cover all of the national territory, or only in metropolitan areas, selected cities or the capital city.

- **France:** The 1971 Marcellin law created the status of “associated municipalities” which allows the abolished municipalities in a merger process to remain and retain some elements including a delegate mayor, a town hall and an advisory council. This arrangement was reactivated by the 2010 territorial law and the March 2015 law (New Municipalities – *Communes Nouvelles*).
- **Greece:** The 2011 Kallikratis municipal amalgamation reform maintained historic communities as deconcentrated municipal entities. Municipalities are subdivided into municipal communities (with a population of more than 2 000 inhabitants) or local communities (population up to 2 000 inhabitants), which have elected bodies.
- **Ireland:** The 2014 Local Government Reform created a nationally representative system of sub-county governance, the municipal districts. Some are titled “borough districts” or “metropolitan districts”. They enjoy devolved local decision-making responsibilities to decide matters relevant to local communities.

- **Korea:** Municipalities are subdivided into 3 496 sub-municipal localities: 218 *eup* (urban division of the country), 1 195 *myeon* (rural divisions of the country) and 2 083 *dong* (within autonomous districts and lower-tier cities).
- **New Zealand:** 110 community boards were created by the 1989 local government merger reform. The Auckland Council also has 21 local boards, with elected representatives.
- **Portugal:** Municipalities are subdivided into civil parishes called *freguesias*. Their number was reduced from 4 259 to 3 091 after the 2012-13 reform. *Freguesias* have an executive body and a deliberative body, elected by universal suffrage. The presidents of the parish boards are also members of the municipal assembly.
- **United Kingdom:** There are 9 500 parish councils in England (UK), some 730 community councils in Wales, and some 1 200 in Scotland. They have no statutory powers but receive small amounts of funding or a precept from council tax collected by the district or county council.

Source: OECD (2017^[8]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>; OECD (2017^[6]), *Making Decentralisation Work in Chile: Towards Stronger Municipalities*, <https://doi.org/10.1787/9789264279049-en>.

Reinforcing civil society participation practices, transparency and accountability at the municipal level

The law provides instruments to foster direct democracy (referendum, citizens' general assemblies, petitions) but, as underlined above, these are not common practice in Bulgarian municipalities, resulting in low civil society involvement in municipal activities. Bulgaria should strengthen the use of citizen engagement practices and promote transparency and accountability at the local level. To make decentralisation work, citizens should be empowered through the right to know and direct democracy provisions as underlined in the OECD's ten guidelines for effective decentralisation (OECD, 2019^[9]). This implies developing a stronger understanding of stakeholder engagement frameworks and building capacity among civil servants and decision-makers to engage with citizens, at all levels of government (Box 4.11).

Box 4.11. What is stakeholder participation?

According to the OECD Recommendation of the Council on Open Government, stakeholder participation covers all forms of stakeholder involvement in the policy cycle, as well as in service design and delivery, whether it is in the form of information, consultation or engagement:

- **Information:** An initial level of participation characterised by a one-way relationship in which the government produces and delivers information to stakeholders. It covers both the on-demand provision of information and "proactive" measures by the government to disseminate information.
- **Consultation:** A more advanced level of participation that entails a two-way relationship in which stakeholders provide feedback to the government and vice-versa. It is based on the prior definition of the issue for which views are being sought and requires the provision of relevant information, in addition to feedback on the outcomes of the process.
- **Engagement:** When stakeholders are given the opportunity and the necessary resources (e.g. information, data and digital tools) to collaborate during all phases of the policy cycle and in the service design and delivery.

Source: OECD (2017^[32]), *Recommendation of the Council on Open Government*, <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0438>.

Concrete measures could be adopted to reinforce civil society involvement in Bulgaria, including:

- Amending the Public Consultation Act to simplify and facilitate the use of direct democracy instruments, e.g. by decreasing participation thresholds. The use of these tools should be stimulated by national and local governments (UPEE, 2020^[33]).
- Supporting the creation and functioning of territorially-based NGOs representing civil society.
- Encouraging civil society to participate in consultation meetings, especially to discuss strategic and municipal development plans. This can be done through better communication activities and reporting on the outcomes of the meeting (providing feedback).
- Establishing, by law, civil society consultative commissions (citizen assemblies, young assemblies, business assemblies) in municipalities to present civil society's position on municipal activities. Several EU and OECD countries have established such commissions. The law should precisely detail the guidelines for their establishment, composition, budget allocation, use of funds and activities, as well as relations with the mayor and municipal council. Such commissions should have their independence and ensure a lack of potential conflicts of interest.
- Establishing "local ombudsman", besides the national ombudsman, to improve the dialogue between local authorities and citizens, and to enhance the opportunities for citizen participation in the planning of municipal policies. This has proven to be a successful measure in several countries according to Transparency International Bulgaria.
- The national government should gradually include large cities in its Open Data Initiative and, in general, foster open government at the municipal level to increase the transparency of municipal policies, create data-based products and services, and encourage more active engagement of citizens in the development of municipal services and the decision-making processes at the local level (Government of Bulgaria, 2016^[34]).
- Make municipal information easier to access for citizens through attractive, relevant and up-to-date, interactive and user-friendly websites (to respond to citizens' requests for information).
- Participatory planning and budgeting should be promoted and supported by the central government as it offers a tool for educating, engaging and empowering citizens and strengthening demand for good governance. Participatory budgeting in particular has the potential to make municipalities more responsive to citizen needs and preferences and more accountable to them for performance in resource allocation and service delivery (OECD, 2019^[35]). Participatory budgeting practices could be encouraged through the continuity of the Pilot 'Citizen Budget' Initiative.

Generating more effective administrative decentralisation

As described in Chapter 3, in spite of intentions to push for more decentralisation in Bulgaria, administrative decentralisation has been limited thus far. Bulgaria remains a centralised country with low levels of local expenditure and investment, which are moreover largely driven by the central government. Furthermore, the division of powers and responsibilities across levels of government has become increasingly unclear and complex, highlighting a need for clearer rules and principles. Administrative decentralisation is further undermined by a weak administrative and strategic capacity at the municipal level and aggravated by the lack of co-operation between municipalities. Several of these deficiencies are already well identified in the 2016-25 decentralisation strategy and the 2016-19 programmes which contain several concrete measures to correct them. However, many measures are still pending and should be implemented for the second phase of the decentralisation strategy and included in a revised programme for 2021-25. They should be complemented by additional measures which are detailed below.

Improving the assignment of responsibilities: Less delegated functions, more exclusive responsibilities

A review of government responsibilities and functions at all levels is needed

A review of responsibilities and functions assigned to the different levels of government should be undertaken to clarify the breakdown of responsibilities and to assess the relevance of delegating, decentralising or recentralising some tasks. This reflection is urgent because delegated functions are increasingly burdensome when they are underfunded, as is currently the case at the local level in Bulgaria. Furthermore, numerous additional and unplanned tasks are continuously transferred to municipalities by line ministries and state agencies without a clear view of the impact in terms of charges and constraints. As underlined above, there is neither a clear rationale on whether carrying out these tasks at the local level is relevant, nor whether municipalities have the capacity to handle them. It is also urgent to conduct a review in the context of strengthening governance at the regional level. A comprehensive approach to the system of responsibilities and functions at all levels of government is needed.

The review should better define spending responsibilities. This involves revising the system of delegated tasks. In some cases, responsibilities may have strong local aspects but are fully considered as delegated and centrally funded, thus leaving local authorities with little to no decision-making power or room to manoeuvre. Rationalising the system of responsibilities could ease the burden of some delegated functions imposed on municipalities, enlarge spending autonomy in some delegated functions (e.g. education) and transfer new exclusive tasks whose implementation falls more to the local level, according to the subsidiarity principle.

The review would be accompanied by a normative document that clarifies central, regional and local responsibilities and functions (financing, regulating, implementing or monitoring) and provides principles and guidance. Indeed, the way responsibilities are shared should be explicit, mutually understood and clear for all actors, as underlined by the OECD's ten guidelines for effective decentralisation (Box 4.6) This also permits the effective assessment of supply of, and demand for, administrative capacities, based on a common and shared document (Stefanova, 2018^[17]).

The 2016-25 Decentralisation Strategy and the 2016-19 Decentralisation Programme already contain some examples of tasks which could be transferred to municipalities, for example, in the area of public order and safety (policing powers, civil security for the protection in floods, fires and other local natural disasters). A detailed analysis of functions within the areas of education, social protection, health and culture should be conducted to identify some delegated or shared tasks of local relevance which could be then converted into municipal-exclusive responsibilities. The analysis should also identify areas where municipalities could be involved as partners and "co-providers" (shared responsibilities) for example, in participating in setting the standards for the provision of educational, health and social protection services.

Experimenting with asymmetric administrative decentralisation

An additional option would also be to introduce asymmetric decentralisation. Today, according to the current Local Self-Government and Local Administration Act, there are no municipalities with "special" status, with the sole exception of the Stolitchna municipality, which is also Sofia (capital) district. Therefore, all municipalities, except Sofia, must be treated in an equal manner. All have the same set of responsibilities and must provide the same level and quality of services regardless of their size. Bulgaria could experiment with flexibility and asymmetric decentralisation, in particular, by assigning differentiated responsibilities to municipalities according to their characteristics, needs and capacities. Large, capable municipalities would have higher budget responsibilities compared to smaller ones. This could be based on "municipal categorisation" (which already exists in Bulgaria and could be adapted and improved in this perspective) and be conducted through pilot experimentation.

Bulgaria could learn from several OECD countries that have already implemented or are experimenting with such approaches, such as Colombia, the Czech Republic and Denmark. In Denmark, for example, a policy experiment known as the Free Municipality initiative was launched first between the years 2012 and 2015, and later extended until the end of 2019. In the experiment, nine municipalities were granted exemptions from government rules and documentation requirements, to test new ways of carrying out their tasks. The main focus of the experiment was on simplification, innovation, quality and a more inclusive approach. The Free Municipality experiment is currently being evaluated until the end of 2020, to form the basis for potential future legislation on de-bureaucratisation for all municipalities (Allain-Dupré, Chatry and Moisiso, 2020^[36]; OECD, 2017^[6]). However, asymmetric governance arrangements should be conducted in a prudent manner so as to avoid common pitfalls that include preferential treatment and creating institutional complexity, as was the case in the Czech Republic. This could lead to the creation of a “multi-speed municipal system”, with favoured and less favoured municipalities, which would merely recreate significant “legal” inequalities. Asymmetric decentralisation may also diminish the central government’s ability to pursue national objectives and engage in the co-ordination of public policies. Finding a balance between heterogeneity and equity aspects is key, alongside maintaining effective vertical co-ordination across levels of government (Allain-Dupré, Chatry and Moisiso, 2020^[36]; OECD, 2017^[6]).

Increasing municipalities’ room to manoeuvre regarding investment and improving the multi-level governance of public investment

The increasing role of Bulgarian municipalities in public investment, in particular since the country’s entrance into the EU, must be acknowledged. However, the level of local investment remains low and highly sensitive to central government and EU funding (with municipalities finding it difficult to meet co-financing requirements, however). Local public investment is impeded by the increase in delegated functions and underfunded mandates. This chronic underinvestment may lead to the degradation of local infrastructure assets, higher upgrade costs when repairs are eventually made and generally negative effects on economic growth and employment.

To increase municipal capacity for investment, it is necessary to improve the fiscal decentralisation framework in particular, by increasing self-financing capacity, capital transfers (both from central government and the EU) and local-level borrowing capacity.

The new Public Investment Programme “Growth and Sustainable Development of Regions”, established by the central government to complement programmes co-financed by EU funds, will certainly facilitate investment financing. The prevention of overlap and double financing will be provided at the project level. A special inter-ministerial council has been created at the ministerial level, with the participation of the NAMRB, to assess and prioritise the submitted project proposals.

Beyond the need for additional financial resources to cover investment needs, there are several gaps that should be addressed to increase public investment and its effectiveness. Primary among these are governance gaps. With the increasing role of municipalities in public investment, investment has become a shared responsibility across levels of government. Managing inter-dependencies is crucial for strengthening the efficiency and effectiveness of public investment. There is a need for effective co-ordination among levels of government (OECD, 2013^[37]). OECD member countries have acknowledged the importance of better governance for public investment by adopting the Recommendation of the Council on Effective Public Investment across Levels of Government in March 2014 (OECD, 2014^[38]).

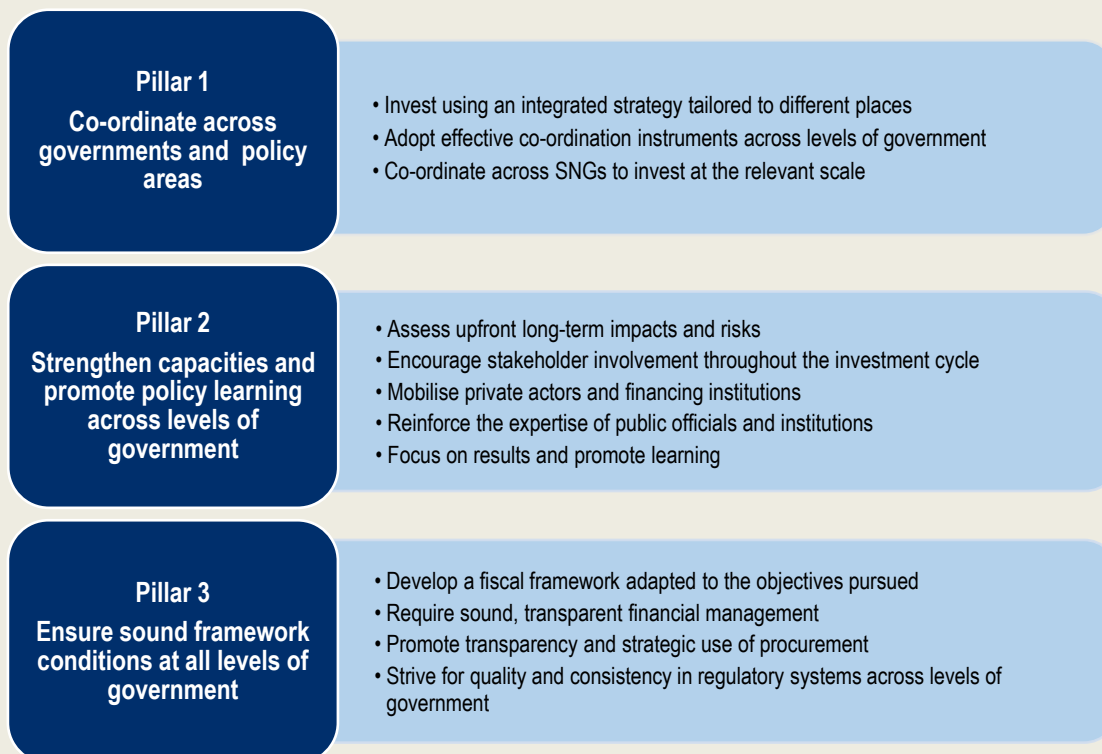
The OECD Recommendation could help Bulgaria to address systemic challenges for public investment in the context of its decentralisation and regionalisation reforms. All areas covered by the Recommendation are instrumental in ensuring effective public investment across levels of government for regional development, although looking at all areas in detail goes beyond the scope of this report. Several OECD countries have used the Recommendation to mainstream their core messages on the governance of regional policy within their administration among Ministries of Finance and line ministries, examples of

which include Australia, Colombia, the Czech Republic, Morocco, the Slovak Republic and Sweden. All OECD countries have adhered to the OECD Recommendation, as well as four non-Member countries: Brazil, Colombia (now a member country), Morocco and Ukraine. Peru has expressed its interest in adhering. Discussions to engage more non-members are underway. Bulgaria could also officially adhere to the OECD Recommendation. In this context, Bulgaria could conduct an in-depth multi-level review of its public investment framework (see the example of Colombia (OECD, 2016^[39])). Such analysis provides an assessment of the strengths and weaknesses of their public investment capacity and sets priorities for improvement.

Box 4.12. Recommendation of the Council on Effective Public Investment across Levels of Government

The OECD Council Recommendation groups 12 principles into 3 pillars representing systematic challenges for efficiently managing public investment: co-ordination challenges, subnational capacity challenges and challenges in framework conditions. An implementation toolkit has been developed to provide basic guidance and help policymakers at all levels of government to implement these principles in practice, providing concrete examples and best practices for countries at any stage of decentralisation.

Figure 4.5. The OECD Recommendation: How to deal with co-ordination, subnational capacity and framework conditions challenges



Source: OECD (2014^[38]), *Recommendation of the OECD Council on Effective Public Investment Across Levels of Government*, <https://www.oecd.org/effective-public-investment-toolkit/recommendation-effective-public-investment-across-levels-of-government.htm>.

Improving municipal administrative and strategic capacities

Some bottlenecks representing key challenges for further decentralisation have been identified above, in particular the lack of sufficient and adequate human resources, weak strategic capacity, the difficulty in delivering high-quality services and the lack of transparency and integrity to mitigate corruption. Some concrete measures to address these challenges could be integrated into the 2021-25 Decentralisation Programme.

Improving human resources development in Bulgarian municipalities

The lack of human capacity is currently a significant bottleneck for effective decentralisation and could put the decentralisation reform at risk. The following measures are suggested:

- **Conducting an in-depth review of human resources capacities in municipalities to engage municipalities on strategic workforce planning and management.** Implementing strategic workforce planning and management, with the support of the central government, could help plan the composition of the municipal workforce in terms of numbers, competencies and skills. An observatory of municipal staff could also be set up. The review should assess employment conditions (salaries, recruitment, training opportunities, promotion and career development, mobility, etc.) in municipalities as well as across the national territory to identify disparities between municipalities. Open, competitive hiring and merit-based promotion should be ensured, as stressed in Guideline 4 “Support subnational capacity-building” of the OECD *Making Decentralisation Work* report (OECD, 2019^[91]).
- **Engaging in an ambitious, systematic and continuous capacity-building programme for local governments.** At the same time, the lack of human capacities at the subnational level cannot be used as a pretext for not decentralising or for limiting local autonomy. While capacity development often comes from learning-by-doing and sharing the results, it is also the result of designing an appropriate framework and instruments for capacity-building. In Bulgaria, framework conditions and training tools adapted to local needs are still weak as underlined above. As in many countries with weak municipal skills, substantial efforts for capacity-building are needed in areas such as good governance, regulation and procedures, budgeting, accounting and sound financial management, tax collection and management, investment planning, management of property assets, strategic planning, formulation of local development policies, public procurement, civil society participation and public control, public ethics, transparency and anti-corruption practices, leadership and management, evaluation and performance, and in management of new responsibilities if further transfers are decided. The 2014-20 Strategy for the Development of Public Administration has integrated the need to reinforce training at the local level, which is a positive step. This priority could also be included in the decentralisation strategy and result in the preparation of a national programme for human resources management and training at the local level.
- **Significant effort should be put on upgrading the strategic capacity of municipal employees, managers and elected representatives (mayors and councillors).** As underlined above, insufficient strategic capacity at the municipal level is particularly problematic in the context of EU cohesion policy and the need for a more localised approach to priority setting and the strategic planning process. This remains a pressing need for the next programming period, alongside amendments to the Regional Development Act and the drafting of new regulations for its implementation. Municipalities are expected to develop integrated investment concepts, in accordance with the development of goals and priorities at the planning region and national levels. Municipalities, therefore, need to develop an internal capacity to set strategic goals, priorities, as well as to develop policy actions, project pipelines and explore funding resources for implementing the plans.

- **Assessing the current training system existing at the municipal level to improve it and better integrate the specific need of local (and regional) actors.** The Institute for Public Administration could play a key role in this respect. It could develop alliances with academic centres to be able to provide training in any part of the country but also with the NAMRB and other NGOs to establish a network of training institutions over the whole territory, able to train municipal (and regional) actors. In this regard, the experience of the French National Local Civil Service Centre (*Centre national de la fonction publique territoriale*, CNFPT) is instructive. It is now a worldwide best practice in terms of implementing an efficient single vocational training system for local government workers to cope with the needs brought about by successive decentralisation reforms. Other countries such as Chile, Colombia, Greece, Italy, Lithuania and Spain have also set up dedicated public governance schools, programmes or academies for municipal and regional training, whose experience can be helpful for Bulgaria.
- **Making the most of digital tools for capacity-building of municipal staff and elected representatives.** Bulgaria could consider developing web-based tools and other e-learning and capacity-building tools for local governments (elected and administrative staff). Some OECD countries have also adopted new IT tools or joint e-government platforms to narrow the gaps in capacity across regions or localities and facilitate peer learning. For example, KiTerritorial is a web-based toolkit developed by the Department of National Planning (DNP) in Colombia that offers specific instruments to support local leaders in the formulation of their territorial development plans (PDT). The *Academia de Capacitación Municipal y Regional*, a programme of the Sub-Secretary for Regional Development (SUBDERE), provides training to municipal and regional employees in a wide range of areas under 3 forms: face-to-face (100% classroom training sessions), semi-attendance (programmes taught under blended learning mode (b-learning, i.e. combining classroom classes and non-classroom classes) and virtual spaces (100% e-learning through a virtual platform and distance learning methodologies).

Enhancing the quality and efficiency of municipal services

It is widely acknowledged that the quality and efficiency of management and service provision vary substantially among Bulgarian municipalities because of significant disparities in terms of financial and human capacities. However, there is no clear view of the current quality of local public services across the territory. This situation also results from the lack – or lack of use – of systematic and general management framework of municipal services, i.e. tools to monitor and assess the performance of local public services, including for delegated functions. The decentralisation process could widen these disparities in terms of service access and quality. In the context of reinforced decentralisation, the central government must address this challenge with appropriate instruments aimed at monitoring, diagnosing and improving the performance of local services. The following measures could be explored:

- **Carrying out a comprehensive and integrated national diagnosis of the quality of local public services across the territory in different sectors.** As a first step, Bulgaria could conduct a study to assess access to, and the quality of, some local public services across the national territory, to highlight the main disparities and capacity gaps.
- **Developing a comprehensive and uniform municipal services management and performance system, with a particular focus on outcomes for local and regional development.** Bulgaria could learn from other EU and OECD countries that are confronted with the same challenges and who have developed systems and procedures for monitoring and evaluating local public services, based on clear, robust and measurable indicators. This quality-oriented system should be developed centrally but should be place-based, meaning it should emphasise outcomes instead of just outputs. It should be noted that the quality of service should also emphasise outcomes instead of just the outputs, i.e. the services *vis-à-vis* the local needs or expected targets. Along this line, a quality-oriented system of municipal service delivery must also

be place-based. Bulgaria could draw on existing effective performance measurement systems established by OECD countries such as Canada (Ontario), Denmark (Danish Joint Municipal Management Information System, FLIS) or Norway (KOSTRA) (OECD, 2017^[6]).

- This approach could be complemented by “municipal service charters”. Service charters are documents that inform citizens of what to expect from a given service and commit the institution to certain quality standards. They can favour flexibility and autonomy for municipalities to tailor their policies to local preferences, such as in the Netherlands, the UK or Andalucía in Spain (OECD, 2017^[6]).
- **Ensuring minimum standards of municipal services to reduce territorial disparities.** To deal with the risk of further decentralisation widening existing disparities among municipalities, Bulgaria could implement a methodology of minimum standards. This would be used to define a basic and guaranteed level of provision in terms of quantity and quality of some municipal services, similar to Chile’s SEMUG system (*Servicios Municipales Garantizados*). Beyond increasing the efficiency and effectiveness of public service delivery and reducing disparities across the territory, such a system, if well managed to avoid rigidity, bureaucracy and the risk of excessive additional central control, can potentially increase municipal accountability by making local governments more transparent and responsive to both central government and citizens (OECD, 2017^[6]).

Ensuring the effective use of internal and external resources with integrity

Controlling corruption is one of the most important preconditions for ensuring the success of decentralisation reform. Unless this is managed more effectively, decentralisation reform will be at risk, especially in a country already confronted with a high level of corruption at national and local levels. The analysis of the failures of the municipal administration show the urgent need for more transparency in how and where public funds are spent (IME, 2016^[40]). There are two areas, among others, in which Bulgaria should be particularly active to support decentralisation: an efficient and transparent procurement system and effective internal and external audits.

- **An efficient and transparent public procurement system is needed to strengthen integrity, enhance accountability and thus support decentralisation.** The ongoing project to adopt an e-procurement system is an important step towards increasing transparency and strengthening the procurement process (Public Procurement Register and the Public Procurement Portal). Additional measures that could be introduced include: providing more guidance to municipalities for procurement; encouraging and supporting willing municipalities in creating purchasing alliances, framework agreements or central purchasing bodies; reinforcing training programmes to professionalise procurement (with the support of the NAMRB); and providing hardware upgrades and software updates. Several measures are included in the National Strategy for the Development of the Public Procurement Sector in Bulgaria over 2014-20 (Government of Bulgaria, 2014^[41]).
- **Improving external and internal audit mechanisms adapted to the decentralisation context.** Budgetary and financial supervision and control are essential in a context of increased fiscal decentralisation and greater autonomy. Bulgaria has already developed a system of external and internal audits, which is adapted to the budget size of municipalities. The National Audit Office in particular carries out financial audits for municipalities with large budgets. Some improvements could be made to both internal and external audits. In particular, the state financial supervision and control system over subnational governments should be adapted to the new decentralisation context. The districts could carry out a budgetary control (*a posteriori*), in addition to a legality control, based on the French prefecture model. However, it should be done following the principle of local autonomy and in liaison with the National Audit Office (NAO). In parallel, inter-municipal co-operation to establish joint internal offices should be encouraged, especially for small municipalities. The oversight role of municipal councils on budgetary issues is also critical to promoting fiscal transparency and accountability. It should be developed while paying particular

attention to reinforcing the capacity of councillors in the budget process, which is often low. Finally, democratic oversight of civil society over the municipal budget should be developed by appropriate information and control measures. Each municipality should be able to provide an annual, digital evaluation report on the state of local finance.

Better municipal services and investment through inter-municipal co-operation in rural, urban and metropolitan areas

While the merger of municipalities could be envisaged for some very small municipalities that no longer have sufficient capacity to provide the delivery of basic services to the population (which would then be mayoralities), it may be politically difficult to conduct. Another solution would be to have a proactive policy to encourage inter-municipal co-operation in rural, urban areas and metropolitan areas, as well as to improve urban-rural linkages. Inter-municipal co-operation would be particularly beneficial in enabling small municipalities with scarce public resources to efficiently deliver quality public goods to their citizens and to realise economies of scale (around 25% of municipalities according to Kalfova (2017^[42])). It could also bring added-value to municipalities belonging to urban areas to reinforce urban and rural linkages as well as to metropolitan areas.

Commit the country to a voluntary policy for inter-municipal co-operation

Promoting inter-municipal co-operation should be a priority in order to generate economies of scale, efficiency and quality gains and costs savings. Additionally, with the advent of the new programming period and new regional development policy, municipalities need to innovate and build greater capacity at an inter-municipal scale.

Many national governments in the EU and OECD promote inter-municipal co-operation by improving legal frameworks, spreading the values and benefits of co-operation amongst mayors and providing incentives for partnership (Box 4.13).

Box 4.13. Inter-municipal co-operation is increasingly supported by national governments because of its numerous benefits

Inter-municipal co-operation enables the retention of municipal identity as well as authority over services that do not require a larger scale of provision or do not affect neighbouring municipalities. Inter-municipal co-operation also allows for efficiency gains and cost savings and can lead to better quality local services, improved processing times and a greater variety of public services on offer. It supports the adoption of innovative, high-tech and specialised services (e.g. through the application of shared technologies) and finally leads to improvements in staff performance and access to expertise, especially in remote locations that experience skills shortages.

Inter-municipal co-operation also allows local governments to sidestep investment constraint. As a result, they are able to invest at the right scale, reducing the fragmentation and duplication of public investment and taking advantage of spill-overs. Inter-municipal co-operation can thus result in investments being made that otherwise would not have been pursued if it were not for local governments collaboration, as underlined by the first pillar of the OECD Recommendation on Effective Public Investment Across Levels of Government, dedicated to co-ordination challenges (OECD, 2019^[43]). Joint investments also improve the quality of public infrastructure and help attract private capital for public-private partnership initiatives.

In many cases, inter-municipal co-operation prevents the closure of local services or facilities that are no longer cost-effective. Efforts by municipalities to solve their problems in isolation often lead to failure as they lack adequate resources and capacity (MRDPW, 2019^[44]; Kalfova, 2017^[42]).

Finally, inter-municipal co-operation is also a flexible solution. As times change, co-operation can be strengthened, scaled back or ended according to the needs of cooperating partners (OECD, 2020^[5]).

Inter-municipal co-operation is widely used for utility services (water, waste, energy, etc.), health, social services, education, culture, environment, transport infrastructure, telecommunication and information technology. Services may be shared as well: back-office and administrative functions (e.g. payroll, finance, compliance and control activities, etc.), environmental services and parks maintenance, joint procurement, frontline services such as customer services, civil protection and management of natural hazards and emergency systems, land registry management, local development, etc.

Examples of countries with the most integrated forms of inter-municipal co-operation are France, Italy, Portugal and Spain.

Source: OECD (2019^[43]), *Effective Public Investment Across Levels of Government: Implementing the Principles*, OECD, Paris; MRDPW (2019^[44]), *Structural Reform Support Programme 2017-2020 Regulation (EU) Request for Support (Article 7 of the SRSP Regulation) - Support to the Process of Decentralisation in Bulgaria*, Ministry of Regional Development and Public Works; Kalfova, E. (2017^[42]), "Inter-municipality cooperation in Bulgaria - Between the necessity and impact of EU policies", 25th NISPAcee Annual Conference; OECD (2020^[5]), *Decentralisation and Regionalisation in Portugal: What Reform Scenarios?*, <https://doi.org/10.1787/fea62108-en>.

Bulgaria could take many actions to advance this agenda, including:

- **Conducting a review of the current framework for inter-municipal co-operation.** The regulatory framework for inter-municipal co-operation exists in Bulgaria but is not widely used. A review of the legal framework could be carried out to diagnose the effectiveness of the forms of co-operation which are proposed and provide recommendations for improvements. There are various formats for inter-municipal co-operation in EU and OECD countries, which range from informal co-operative agreements (single or multi-purpose) with no judicial framework to highly formalised arrangements (supra-municipal authorities) with delegated functions and even taxing powers, such as in France. Other shared services arrangements are common in countries such as Australia, Ireland, New Zealand and the UK (shared services programmes) (Figure 4.6).
- **Bulgaria would perhaps need a more integrated form of partnership**, going beyond the status of a municipal association through the creation of a public law entity, with a specialised or territorial scope. Some competencies, such as spatial planning and economic development, could be transferred from the municipalities to inter-municipal bodies, as is the case in the French model (Box 4.14).

Box 4.14. The development of inter-municipal co-operation in France

In France, the preferred response to municipal fragmentation has been inter-municipal co-operation, which has a long history in France (the first municipal syndicates were created in 1890). The main push was, however, Law no. 92-125 of February 1992, which promoted inter-municipal co-operation as integrated "territorial projects" with own-source taxing powers (i.e. ability to raise their own tax revenue). "communities of communes" and "communities of cities" and later "agglomeration communities" were established. In 2014, the NOTRe Law was passed to simplify this very complex inter-municipal organisation by setting up a minimum threshold for inter-municipal co-operation. In January 2019, there were 1 258 inter-municipal co-operation bodies with own-source taxes (*Établissement public de*

coopération intercommunale, EPCI), grouping all 35 000 French municipalities. There are different forms of such structures, depending on their demographic size and urban or rural characteristics. They exercise obligatory competencies transferred from municipalities by law, mandatory competencies with a right of option (chosen from a list) and non-compulsory responsibilities entrusted by the communes. The NOTRe Law has increased the number of mandatory responsibilities that inter-municipal co-operation bodies have. For example, the 1 001 “communities of municipalities” as of 1st January 2019 (*communautés de communes*) now have 2 mandatory responsibilities (spatial planning and local economic development) and at least 3 mandatory competencies to be chosen from a list of 7 competencies. EPCI now form a fourth quasi-subnational level of government.

Table 4.3. Responsibilities of “*communautés de communes*” after the NOTRe Law

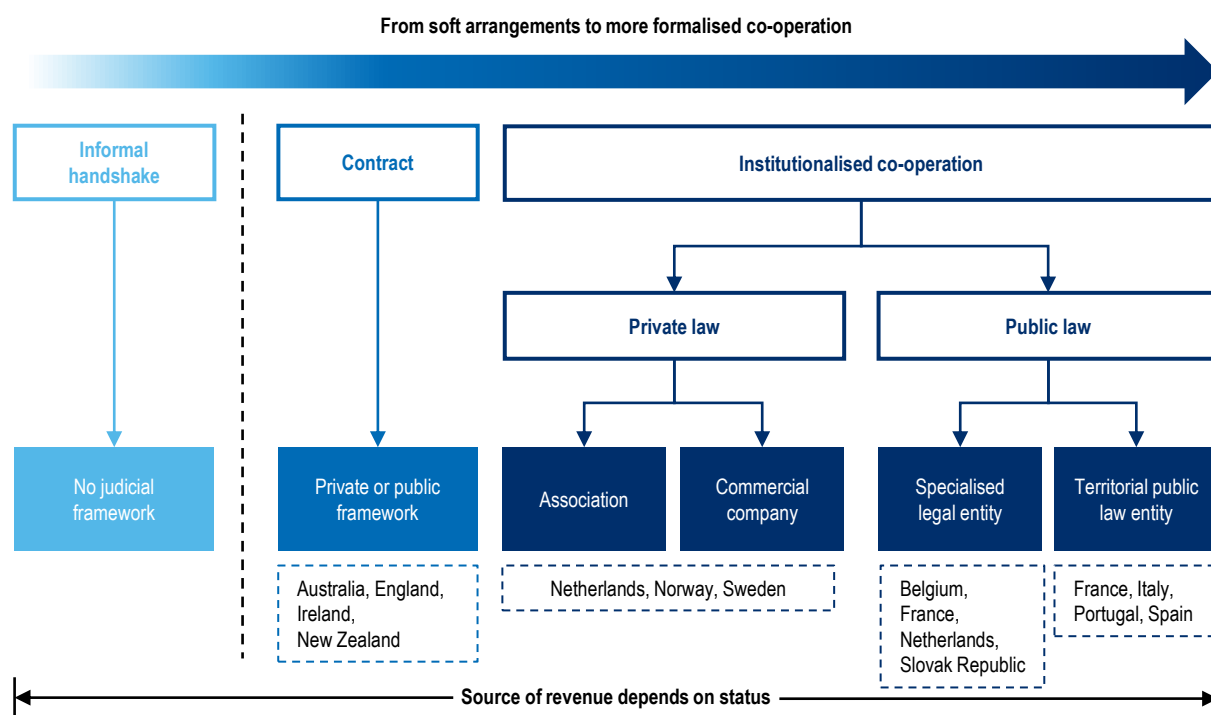
Seven mandatory responsibilities	Three mandatory responsibilities chosen from a list
Spatial planning	Environment protection – energy efficiency
Local economic development (economic activity areas, promotion of tourism, local trade policy)	Housing and living conditions
Travellers’ camps	Creation, development and maintenance of roads
Water (since 1 January 2020)	Construction, maintenance and operation of cultural, sports and educational facilities (pre-elementary and elementary) of community interest
Sanitation (since 1 January 2020)	Social action of community interest
Waste collection and treatment	Creation and management of public service houses
Management of aquatic environments and flood prevention	Urban policy (if there is a city contract)

Source: OECD elaboration based on the NOTRe Law.

Different models of funding are associated with these different forms of co-operation. Establishing a more integrated model under public law allows for access to a variety of sustainable sources of funding (e.g. central government grants and subsidies, user charges and fees, easier access to EU funds), in addition to municipal contributions. The challenge with this type of formalised and integrated co-operation structure is to avoid duplications and overlaps between the municipal and inter-municipal levels, as has been the case in France for example. Experiences from countries with strong inter-municipal arrangements show that inter-municipal co-operation is not without its challenges, which include the creation of an additional hierarchical layer, the risk of a democracy deficit and lack of accountability and transparency, and the risk of creating a harmful common pool, which can lead to increased costs and inefficiencies (OECD, 2020^[5]; Allers and van Ommeren, 2016^[45]).

- **Establishing financial and non-financial incentives for inter-municipal co-operation.** Voluntary co-operation could be encouraged with temporary grants that cover part of the cost for setting up such arrangements. Other fiscal incentives could include special subsidies for inter-municipal projects (or a special fund), bonus grants for municipalities that generate savings through co-operation or privileged access to grants (e.g. infrastructure grants). Non-fiscal incentives may include the provision of consulting, technical assistance, advisory services, the promotion of information sharing or the provision of specific guidelines (toolkit) on how to manage such collaboration (OECD, 2017^[8]). The districts could also play a role by raising municipalities’ awareness of the benefits of inter-municipal co-operation, legal frameworks, tools and incentives, and by fostering dialogue and supporting municipalities wishing to move in that direction. In France, supporting inter-municipal co-operation has been an important mission of the departmental prefects.

Figure 4.6. From soft co-operation agreements to more formalised forms of co-operation



Source: Adapted and completed by the OECD based on <http://www.municipal-cooperation.org>.

- Promoting all forms of partnerships.** Besides formalised inter-municipal co-operation, there is a number of more flexible soft co-ordination and co-operation arrangements which could be promoted in Bulgaria and which could be best suited to achieving particular policy goals or pertinent needs, or to make the most of particular investments. These include the establishment of joint authorities, co-ordinated investment strategies, polycentric co-operation in urban areas, rural-urban partnerships, cross-border co-operation and platforms for cross-jurisdictional dialogue and co-operation (OECD, 2019^[9]). Currently, there are also some informal interactions in Bulgaria – meetings of mayors and senior administrative officers, technical committees and development committees. These less formalised co-operation mechanisms could also be further explored and supported. Examples include: joint tax and fees administration; server rooms/data centres; spatial planning; back-office and administrative function, for example, “consolidated internal audit offices for groups of smaller municipalities to ensure that the offices are large enough to be effective (Hawkesworth et al., 2009^[46]); joint tax collection offices; joint audit offices; joint borrowing, or joint procurement. The latter would be very promising, as municipalities constitute a large number of contracting entities with relatively uniform but fragmented needs, especially in small municipalities, which often lack capacity. Among other benefits, joint public procurement improves securitisation (a specialised lawyer in charge of procurement can better respond than several people performing this task) and also allows for substantial cost savings.
- Using the EU Cohesion Fund as a driver for inter-municipal co-operation.** The ITI and Integrated Urban Development instruments could be an efficient way to facilitate inter-municipal co-operation in 2021-27. While the mechanism is available, the role of the national-level co-ordination body will be critical in facilitating actual co-operation (Box 4.15). A low propensity for co-operation constitutes a serious risk to Bulgaria’s capacity to absorb the structural and cohesion funds. Therefore, promoting inter-municipal co-operation should be presented as a way to improve

access to EU funds. In the future, if inter-municipal legal bodies were to be created, they could become intermediary beneficiaries of EU cohesion funds.

- **Implementing new types of contracts and partnership agreements to encourage inter-municipal co-operation.** Bulgaria could learn from the experience of countries having created such contracts. Portugal, for example, has established a total of 22 Pacts for Territorial Development and Cohesion for the 2014-20 programming period, involving EUR 1.15 billion. These multi-level governance contracts are used to promote inter-municipal co-operation as they are aimed at consolidating the financial and strategic capacities of inter-municipal co-operation entities (created in 2003 as *Comunidades intermunicipais*). There is now a strengthened sub-regional level of inter-municipal co-operation in Portugal, which has enhanced capacity and increased the relevance of their interventions (OECD, 2020^[5]).

Co-ordination and co-operation in urban and metropolitan areas

Co-operation and co-ordination should be promoted to improve the governance of functional urban areas (FUAs) by fostering rural-urban linkages. This is crucial considering Bulgaria's emphasis on reinforcing secondary cities and creating a more balanced polycentric network of cities. Cities need to be further supported as drivers of growth, creativity and innovation. However, this support should not be limited to the administrative boundaries of cities but rather should account for their functional urban centres and close rural areas, which could both benefit from the urban-rural linkages. In the OECD, 80% of the rural population live close to cities. Urban and rural areas enjoy different and often complementary assets and better integration between these areas is important for socio-economic performance. Rural-urban partnerships can enhance and better manage rural-urban relationships (OECD, 2013^[47]). EU integrated territorial investment (ITI) mandates that funding based on partnerships such as ITI are tailored to place-specific features and outcomes and go beyond traditional administrative boundaries to co-operate and co-ordinate actions and achieve shared goals. The ITI approach in Bulgaria should clearly integrate the fostering of rural-urban interactions (OECD, 2016^[48]).

Box 4.15. Using the integrated urban development instrument to facilitate inter-municipal co-operation in the 2021-27 period

The cities that fall in the scope of Priority 1 will have the opportunity to participate in concepts for ITI implemented at the regional level under Priority 2 of the OP for integrated territorial development of NUTS 2 regions. One of the possibilities is their inclusion as a project partner, responsible for the implementation of "soft" measures related to the exchange of experiences, best practices, knowledge transfers and more. The second possibility is to participate in a concept with a project financed by their own contribution, with financial instruments or with funds available under Priority 1 for integrated urban development. Within Priority 2, the PDR 2021-27 will not provide grants for infrastructure investments in these ten major city municipalities.

While the mechanism is available, the role of the national-level co-ordination body is critical in facilitating the actual co-operation between the 10 major municipalities, the regional development councils (RDCs), as well as the other 40 urban municipalities, for example creating regular exchanges to ensure the synergies between the 2 Priority Axes are captured and put in place incentives for the 10 municipalities to participate in the Priority 2 concepts.

A special focus should be put on improving the governance of metropolitan areas through more co-operation and co-ordination. As described in Chapter 3, there is no metropolitan governance system in Burgas, Plovdiv, Sofia and Varna, despite the fact that they suffer from internal disparities and

fragmentation of planning and public policies in areas such as transportation, economic development or the environment. OECD empirical research has shown that for a given population size, a metropolitan area with twice the number of municipalities is associated with around 6% lower productivity. This effect is mitigated by almost half when there is a metropolitan level governance body established (Ahrend, Gamper and Schumman, 2014^[49]). Therefore, implementing metropolitan governance arrangements helps to address the issue of fragmentation and to foster economic and inclusive growth (OECD, 2015^[50]; 2015^[51]). A recent OECD study provides new statistical evidence showing that, on average, more administratively fragmented metropolitan areas have higher spatial segregation of households by income (OECD, 2016^[52]).

To make the most of urbanisation and agglomeration economies, an increasing number of countries are implementing differentiated governance structures for metropolitan areas. Currently, around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body. There are different forms of co-operation arrangements in metropolitan areas, ranging from soft (dialogue platforms/informal/soft co-ordination) to the more “stringent” in institutional terms (supra-municipal body, metropolitan cities) (OECD, 2014^[53]; 2015^[50]). While there is no “one-size fits all” model but rather a range of models that vary based on territorial and institutional contexts, more integrated and strategic forms of inter-municipal co-operation structures are needed for these areas to cope with metropolitan issues. Some elements are essential to ensure effective metropolitan governance including political representation, geographic boundaries that match boundaries of the economic region (functional area), clear assignment of expenditure responsibilities and revenue sources, and decision-making power, including some fiscal autonomy.

Although progress towards more institutionalised and integrated metropolitan governance has been observed in numerous EU and OECD countries, it has not been without difficulty. In Finland, for example, metropolitan governance reforms for Helsinki and ten other urban areas have been planned for many years but have yet to be realised. Indeed, most metropolitan governance reforms in the OECD area have triggered, and still do, intense political debates and controversies as they hinge on the specific national and municipal history as well as cultural and socio-institutional frameworks. Various factors explain strong resistance to metropolitan governance reforms: strong local identities and antagonisms; vested interests of politicians and residents; a lack of trust between municipalities which have “historically competed over residents, enterprises and jobs”; opposition from higher levels of subnational governments (regions) which tend to compete with metropolitan bodies; local financing systems; and potential costs of reforms (OECD, 2017^[8]). These factors explain why central governments tend to increasingly take charge of metropolitan governance reforms and thus why many metropolitan reforms are top-down in nature. Many regulations and initiatives have been taken over the last five years to promote metropolitan governance reforms: New Zealand (2010), Japan and Turkey (2012), France and Italy (2014) and Poland (2015).

For Bulgaria, given the lack of prior experience concerning inter-municipal co-operation at the metropolitan level, it is recommended that any first steps taken are gradual, experimental and asymmetric in approach. Several OECD countries have followed such a path (Allain-Dupré, Chatry and Moisiso, 2020^[36]). Bulgaria could support the development of governance pilot projects for its four metropolitan areas (and even for other large FUAs if they wish to participate in the experiment).

These experiments could be implemented according to the following principles:

- **No “one-size-fits-all” approach:** A flexible and asymmetric metropolitan governance model (“à la carte”) could be proposed and discussed with the different metropolitan areas: supra-municipal entities (inter-municipal co-operation bodies), co-ordination and dialogue platforms, associations or strategic planning partnerships, sectoral or multi-sectoral agencies. In France, for example, there are several models of co-operation for urban areas and additional differentiated models within the metropolitan areas (Box 4.16).
- **A consultative bottom-up approach:** It will be necessary to raise the awareness of different stakeholders about the benefits of metropolitan governance (municipalities, citizens, businesses,

etc.) and to engage in a dialogue about the best governance model for the metropolitan area and the responsibilities which could be carried out. Metropolitan bodies generally cope with a wide variety of urban development issues such as economic development, spatial planning, housing policy, public transport and urban infrastructure development. Transport governance and spatial planning governance are respectively the two main fields of work for 70% and 60% of OECD metropolitan governance bodies (OECD, 2015[50]). Bulgaria could assign these two priorities as the main functions of its future metropolitan areas, in relation to economic development (metropolitan master plans and strategies).

- Decision-making and capacity: Regardless of their form, these entities need to have decision-making authority, sufficient administrative capacity and adequate funding to ensure effective implementation of their responsibilities. To begin, specific tax regimes or fees for metropolitan areas could be promoted without taking other resources away from the municipalities (e.g. transport, pollution tax). The financial model should include equalisation mechanisms within metropolitan areas to foster equity and solidarity between municipalities.
- **A “deal-making approach”:** Contractual arrangements specifically targeting metropolitan areas could be developed. The UK has an interesting model where urban areas are governed through “tailored arrangements” between national and “combined” local authorities, called “devolution deals”. This approach has been replicated in other OECD countries (OECD, 2020^[26]). For example, Australia adopted the City Deal approach in 2019 and 9 other City Deals have since been agreed upon to be operational over a 10-20-year period (Box 4.16). Bulgaria could conclude such partnership agreements or contracts between its largest metropolitan areas.

Box 4.16. Experimentation, asymmetry and deal-making approach: Some international examples

- **France, an example of an asymmetric approach and metropolitan contracts:** To manage its FUAs, France has developed three forms of inter-municipal co-operation: metropolises (*métropoles*) for FUAs greater than 400 000 inhabitants (21 as of 1st January 2019), “urban communities” for those between 250 000 inhabitants and 400 000 inhabitants (13 *communautés urbaines*) and “agglomeration communities” for those above 50 000 inhabitants (223 *communautés d’agglomération*). Within the metropolis category, introduced by the 2014 MAPTAM law on the modernisation of public territorial action and metropolises, there is an additional differentiation between the three largest metropolitan areas (Aix-Marseille-Provence, Lyon and Paris, which have already had special status since the 1982 PLM law) and the others (common law statute). Finally, Aix-Marseille-Provence, Lyon and Paris also have ad hoc different governance structures – i.e. different organisation, responsibilities and resources. In 2016, the government launched a new form of contract, the State-Metropolis Pacts, which aims at empowering the new metropoles and support urban innovation at the metropolitan scale through financial partnering in some key investments. Their main objective is to consolidate the future position of metropoles in the institutional landscape.
- **The devolution deals in the UK:** Since 2010, the UK has developed a comprehensive policy on devolution and local economic growth. Government interventions to support economic growth are being pursued at different scales (cities, FUAs, regions, pan-regions) to ensure all parts of the country benefit from sustainable economic growth. Devolution deals build on previous City Deals to cover city regions, as well as local authorities in both urban and rural areas, to improve policy co-ordination between cities and their regions. Devolution deals mostly involve the devolution of powers and governance changes (an elected city-region mayor). They are agreements (contracts of usually ten years or more) signed between the government and “combined authorities” at the city-region level and are bottom-up proposals focused on

leveraging investment for locally determined priorities. In England, key devolved policy areas include consolidated transport budgets, single place-based funding pots, long-term investment funds to support jobs and growth, greater local control of unemployment programmes and piloting of business rates (property tax) retention (Thorpe, 2019^[54]; OECD, 2017^[8]).

- **Experimenting metropolitan governance in Chile:** The programme Pilot Project for the Establishment of Planning and Co-ordination Capacities for Metropolitan Areas was launched in 2015 and carried out in four Chilean regions, which were selected as pilots to demonstrate and address the different morphological, functional and population differences present in Chile's emerging metropolitan areas (La Serena-Coquimbo in the Coquimbo Region, Greater Santiago in the Metropolitan Region; Greater Concepción in the BioBío Region and Puerto Mont-Puerto Varas in the Los Lagos Region). Among the competencies which would be carried out by the "the metropolitan regional government" are preparing a metropolitan urban transport master plan, elaborating an inter-municipal investment plan of infrastructure, and operating the collection, transport and treatment of solid waste and traffic regulation of urban roads. The metropolitan regional government would be advised by a committee of mayors, representing the municipalities making up the metropolitan area.

Source: OECD (2019^[43]), *Effective Public Investment Across Levels of Government: Implementing the Principles*, OECD, Paris; Allain-Dupré, D., I. Chatry and A. Moisisio (2020^[36]), "Asymmetric decentralisation: Trends, challenges and policy implications", <https://doi.org/10.1787/0898887a-en>; OECD (2017^[6]), *Making Decentralisation Work in Chile: Towards Stronger Municipalities*, <https://doi.org/10.1787/9789264279049-en>; Thorpe, K. (2019^[54]), *City and Devolution Deals and Local Growth Policy in the United Kingdom*; OECD (2017^[8]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>.

Strengthening fiscal decentralisation and responsibility

Reinforcing fiscal decentralisation was a main priority of Bulgaria's first decentralisation strategies and programmes in 2002-05. An in-depth transformation of the local financial system has been engaged but fiscal decentralisation reform has halted in midstream, slowed down by the 2008 global economic crisis. Since that period, no major improvements have been made despite the commitments of the successive decentralisation strategies and programmes.

To a certain extent, the current situation gives the impression that there is no national vision or ambition for large-scale and comprehensive local finance reform in Bulgaria. Fiscal decentralisation is often the missing link of decentralisation reforms and its importance in ensuring successful reform is widely underestimated (OECD, 2017^[8]; 2019^[9]). Fiscal decentralisation needs to be better conceptualised within a strategic framework. On this basis, a road map and implementation plan for fiscal decentralisation should be prepared and discussed with all key stakeholders. A special working group on fiscal decentralisation could be set up with key ministries, subnational government associations, business and citizens' associations, and universities, to name a few.

Municipal revenues should be increased to avoid underfunded mandates (the "connection" or "matching principle") and boost local investment but also in the perspective of increased decentralisation. In any case, beyond the need for sufficient revenues to cover spending needs, there is also the necessity to provide municipalities with the ability to manage resources with some autonomy and flexibility. According to the OECD's ten guidelines for effective decentralisation (OECD, 2019^[9]), increasing fiscal autonomy of subnational governments in managing their revenues, if properly designed and implemented, has many benefits, including improving the quality and efficiency of spending, increasing accountability, ensuring a better mobilisation of local resources, and others. But, if not well managed, enhancing fiscal autonomy may also have some drawbacks (e.g. increased fiscal disparities, diseconomies of scale, lack of capacities, risk of greater fiscal instability) that need to be taken into consideration when conducting a fiscal decentralisation reform. As a result, further fiscal decentralisation also calls for better equalisation

mechanisms and fiscal rules, which should be considered as a necessary corollary to fiscal decentralisation.

A comprehensive approach to assessing the local finance system should be adopted, i.e. not only looking at the local tax system but to the overall financial system, including grants, taxes, user charges and fees, property income, equalisation mechanisms, borrowing, fiscal rules and financial management. It is proposed below to focus on four specific dimensions: the system of grants, local taxation, equalisation, borrowing and fiscal rules.

Reforming the grant system to ensure adequacy and flexibility

The government could consider the following recommendations in its future decentralisation strategy and programme:

- **Increase the level of central government grants and subsidies (operating and capital transfers).** Despite a significant increase in grants over the last years, central government transfers are still insufficient to cover all of the delegated functions. Bulgaria should proceed with an in-depth review of financing needs for all delegated functions, including those that are transferred by secondary legislation, to progressively adjust the level of funds to the needs. Bulgaria could increase support for structural reforms on all fronts to raise productivity and boost convergence (OECD, 2021^[55]). In the education sector, for example, there is room for increasing public spending, which remains amongst the lowest level in the EU. Higher spending could further strengthen the teaching of digital skills and the modernisation of the education system (IMF, 2020^[56]; OECD, 2021^[55]). The government should also reconsider the system of capital transfers to increase the level of funds available for public investment (in particular, to provide co-financing for EU projects) and to target these funds toward quality projects that are developed based on strategic programming and planning (Houbenova-Delisivkova, 2017^[57]).
- **Guaranteeing the level of funds to adequately finance delegated functions and avoid underfunded mandates.** The assignment of revenues should be consistent with functional responsibilities to avoid structural deficits, risk of fiscal distress and insolvency as well as the downgrading of local public services. The division of financial responsibilities should ensure that there are no unfunded or underfunded assignments or mandates. National governments should contribute to the local government system when devolving new tasks to subnational authorities or when additional costs arise from a change in national legislation or due to extraordinary events and crises that are out of the control of local governments. Bulgaria could also introduce measures to mitigate or even reverse the use of unfunded or underfunded mandates, ensuring that there is no transfer of charges without the adequate transfer of funding and that the compensation should be consistent over time. In addition, all transfers of additional functions should be negotiated with the NAMRB to assess its relevance and find adequate fiscal and sometimes technical compensation.
- **Other OECD countries are often confronted with this issue and Denmark can be considered good practice in this respect.** In fact, there are two long-established and fundamental “compensation principles” in Denmark: the expanded total balance principle and the budget guarantee scheme. The first one requires the central government to compensate local authorities with extra grants whenever new national legislation has an impact on local expenditure. Conversely, resources must be refunded where new national legislation has the opposite effect. The second principle compensates local authorities for additional expenditure resulting from external factors that are outside local government control (OECD, 2017^[6]).
- **Giving municipalities more autonomy in the use of grants and subsidies.** Bulgarian municipalities should enjoy more freedom in deciding how to use grant funding, without being excessively constrained by strict guidelines, norms (generally defined nationally) and control from the central government. This should apply even if the grants are earmarked to specific sectors.

Excessive use of earmarked grants is generally associated with low flexibility and low efficiency, particularly when the grants do not require matched funding to align with local preferences and address local needs (Bergvall et al., 2006^[58]). Beyond exploring ways to include more flexibility in the use of grants (such as the 2018 reform concerning unused funds), the government could envisage shifting from earmarked grants to general purpose grants in some sectors. For capital grants, to break the silos generated by specific grants which are not conducive to effective public investment, Bulgaria could experiment with moving away from the model of conditional and specific grants and subsidies towards adopting general capital grants based on a formula. This would allow municipalities to finance integrated programmes that include different local development projects.

Towards local tax reform

From a long-term perspective, raising local tax rates will not help with the fiscal conditions of most local governments. Structural issues of high reliance on central transfers cannot be overcome without changes to the existing local tax system to reinforce the tax autonomy of local governments and increase the share of tax in municipal revenue. Several potential avenues for reform are presented below for reflection, needing further analysis, concertation and discussion:

- **Improving the performance of the current system of local taxes.** The taxing power of municipalities could be enhanced in several ways, including by giving more power to municipalities to set the local tax base and provide tax breaks and preferences. Municipalities think that the existing tax breaks set by the central government do not provide real incentives for taxpayers and that these breaks should be decided on at the local level (NAMRB, 2018^[59]). Local decision-making power regarding tax breaks would give local authorities the incentive to expand their fiscal space to effectively carry out local policies. All taxes could be reviewed and screened to identify room for more autonomy and optimisation. Small taxes may have an underexploited potential.
- **During this review exercise, special attention should be given to property taxation** as there is great potential for Bulgarian municipalities to raise additional revenues from this tax. Property tax is the cornerstone of local taxation in many countries. The merits of the property tax are regularly praised by economists: visibility, lack of tax export, productivity thanks to the stability of tax bases and solid return on tax collection, lack of vertical tax competition by exclusive or priority allocation to the municipal level, implicit progressivity (property values rise alongside the revenue of their owners) and horizontal equity are just a few acknowledged benefits. However, the implementation and management of property taxation face many obstacles, such as the complexity of valuation methods and the risk of implicit transfers. Indeed, reforming the property tax system is particularly complex but also politically risky for municipalities, as property taxation is particularly unpopular with taxpayers (Blöchliger, 2015^[60]; OECD/KIPF, 2016^[61]; OECD, forthcoming^[62]).
- Some improvements have already been conducted (see above) but **more could be done to increase the performance of the property tax.** Some proposals have already been made such as revising the current assessment system to better reflect the market value of the properties (e.g. moving from a standardised assessment system to a place-based system, that captures the real value of the local market; using indicators that capture the drivers of the real estate market, such as accessibility to public transport or services) or including agricultural land in the tax base, which would provide additional revenues especially to small and rural municipalities (OECD, 2019^[63]; Kalcheva and Nenkova, 2019^[64]).
- **Diversifying the municipal portfolio of taxes.** To address the problem of low tax revenues, the tax system needs to be restructured by diversifying the local tax scope and base to increase the share of tax revenue. Adopting broad-based taxes or a wide variety of tax instruments is crucial to securing the financial stability and self-resilience of local governments. Local taxes should also serve as the link between local growth and municipal revenue, giving local government incentives to attract investment and boost local growth. Bulgaria could then consider giving municipalities the

authority to raise taxes, e.g. taxes related to the provision of local public services, such as: a cleaning tax or a street lighting tax; taxes related to local vehicular traffic, such as parking taxes or taxes on ride-sharing service; license taxes related to specific local activities, such as advertising, gambling, entertainment, personal services, etc. (OECD, forthcoming^[62]).

- **In addition, Bulgaria could consider providing a share of personal income tax (PIT) to municipalities or giving them the opportunity to levy a surtax on PIT.** In fact, while the approach of removing PIT as shared tax in 2003 was justified as PIT is progressive and the tax base is unevenly distributed, favouring rich local governments, it might not have been the most strategic approach to completely replace PIT with transfers for delegated activities. Other more nuanced approaches to counteract the progressive effect and risk of disparity have not been explored. These include introducing redistributive factors into the central-local tax-sharing mechanism through equalisation mechanisms.

In recent years, various research studies and proposals have suggested redirecting two percentage points of PIT to municipal budgets or, in other cases, a portion of the value-added tax (VAT) (Institute for Market Economics, 2019^[65]; Kalcheva and Nenkova, 2019^[64]). Estimates show that the transfer of one-fifth of the PIT revenue for 2018 would increase municipalities' own-revenues by nearly BGN 675 million (i.e. by almost one-third) and create real incentives for local authorities to work to attract investment and job creation (IME, 2018^[66]). This scenario could be further explored in Bulgaria. EU and OECD country experiences show that tax sharing is widely used (Box 4.17).

Box 4.17. Shared taxes and piggy-backing in OECD countries

Subnational governments in many OECD countries receive a share of national taxes (PIT, corporate income tax [CIT], value-added tax [VAT], excise taxes, environmental taxes), either under the form of a portion of tax receipts redistributed according to a tax-sharing formula, which may include some equalisation mechanisms, or under the form of a surtax or a surcharge.

Shared taxes are frequently found in federal countries (except Australia, Mexico and the United States). They are also used in Italy, Norway and many Central and Eastern European countries. In Latvia, Poland and Slovenia, the sharing of PIT is a major source of revenue for subnational governments, accounting for more than 50% of their tax revenues. In Portugal, since 2007, municipalities receive a share of PIT capped at 5% of tax receipts collected from residents (municipalities can decide to reduce this percentage rate).

When subnational governments can levy a surtax or a surcharge on a national tax (piggy-backing), they also enjoy a higher taxing power as they can decide on their own marginal rates and reliefs, within lower and upper limits. Piggy-back taxes can thus be assimilated into own-source taxes. Piggy-back taxes offer several other advantages including the fact that they are quite easy to administer as they use pre-existing national tax collection and management systems. They have thus the value of simplicity and harmonisation with existing tax bases. Examples of countries where municipalities apply a surtax on PIT are Belgium, Italy, Korea and Switzerland.

Source: OECD (forthcoming^[62]), "A review of local government finance in Israel: reforming the Amona system", OECD, Paris.

- **Strengthen the Bulgarian fiscal equalisation system.** Such a local tax reform, if conducted, would require a substantial strengthening of the existing "general equalisation grant" but also an investigation of other possible equalisation mechanisms, in particular horizontal equalisation measures (Nenkova, 2019^[67]). The reform of the general equalisation grants formula, conducted in 2019, was the first step towards greater equity and efficiency in the system, as it better targets

municipalities with low fiscal capacity (OECD, 2019^[63]). However, additional adjustments are still needed according to some stakeholders. In this respect, looking at international experience would be of great interest to Bulgaria. In fact, equalisation mechanisms are widely used in both federal and unitary OECD countries. They combine vertical transfers (from the central government to financially weak subnational governments) and horizontal transfers (from wealthy jurisdictions to the poorer ones), as well as arrangements based on revenue equalisation (to reduce differences in tax-raising capacity) or charges equalisation (to reduce differences in the cost of providing public services). Vertical equalisation is more widespread than horizontal equalisation. Tax revenue equalisation and cost equalisation systems are used with roughly the same frequency.

- **Find incentives for municipalities to make the most of their taxation power.** As is the case in other EU and OECD countries, local governments are not always using their taxing power to the fullest extent, either for political reasons or because of easier access to other sources of funding (e.g. disincentive effects of grants financing). To increase municipal tax efforts, the Bulgarian Ministry of Finance has recently conditioned the allocation of interest-free loans based on local commitments to raise local tax rates, a measure which has been quite successful (IME, 2018^[66]). Other incentives, however, could also be implemented, and providing more discretion on the tax base could be an additional motivator for municipalities to formulate their own tax policies.
- **Improve the collection of local taxes.** Increasing the tax collection rate is identified as one of the major aims of the Ministry of Finance's Convergence Programme. Estimates show that raising the collection rate by just 10 percentage points could bring in additional BGN 140 million in local tax revenue and probably even more in non-tax revenue (e.g. local fees). At 100% collection, the local tax revenue could increase by BGN 400 million annually (Forbes Bulgaria, 2020^[68]) – to compare, the total municipal own-revenue from taxes and fees in 2018 was BGN 2.4 billion. While tax collection has been decentralised, many municipalities lack the administrative capacity and tools to collect tax receipts but also to fight against tax evasion and avoidance. Tax collection and management (data collection and reporting, setting registration, evaluation and carrying out control activities) should be improved and supported by the central government to realise economies of scale and improve efficiency, especially if further decentralisation results in the transfer of additional taxes (and fees). For example, in the case of the introduction of the tax on taxi transport in 2017 as a new local revenue source, municipalities did not have appropriate tools and information to correctly make the assessment and manage its collection (SEGA, 2019^[69]).
- Some measures could be adopted such as: i) favouring inter-municipal co-operation to establish common tax offices and realise economies of scale; ii) improving co-ordination and co-operation between municipalities and the National Revenue Agency, the State Receivables Collection Agency (and their territorial directorates) and the National Customs Agency and optimising the system for central-local information management; iii) disseminating and increasing the use of a proper electronic tax tool (as an example, municipalities attributed the increase of vehicle tax collection to the switch to an automated electronic system, introduced by the Ministry of the Interior in 2018/2019 (NAMRB, 2018^[59]; IME, 2013^[70]); and iv) increasing the delegation of rights to local authorities concerning tax collection enforcement (2008 official assessment of the Local Taxes and Fees Act).

Facilitating access to external financing for public investment: Borrowing and public-private partnerships (PPPs)

Investment needs remain significant in Bulgaria, especially at the local level where investment gaps result in increased territorial disparities. These investment needs are related to co-financing both EU projects and other types of investment, including new investment and maintenance and rehabilitation investment. To close the investment gap, an analysis could be conducted on how to remove impediments/obstacles to external financing in order to boost infrastructure investments while still preserving economic stability and

sound fiscal management. A working group that includes central government entities (Ministry of Finance, State Treasury, Central Bank, Ministry of Regional Development, etc.), the NAMRB, commercial banks, international financial institutions and rating agencies could be established. Two issues could be discussed: debt financing and PPPs as tools for public investment and regional development.

Developing borrowing for public investment

In theory, borrowing is used to finance investment projects when self-financing and capital transfers from the central government are insufficient to meet the project needs. Acquiring public debt thus increases municipal financial capacity to invest in municipal infrastructure. The use of borrowing has other advantages including better allocation of resources over time, intertemporal and intergenerational equity and acceleration of local development projects. In Bulgaria, acquiring public debt also provides the matching funds required to co-finance EU projects. However, borrowing remains underutilised because of borrowing constraints and weak creditworthiness. As noted in Chapter 3, basic prerequisites for borrowing are not met by many Bulgarian municipalities as they are not able to generate revenue. Reinforcing borrowing begins by strengthening fiscal decentralisation, i.e. improving the capacity of municipalities to generate revenue. Beyond that, Bulgaria could reflect on how to better use debt for investment financing.

Measures which could be assessed and discussed include: reviewing prudential rules, encouraging joint borrowing, facilitating the access of large municipalities and inter-municipal co-operation bodies to capital markets (bond financing, green and social bonds), developing of a rating system to identify “capable” municipalities, enlarging the scope of the Fund for Local Authorities and Governments in Bulgaria (FLAG) to finance all municipal investment projects, developing municipal development funds (MDFs) and encouraging subnational pooled finance mechanisms (SPFMs), which are local government funding agencies, already well established in Nordic countries (Denmark, Finland, Norway, Sweden) and are now emerging in France, New Zealand and the UK (OECD, 2017^[6]; Kalcheva, 2017^[71]).

Cautiously developing the use of subnational PPPs

PPPs can complement other sources of infrastructure finance by attracting private investment to finance large-scale or complex infrastructure projects, especially in large cities. Most OECD countries (83%) reported having 0%-5% of public sector infrastructure investment taking place through PPPs in the last three years (OECD, 2018^[72]; 2019^[11]).

The use of PPPs is incipient in Bulgaria, except in the area of concessions for municipal property management which have existed for a while and have helped to develop a considerable body of practical knowledge. There are currently 624 municipal concessions in Bulgaria versus 102 at the state level. A PPP Act enacted in 2013 was never put into practice. The new Concessions Act, in force since 1 January 2018, repealed an existing concession act and the PPP Act. It distinguishes between three types of concessions according to their subject: public works, services and the use of public state and public municipal property. The new law provides the possibility of payments by the contracting authority or “availability payments”, setting out the general conditions regarding the identification and motivation of the need for payments. Thus, under the framework of the Concessions Act, this form of PPP (with payments from the state/municipality) can also be implemented (OECD, 2019^[63]).

PPPs could be encouraged at the local level especially for large municipalities or inter-municipal co-operation bodies that have the financial and technical capacities required to design, implement, administer and monitor complex projects. The government should promote local PPPs, which could be a successful and workable mechanism to address several local issues and to stimulate economic development (UPEE, 2020^[33]). Several OECD countries could provide interesting experiences such as Australia, Canada, Colombia, France, Germany, Korea, Mexico or the UK.

Although there is already a regulatory framework in Bulgaria, a legal framework targeted and adapted to local projects could be established to regulate, secure, facilitate and stimulate PPPs, especially at the metropolitan level. Bulgaria could launch a programme on subnational PPPs to build and reinforce municipal sector capacity to effectively engage with the private sector in PPPs. It could also establish a PPP unit dedicated to supporting municipalities and providing financial resources to municipalities to access technical support. In the area of social housing, legal constraints, which impose to municipalities to construct dwellings, could be reviewed to encourage the participation of private sector developers and PPPs and support the development of social housing in municipalities (OECD, 2021^[55]).

Rolling out subnational PPPs should be done with caution. There have been many examples in recent years of PPP failures or misuse and they are not well-suited for all subnational governments. They work best in larger jurisdictions that already have the general fiscal and institutional capacities required. Likewise, they should be used primarily in those infrastructure sectors where the public sector has sufficient expertise (OECD, 2019^[11]). Pilot projects could be undertaken and monitored and evaluated carefully prior to being scaled up.

Pursuing measures for better fiscal discipline and local financial management

Fiscal discipline is one of the fundamental components of good financial and municipal governance and thus of successful decentralisation. It ensures that financial resources are properly managed and spent according to municipal priorities (Koleva, 2019^[73]). Rules for fiscal discipline and responsibility are desirable to minimise fiscal risks and to restrain imprudent fiscal behaviours (OECD, 2019^[9]). In this respect, Bulgaria has established a sound fiscal framework, including a recovery programme for municipalities under fiscal stress that represents a positive step for consolidating local finances, as systemic information about the health of municipal finances and mechanisms for the enforcement of fiscal discipline was previously lacking. The mechanism provides for transparent and automated state monitoring of local authority finances. At the same time, this may result in increased financial and political dependence on the central government, further limiting local autonomy (Zankina and Gurov, 2018^[74]). In addition, there are still significant issues regarding municipal financial sustainability, transparency and accountability, which need to be addressed more comprehensively. Fiscal discipline tools are crucial but the overall municipal fiscal framework does not accurately address the structural deficiencies of the centralised local finance system. Municipalities do not have sufficient control over their revenues and, therefore, are not fully able to analyse the effectiveness of their activities and make informed decisions about local financial management (Aleksiev, 2016^[75]; Houbenova-Delisivkova, 2017^[57]).

Bulgaria should put the topic of fiscal discipline at the core of the decentralisation strategy and as a fundamental component of successful fiscal decentralisation. In this perspective, to address the problem of public finance management quality and conditions, the current fiscal framework should be complemented by systematic measures aimed at enhancing local finance management. These measures could include: adjusting the budgetary and fiscal framework to modernise and make municipalities more efficient and responsible; improving greater disclosure, monitoring and transparency of municipal functioning; and reinforcing accountability to guarantee fiscal sustainability of public policies (Aleksiev, 2016^[75]; Houbenova-Delisivkova, 2017^[57])

Reforming regional governance to boost capacity and deliver regional development objectives

An effective intermediate level between the central and municipal levels is missing in Bulgaria, whether represented by the districts or the planning regions. An effective regional level could bring a lot of value to the Bulgarian multi-level governance system to foster co-operation among municipalities, ensure better co-ordination between the municipal and central levels and to design and implement regional place-based

policies, in co-ordination with the central government and EU cohesion policy. International experiences, especially in EU and OECD countries, show that regionalisation reforms have been an important trend in multi-level governance in recent decades and that different regionalisation models exist and even coexist within the same country. In Bulgaria, there are still many ongoing debates about the regionalisation process itself. Questions have been raised about how to proceed with reinforcing regional levels and about which regional levels should be reinforced – districts or planning regions, or both. Plans to reform the regional level, in particular in the context of the 2006-15 Decentralisation Strategy, have not yet been translated into significant concrete achievements. In fact, no consensus seems to have emerged at this stage on the best options for the future. In the following sections, several scenarios based on international experiences are proposed. The common theme for these scenarios is the differentiation between the role of districts and that of planning regions. The districts would become the main representative of the central government at the territorial level while the planning regions, as legal entities, would become the governance level focusing, at least in the first stage, on regional development.

Increased regionalisation reforms in EU and OECD countries have brought to light several models of regional organisation

Regionalisation reforms represent an important trend in multi-level governance in recent decades

Regionalisation reforms have been an important trend in multi-level governance in recent decades in Europe but also in other regions of the world, in particular American Asia and to a lesser extent Africa (OECD/UCLG, 2019^[76]). Looking back over the period 1970-2010, the Regional Authority Index (RAI), which measures the degree of power of regional authorities across 10 dimensions shows that 52 out of 81 observed countries have experienced a net increase in the degree of regional authority over this 40-year period (Hooghe, Marks and Schakel, 2009^[77]; Hooghe et al., 2016^[78]).

Why regionalise?

There are several drivers behind regionalisation, which are often found in combination: political, socio-cultural and administrative concerns; the need to carry out place-based policies for regional development; the search for economies of scale in the provision of public services and infrastructures; and the aim of enhancing competitiveness and regional growth. The size of the country also matters as large countries tend to have more layers of subnational governments. But many countries of a relatively modest size have also introduced or strengthened a regional level in recent decades.

Political reasons can be a strong motive for regionalisation, especially if regionalisation is associated with decentralisation, i.e. the recognition of a regional power besides the national power resulting from the direct election of regional bodies. This can enhance local democracy, transparency and accountability at the regional level. Political recognition may also be strongly associated, in some countries, to the preservation of historical, cultural, ethnic or linguistic characteristics at the regional level. In some countries, granting local autonomy to regional entities may also prevent the disintegration of the “nation-state” and ensure greater political stability. Another driver of regional reforms is more indirect, resulting from reforms affecting another level of government, for example, municipalities or the state territorial deconcentrated administration. For example, municipal reorganisations (consolidation through mergers or inter-municipal co-operation) may have an impact on the existing role of regions. The objective of regional reforms is then to redefine the role of the regions within the more general changing multi-level governance framework (OECD, 2017^[8]).

Beyond political and socio-cultural considerations, the regionalisation phenomenon is closely related to the need to co-ordinate place-based policies adapted to the specific conditions of regions and to carry out regional development policies to reduce disparities. In several OECD countries, regionalisation is

motivated by regional development and spatial planning considerations. In EU countries, and especially Central and Eastern European Countries (CEECs), regionalisation resulted, among other considerations, from the need to design and implement regional development policies and access EU funds, and therefore to set up new governance structures (Box 4.18). Relative to local governments, regions can overcome purely local interests and instead take a broader, regional view. They can prevent over-fragmentation of projects, in particular those related to EU funds, foster intra-regional co-ordination and inter-municipal co-operation, and promote rural-urban linkages. They may also have more resources available to implement effective regional development strategies and more integrated territorial planning (OECD, 2019^[11]).

In this same vein, regionalisation can be a way to correct the excessive concentration of the capital city, such as in France, Japan and Korea. In France, for example, the excessive weight of the Paris region which concentrates the bulk of political and economic powers, denounced since 1947 in the book *Paris and the French Desert* (Gravier, 1947^[79]), has had a great impact on the regionalisation process.

Box 4.18. The impact of the EU accession on decentralisation and regionalisation in Central and Eastern European Countries (CEECs)

The prospect of entering the EU has had an impact on the transformation of subnational governance systems in CEECs. This transformation was led by the need both to modernise the public sector management and to adopt EU regional policy. Although the EU did not promote a particular model of subnational governance, accession to the EU has had an impact on local and regional governance, resulting in some convergence in multi-level governance systems and the implementation of common principles.

In all CEECs, the decentralisation reforms that have been conducted have been strongly influenced by EU standards: restoration of democratic institutions at the municipal level; development of local governance and financing systems; improvement of public services complying with EU requirements; setting up regional governance; and building EU statistical standards for administrative units (Nomenclature of territorial units for statistics, NUTS).

The strong link between decentralisation, regional development and EU structural and cohesion policy explains why the regionalisation process was so strong in several CEECs that were planning to join the EU. It led several countries to enact regional governance reforms, leading to the creation of planning regions, regional development bodies or self-governing regions to access and/or manage EU funds for regional development.

Source: OECD (2017^[8]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>.

Achieving economies of scale in public service provision may be another strong incentive for regionalisation. A regional level can facilitate the provision of services and infrastructure of regional interest because it operates on a larger scale. Services typically provided at the regional level include: secondary and higher education; professional training; regional spatial planning; regional economic development and innovation; secondary healthcare and hospitals; social and labour market services; regional roads and public transport; regional promotion, culture and tourism; and environmental protection. These services benefit from economies of scale, generate spill-overs, involve redistribution and are required to meet the same standards across the jurisdiction (OECD, 2020^[80]). For public goods with strong local/regional externalities, the regional level has more local knowledge and can better match its policies with functional areas. The added-value brought by the regional level to foster co-operation among municipalities and

facilitate co-ordination between the local and national levels may also motivate the creation or reinforcement of the regional level.

Globalisation and other megatrends have reinforced the regionalisation trend. In fact, competing at the international and European level by highlighting regional assets and attractiveness may encourage the development of initiatives to enhance competitiveness and regional growth. Regions can also bring added-value to the strategic planning and regional development processes, which involve stakeholders from inside and outside the region, from the public and private spheres, and all levels of government. Regions may better target regional comparative advantages through access to local knowledge, compared to the national government or too-fragmented local governments. Through this role, regions can play a major role in increasing employment and productivity and driving economic growth at the regional and national levels. Finally, stronger regions facilitate co-operation with other regions and international and European levels and better compete on the global scene. Stronger regions can allow for more effective governance for cross-border or macro-regional projects.

The 2008 global financial crisis, and the subsequent fiscal consolidation measures, have had a strong impact on the regionalisation trend. In some cases, it has led to the creation of a decentralised regional level such as in Greece in 2011 (*Kallikratis* Reform) but also to the reinforcement or up-scaling of existing regions. In Finland, the objective of the planned regional reform (currently on hold) was to attain greater efficiency for public services (provided both by municipalities and central government) to bridge the EUR 3 billion sustainability gap, by upscaling and reducing costs.

The current COVID-19 crisis may also impact the regionalisation trend. The crisis shows that relying on an efficient regional level may help countries to cope with the varied impacts of the crisis and provide adequate policy responses for the economic recovery of territories. The post-COVID-19 economic recovery will require ambitious territorial approaches and governance models at the regional level. In several countries, calls are being made to strengthen the regional level and/or to make it more resilient and effective to act in times of crisis.

Table 4.4. Main drivers of regionalisation reforms

Broad policy drivers	Governance and management objectives	Solve current challenges
Political, socio-cultural and administrative concerns	<ul style="list-style-type: none"> Enhanced local democracy and transparency in decision-making and accountability through direct election of regional bodies Regional identity: preservation of historical, cultural, ethnic or linguistic characteristics at the regional level Redefining the role of the regions within the evolving multi-level governance framework 	<ul style="list-style-type: none"> Lack of recognition of the potential role of regions and/or regional identity Democratic deficit in case of “administrative regions” or regional associations of municipalities; less transparent decision-making process and accountability Impact on regions of reforms affecting other levels of government
Place-based policies for effective regional development	<ul style="list-style-type: none"> Regions have higher critical mass, more resources to implement effective regional development strategies, the ability to foster intra-regional co-ordination, inter-municipal co-operation, rural-urban linkages and to implement more integrated territorial planning Designing strategic regional development projects 	<ul style="list-style-type: none"> Lack of regional development strategies – strategies are either too fragmented or only top-down from the national government Need for improved spatial planning at the regional scale Lack of co-operation and co-ordination with the region (between municipalities, and between urban and rural areas) Over-fragmentation of projects funded by the EU
Economies of scale in public service and infrastructure provision	<ul style="list-style-type: none"> Economies of scale and improved efficiency of services and infrastructure of regional interest: health system provision, labour market services, public transport, infrastructure, etc. 	<ul style="list-style-type: none"> Fragmentation of responsibilities for public service delivery in many policy areas (infrastructure, transport, healthcare, housing, etc.)

Broad policy drivers	Governance and management objectives	Solve current challenges
	<ul style="list-style-type: none"> • Internalisation of spill-overs, better quality public service provision • Improved co-ordination between local governments and across levels of government 	
Competitiveness and regional growth	<ul style="list-style-type: none"> • Regions may better target regional comparative advantages through easier access to local knowledge, remedy to asymmetries of information • Ability to put forward regional assets and attractiveness to compete in a globalised world • Ability to favour synergies across sectoral policies (e.g. infrastructure, innovation, higher education, housing, labour market) • Ability to foster co-operation among various stakeholders, from within and outside the region, from the public and private spheres, and all levels of government • Co-operate with international/European regions and better compete on the global scene; more effective governance for cross-border or macro-regional projects 	<ul style="list-style-type: none"> • Lack of synergies across sectoral policies • Lack of co-operation across public and private sectors, and different stakeholders from within and outside the region

Source: Adapted by the authors from (OECD, 2019^[35]).

What kind of regionalisation reforms?

They are two main types of regional reforms: institutional and territorial. These are not exclusive and can be combined, which is often the case (Table 4.5).

Institutional reforms consist of creating a new regional level (elected or not) or modifying the responsibilities and resources of existing regional entities. As indicated above, motives behind the creation of new regional bodies or the redefinition of their responsibilities and resources may be political, socio-cultural and economic and, in many cases, a combination of these. Institutional reforms are often decentralisation reforms. Regionalisation and decentralisation were closely associated in several federal or unitary countries, such as Belgium, the Czech Republic, France, Greece, Italy, Poland, the Slovak Republic, Spain and the UK, that created or reinstated an elected regional level in the 1990s. Since then, regionalisation reforms have focused on delegating more powers to the existing regional level or strengthening their institutional capacity. These changes have been associated with reforms of subnational finance systems, to provide adequate fiscal capacities to bear these additional powers and responsibilities. However, in some instances, institutional reforms result in a recentralisation process.

Territorial reforms consist of modifying boundaries of existing regional entities to find the right scale for effective regional policies. Most of the time, it consists of consolidating regions through regional mergers. In many countries, the administrative boundaries of regional entities have been based on historical settlement patterns established many decades or centuries ago when the fastest means of transport was by horse and they have not been significantly revised in the interim. This is the case in countries like Austria, Japan, the Netherlands, Norway, Sweden and Switzerland, for example. These boundaries are now often outdated and do not reflect demographic changes, socio-economic relations and functional areas. This disconnect from the realities of today has motivated several regional remodellings to reach greater critical mass, such as in Norway where, since 1 January 2020, 11 larger regions have replaced the former 18 counties intending to strengthen the regions as functional units and to provide more coherent housing and labour market policies

“Pure” territorial reforms are very rare. Most often, they are carried out jointly with institutional reforms, such as in Norway where new responsibilities have been decentralised to the new larger regions

(Table 4.5). By contrast, institutional reform may be conducted without modifying regional boundaries, except when they consist of creating an entirely new regional level.

Table 4.5. Overview of regional reforms in EU and OECD countries from 1980 onwards

	Main regional reforms
Belgium	<ul style="list-style-type: none"> • 2001: Revision of the Constitution Special Act. Lambertmont Agreement providing regions with more tax autonomy, regulatory powers. • 2014: Transfer of additional responsibilities to regions (labour market policies, mobility and justice) and communities (family allowance, long-term care and healthcare); fiscal reform providing regions with more own-source tax resources).
Chile	<ul style="list-style-type: none"> • 1992: Adoption of an organic constitutional law creating a “mixed” regional government system with both deconcentrated and decentralised components, i.e. a regional executive (intendant) appointed by the President of the Republic and a regional council (CORE) indirectly elected by the municipal councillors. • 2009: New push towards decentralisation, especially through the constitutional reform establishing direct election by citizens of regional councillors, creating a democratically elected body to manage regional development (the first direct elections took place in 2013 and regional councillors took office on March 2014). • 2017: Law No. 20.990 of January 2017 created fully self-governing regions. The first regional elections of governors are to take place in 2021 (OECD, 2017^[6]).
Croatia	<ul style="list-style-type: none"> • 1992: Reinstatement of counties as self-government units with large autonomy. • 2009: Direct election of county governors.
Czech Republic	<ul style="list-style-type: none"> • 1997: Creation of the 14 self-governing regions (Act 347/1997). However, they were recognised as autonomous entities only in 2000 with the Regional Act No. 129/2000. • 2000-02: Transfer of responsibilities to the new regional tier: secondary education, regional roads, economic development and planning, health. The Local Finance Act 243/2000 defines the regional financing system based on tax sharing.
Denmark	<ul style="list-style-type: none"> • 2007: Abolition of the 14 counties which are replaced by 5 new regions. Their main responsibility is healthcare (management of the hospital system). Other responsibilities are advising the municipalities on spatial planning and regional development and organising regional public transportation and road subsidies, in co-operation with the municipalities. The 15 county prefectures (state administration) were transformed into 5 regional prefectures. • 2019: The political agreement to abolish the current elected five regions did not concretise with the charge of the government.
Finland	<ul style="list-style-type: none"> • 2019: The regionalisation project, that had been in the works since 2015 to be effective in January 2019, was abandoned in April 2019, due to political disputes that led to the resignation of the government.
France	<ul style="list-style-type: none"> • 1982-83: Act I of decentralisation: the creation of self-governing regions, with responsibilities to manage spatial planning, economic development, education (high schools) and vocational training. • 1986: First regional elections by direct universal suffrage. • 1988: Law specifying the regional economic development functions. • 2002: New transfers of responsibilities to the regions including regional passenger rail transport. • 2003-04: Act II of decentralisation: recognition of regions by the constitution; consolidation of regional responsibilities; right to experiment with several other responsibilities, e.g. heritage protection, seaports and aerodromes, environment (air quality and regional nature reserves), EU structural funds. • 2010: Territorial reform weakened the fiscal autonomy of the regions (loss of taxation power). • 2014: Regional mergers reducing the number of regions from 26 to 17 (of which 12 in mainland France, along with Corsica and 4 overseas regions) by the law on the delimitation of the regions (enacted in 2015). • 2015: Act III of decentralisation (NOTRe Law): clarification and strengthening of regional responsibilities in the areas of economic development, territorial planning, environment protection, vocational training. • 2018: Regions receive a share of the VAT.
Germany	<ul style="list-style-type: none"> • 2006: Clarification of responsibilities between the <i>Länder</i> and the federal government: reduction in the number of concurrent responsibilities, reduction of areas subject to Bundesrat veto; additional competencies allocated to <i>Länder</i> regarding economic activities and trade, education universities environmental protection, crime punishment, staff management; possibility for the <i>Länder</i> of opt-outs in six policy areas, introducing a degree of asymmetry into German federalism. • 2009: New financial arrangements concerning the system of transfers; introduction of the debt brake.

	Main regional reforms
Greece	<ul style="list-style-type: none"> • 2010: <i>Kallikratis</i> Reform creates 13 full self-governing regions with new responsibilities in the areas of regional planning and development including structural funds (transferred from the state regional administrations – prefectures). • 2018: <i>Kleisthenis</i> Reform (Law 4555/2018) touches upon various issues concerning regional governments, including the electoral system, regional councils and allocation of responsibilities across levels of government.
Hungary	<ul style="list-style-type: none"> • 1990: Act of Local Government restored the autonomy of counties. • 2011-12: Recentralisation process through the new 2012 Fundamental Law and the 2011 Cardinal Law on Local Governments. Counties lost several major competencies (healthcare inc. hospitals, social initiatives and secondary education) to be mainly in charge of regional and territorial development.
Ireland	<ul style="list-style-type: none"> • 2014: Abolition of the eight regional authorities (based at NUTS 3 level) by the local government reform. Their functions are transferred to three regional assemblies (established at NUTS 2 level).
Italy	<ul style="list-style-type: none"> • 1997: <i>Bassanini</i> Laws: implementation of the subsidiarity principle: all functions are transferred to the regions (and local authorities) except those listed in Law No. 59, which remain with the state. • 2001: Constitutional reform: regions (together with the provinces and municipalities) are enshrined in the constitution as autonomous governments and placed on the same level as the central government. • 2006: Rejection by a national referendum of the constitutional reform aiming at transforming Italy into a quasi-federal county. • 2009: Fiscal federalism law aimed at increasing fiscal autonomy at the regional level. • 2014: Indirect impact of Law No. 56/2014 on the regional level (this law abolished the provinces and established the metropolitan cities). • 2016: Rejection by referendum of the constitutional reform that aimed at clarifying the allocation of responsibilities between the central government and ordinary regions (abolition of “concurrent competencies” and recentralisation of several responsibilities, e.g. transport, labour, public finance and taxation).
Latvia	<ul style="list-style-type: none"> • 2009: Abolition of the 26 districts (self-governing entities) replaced by 5 planning regions (not as self-governing entities).
Lithuania	<ul style="list-style-type: none"> • 2010: Abolition of state counties and creation of regional development councils (not as self-governing entities).
Mexico	<ul style="list-style-type: none"> • 1992: Devolution of basic education to the states. • 1996: Devolution of healthcare to the states. • 1998: Reform of the National System of Fiscal Co-ordination. • 2007: Additional powers given to the states.
Netherlands	<ul style="list-style-type: none"> • 2002: Act of “<i>dualisation</i>”, separating composition, functions and powers of the deliberative council and the executive. • 2007-13: Decentralisation programmes transferred new responsibilities to provinces (cultural and archaeology heritage, spatial planning, economic development, provincial archives, nature policy and protection of threatened species, innovation policy). • 2014: Rejection by the parliament of a reform abolishing the provinces.
Norway	<ul style="list-style-type: none"> • 2002: Recentralisation of the responsibility for hospitals from the counties to the central government in the framework of the national healthcare reform. • 2003: New tasks granted to counties: spatial planning, regional development and innovation policy. • 2010: New tasks granted to counties: public roads, cultural activities, management of marine resources, operation of vocational schools and environmental protection. • 2020: Abolition of the 18 counties which are replaced by 11 larger regions, with new tasks such as the administration for national road networks. Other tasks and instruments will be allocated so that they become “stronger regional community developers”: cultural heritage protection, integration (immigrants), broadband development, fishing ports, research and innovation, business development, agriculture and forestry climate and environment, integration (immigrants), public health.
Poland	<ul style="list-style-type: none"> • 1999: Creation of 16 self-governing regions (together with that of intermediate level of counties), with responsibilities for tasks of “regional importance” (determined by law) mainly regional economic development, regional roads, spatial development but also healthcare, higher education and labour market policies. • 2007: Increased role of regions in regional policy, being fully responsible for 25% of EU cohesion funds (currently almost 60%). • 2009: New tasks transferred to regions: regional rail transport, waste and water management, and environmental protection.
Portugal	<ul style="list-style-type: none"> • Regions are enshrined in the 1976 Constitution but were not created. Only the islands of Azores and Madeira were granted special status as autonomous regions.

	Main regional reforms
	<ul style="list-style-type: none"> • 1998: Rejection by referendum of the draft bill creating eight self-governing regions.
Romania	<ul style="list-style-type: none"> • Current counties, in existence since the 15th century, were established in 1968. They have been reinforced by several decentralisation processes after the 1991 Constitution: 2001 Local Public Administration Act; 2006 Framework Law on Decentralisation. • 1998: Creation of 8 development regions at NUTS 2 level, in parallel to the counties, to co-ordinate regional development but they do not have an administrative status. • 2008: Direct election of the President of the County Councils. • A debate on creating larger regions is ongoing since the end of the 1990s.
Slovak Republic	<ul style="list-style-type: none"> • 2001: Creation of eight self-governing regions (also referred to as Higher Territorial Units), with responsibilities for secondary, professional and vocational education, social welfare, regional roads, public transport, regional economic development and territorial planning. • 2003-06: Decentralisation process confirmed by the Project of Further Decentralisation of Public Government. • 2005: Reform of the regional government fiscal framework (Act on Local Financing).
Slovenia	<ul style="list-style-type: none"> • 1990-2000s: Discussions on regionalisation reforms (the constitution provides for the establishment of self-governing regions by law). Several attempts and bills were prepared but never materialised. • 2008: Rejection by referendum of the draft bill creating 13 regions; however, voter turnout was low (10.9%). • 2009: Appointment by the prime minister of a Strategic Council for Regionalisation and Decentralisation; preparation of a new bill creating six regions but the project was abandoned in 2011 due to disagreements about the number, size, competencies and financing of the regions.
Spain	<ul style="list-style-type: none"> • 2000: Decentralisation of education to autonomous communities. • 2002: Decentralisation of health to autonomous communities. • 2006: Reform of autonomous statutes depending on autonomous communities. • 2009: Reform of the financing of autonomous communities (Law 22/2009).
Sweden	<ul style="list-style-type: none"> • 1997-2007: Experimentation of asymmetric regionalisation. No single model of regionalisation imposed but instead different options in terms of political representation (directly and indirectly elected) and responsibilities. • 2007: Report of the Committee on Public Sector Responsibilities, promoting the extension of the “pilot region” model providing counties with more responsibilities. Since 2007, Sweden has further extended the transfer of regional development competencies to county councils. • 2017: Attempt to reduce the number of counties from 21 to 6, which ultimately failed. • 2019: End of the gradual, experimental and asymmetric regionalisation process in Sweden carried out since 1997. All counties have the same governance structure (directly elected councils), including Gotland Island, a municipality with county responsibilities. There are now called “regions”.
Turkey	<ul style="list-style-type: none"> • 2005: The transformation of the 81 special provincial administrations (SPAs) into self-governing entities, with more powers. However, a dual decentralised/deconcentrated system remains in place, as provincial governors still have a major role as the head of the SPA’s executive committee.
United Kingdom	<ul style="list-style-type: none"> • 1998: Devolution process creating three devolved nations in Northern Ireland, Scotland and Wales with a directly elected “national assembly”/parliament and their own government and major competencies transferred to them. It created an asymmetric decentralisation across devolved nations (they do not have the same powers) and with England (no regional governments). • 2004: Regionalisation process in England suspended in 2004 following the rejection of a referendum held in the northeast of England. • 2007: Devolution restored in Northern Ireland. • 2010: Extension of the powers of the Welsh Assembly after the 2010 referendum. • 2012: Extension of the powers of the Scottish parliament by the Scotland Act 2012 (possibility to raise own taxes to come into effect in full in 2016 and introduction of a range of measures to strengthen the devolved administration in Scotland).

Source: Authors’ elaboration based on various sources including OECD (2017^[81]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>; OECD (2019^[91]), *Making Decentralisation Work: A Handbook for Policy Makers*, <https://doi.org/10.1787/g2g9faa7-en>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>; OECD (2017^[6]), *Making Decentralisation Work in Chile: Towards Stronger Municipalities*, <https://doi.org/10.1787/9789264279049-en>.

What kind of regions?

Trends towards regionalisation take various forms, from deconcentrated regions to federated states, with different cases in between including co-operative regionalisation and decentralised regionalisation (see below for a typology of regional governance models in the OECD). As mentioned above, there is a general trend towards more decentralised regionalisation in Europe resulting in the creation of a level of elected administrative regions. In several countries, reforms towards the creation of self-governing regions are currently being discussed.

It is interesting to note that regionalisation can have very different implications for decentralisation: it can represent a form of decentralisation concerning central government but it can also generate centralisation at the regional level concerning local authorities; this situation is particularly common in some federal states (OECD, 2020^[5]).

Regionalisation may not be a uniform or homogeneous process

Within a country, there can be several forms of regionalisation depending on the problems faced by the country and its particular needs. This differentiation may also be the result of competition between different types of institutions to carry out regionalisation-specific operations (OECD, 2020^[5]). In the same country, one can find decentralised regions, state deconcentrated regions, planning regions or statistical regions that do not have the same scale or governance structures. Within the same regional level in a given country it is also possible to find regions with different political, administrative or fiscal powers. Asymmetric regionalisation is on the rise, both in federal and unitary countries (Box 4.19).

Different models of regional organisation have emerged in EU and OECD countries

Today, there are different forms of regionalisation in EU and OECD countries, ranging from soft arrangements to stronger regional governance. Each model has its own advantages and shortcomings. Additionally, several regional arrangements, for example, deconcentrated and decentralised regionalisation, may coexist within the same country, a situation which is quite widespread in the EU and OECD (OECD, 2017^[8]; 2020^[80]).

Four different models can be distinguished. The examples of these four models outlined below represent a snapshot taken at a moment in time as regional arrangements are not static and are constantly evolving, as underlined above. In parallel, some countries have established regional development agencies (RDAs), which offer an alternative or a complement to existing regional arrangements.

Box 4.19. Asymmetric regionalisation in the OECD

Asymmetric regionalisation means regions within the same country have different political, administrative or fiscal powers. There is greater convergence between unitary and federal countries towards differentiated governance at the regional level (OECD, 2019^[9]; 2018^[25]). In federal systems, asymmetric regionalisation appears to be more “natural”. In fact, asymmetry is often a basic characteristic of federations. There are, however, different degrees of asymmetry, with highly asymmetric federal systems (Belgium, Canada, India, Russia and Spain) and more symmetric federations (Australia, Austria, Germany, Switzerland, US). However, even the most “symmetric federations” have elements of asymmetry (e.g. US) or are developing some new ones. In Germany, for example, all *Länder* enjoy the same degree of legislative power and the same responsibilities but the 2006 reform also introduced opt-outs in six policy areas (e.g. higher education and environmental

protection) for them. This right to stray from federal legislation is an innovative new instrument for the *Länder*, introducing a degree of asymmetry into German federalism (OECD/UCLG, 2019^[76]).

In unitary countries, symmetry is often one of the leading principles of the unitary state (with unity and integration). However, some unitary states have strong elements of asymmetry, in particular, to recognise a different status of territories with a strong history/identity (Italy, UK) as well as peripheral territories such as outermost regions, islands and outlying regions (Finland, France, Portugal). For instance, in the UK, no less than three different types of regionalisation currently exist. In Italy, there are currently 5 regions (out of 20) with special constitutional status, approved by the Italian parliament. These five “special regions” (Friuli-Venezia Giulia, Sardinia, Sicily, Trentino Alto Adige and Valle d’Aosta) have broad legislative powers and considerable financial autonomy. In Sweden, asymmetric regionalisation was experimented with from 1997 until 2019. Today, asymmetric regionalisation is increasing in unitary countries to empower regions with greater capacities or to improve the governance of metropolitan regions.

Source: Allain-Dupré, D., I. Chatry and A. Moisis (2020^[36]), “Asymmetric decentralisation: Trends, challenges and policy implications”, <https://doi.org/10.1787/0898887a-en>; OECD (2020^[80]), *Pilot Database on Regional Government Finance and Investment: Key Findings*, OECD, Paris; OECD/UCLG (2019^[76]), *2019 Report of the World Observatory on Subnational Government Finance and Investment - Key Findings*, <http://www.sng-wofi.org>; OECD (2019^[9]), *Making Decentralisation Work: A Handbook for Policy Makers*, <https://doi.org/10.1787/g2g9faa7-en>; OECD (2018^[25]), *Asymmetric Decentralisation: Policy Implications in Colombia*, http://www.oecd.org/colombia/Asymmetric_decentralisation_Colombia.pdf.

Type 1. Statistical/planning regions

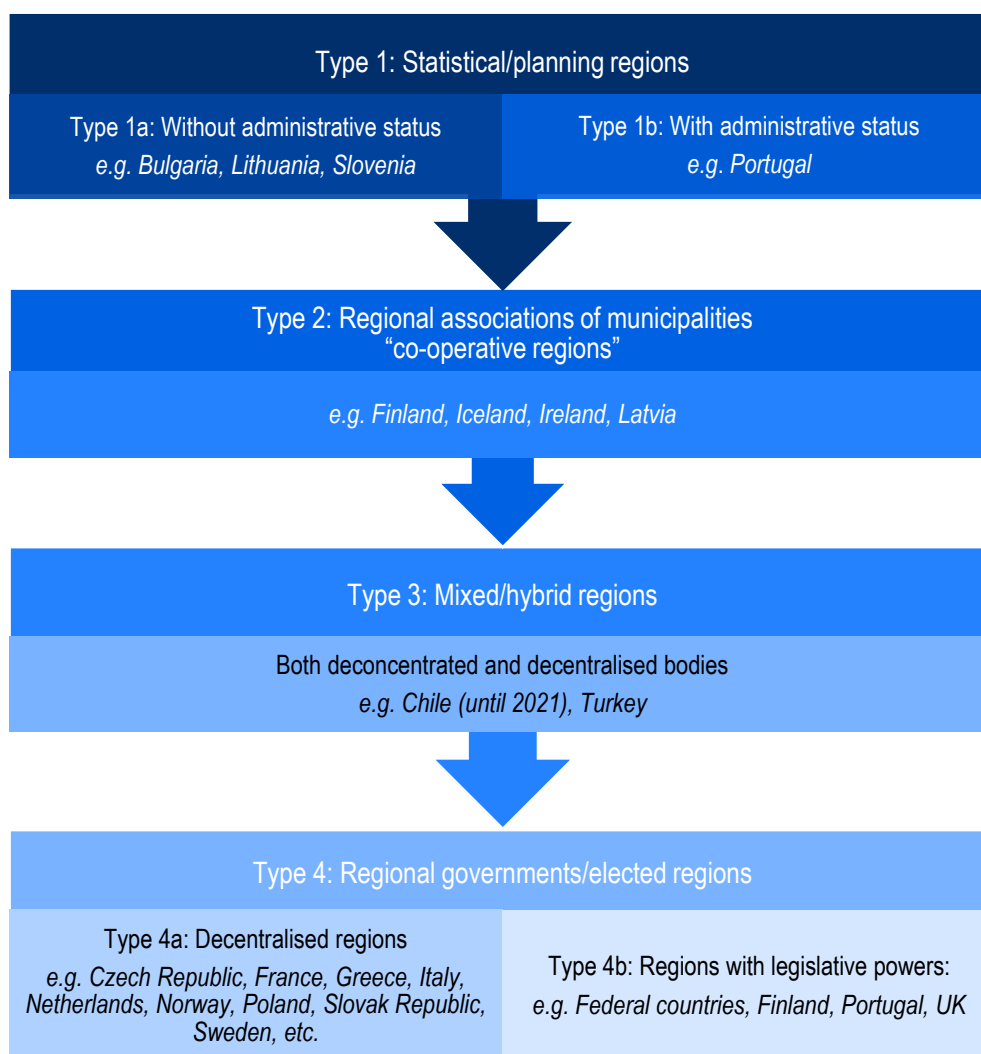
Statistical/planning regions (also sometimes called “development regions”) are a deconcentrated entity that is part of the central administration. There are two types of planning regions: statistical regions without legal personality (Type 1a) and statistical regions with a legal status (Type 1b). Both types share many similarities as regards their functions, limited autonomy and operating mode. The main difference between the two lies in the stability and accountability of the governance structure and the fact that statistical/planning regions with administrative status have greater autonomy over their expenditure.

Statistical regions without legal personality (Type 1a): They are territorial units established for statistical or planning purposes. Bulgaria falls within this group together with countries such as Lithuania and Slovenia, which also only have one level of self-government made up of municipalities.

Although statistical/planning regions have neither a legal personality nor a proper administration and budget, they may have representative bodies, such as a deliberative body (regional development councils, RDCs) and an executive body. RDCs may be comprised of representatives from local governments and social and economic partners. They are appointed not elected. In general, deliberative bodies have few powers and their main objective is to serve as a platform for discussion. They are not a permanent body but meet several times a year.

Their administrative capacities and functions remain limited and are mainly concentrated on spatial planning and regional development, identification of lagging areas and development programmes for these areas, identification of regional socio-economic development projects and distribution of some part of EU structural funds, as is the case in Lithuania. Slovenia is a unique case. While development regions have no administrative authority, co-ordination of regional development at the regional level is ensured by a network of different regional organisations, including regional councils (RCs also called councils of mayors), RDCs and RDAs. RDAs act as administrative, professional and technical agencies, supporting the work of the RCs and RDCs (Box 4.20).

Figure 4.7. Four different models of regional organisation in EU and OECD countries



Box 4.20. Two examples of countries with Type 1a regions: Lithuania and Slovenia

In Lithuania, it was envisaged in 2001 to create five self-governing regions that would replace and assume the functions of the ten counties representing the central government at the territorial level. After discussions lasting for several years, the project was abandoned and, instead, it was decided in 2010 to abolish the state counties and redistribute their functions among the municipalities and the central government. Counties have been replaced by ten RDCs, which serve as statistical units and deconcentrated entities of the central government. Placed under the direction of the Department of Regional Development of the Ministry of Interior, the RDCs are made up of municipality mayors (from all the municipalities belonging to that particular county), delegates from local councils and an authorised person appointed from the government or governmental institution. Since 2017, social and economic stakeholders are also represented on the RDCs and they must represent 1/3 of the membership of each council. RDCs do not have a legal personality nor an administration. Therefore, their administrative capacities and functions remain limited and are mainly concentrated on regional development planning, identification of lagging areas and development programmes for these areas,

identification of regional socio-economic development projects and distribution of some part of EU structural funds. RDCs are also considered as tools for co-operation. Lithuania is currently looking to reform this regional organisation for more effective regional governance.

In Slovenia, although the constitution provides for the creation of self-governing regions by law (Art. 143), there are no elected regions, though several bills were designed to implement this throughout the 1990s and 2000s. In 2008, a draft bill proposed to create 14 regions but was rejected by referendum. A new draft bill was then proposed to create six regions, following the opinion of a Strategic Council for Regionalisation and Decentralisation appointed by the prime minister. The project was also abandoned in 2011 due to disagreements about the number, size, competencies and financing of the regions. To manage regional development and EU funds, Slovenia has established, under the Act on the Promotion of Harmonious Regional Development, a system of 12 “development regions” corresponding to NUTS 3 units but no administrative authority was devolved to this level (OECD, 2010^[81]; 2011^[82]). To ensure co-ordination at the “regional” level (defined as NUTS 3 statistical regions) of regional development policy, three types of organisation have been established:

- 12 RDCs, which include representatives of municipalities, business associations, social partners and NGOs. They were created as a form of PPP for regional development.
- 12 RCs, which bring together all the mayors in a given region. They approve the most important documents, i.e. the regional development programmes and agreements for regional development.
- 12 RDAs that are in charge of preparing, co-ordinating, monitoring and evaluating the regional development programme, the regional development agreement and regional projects (Ministry of Economic Development and Technology of Slovenia, 2020^[83]). RDAs are public institutions since 2011 and serve as administrative, professional and technical agencies to support the functioning of the RDCs and RCs.

Since 2014, two development councils of the cohesion regions corresponding to Eastern and Western Slovenia (NUTS 2 level) have also been established. Establishing the second tier of local self-government bottom-up scenario is not currently on the political agenda. The current trend is to encourage inter-municipal co-operation as a mechanism for a more effective and efficient local service system and as an intermediate step towards regionalisation (Council of Europe, 2017^[84]; OECD/UCLG, 2019^[20]).

Source: OECD (2010^[81]), *Regional Development Policies in OECD Countries*, <https://doi.org/10.1787/9789264087255-en>; OECD (2011^[82]), *OECD Territorial Reviews: Slovenia 2011*, <https://dx.doi.org/10.1787/9789264120587-en>; Ministry of Economic Development and Technology of Slovenia (2020^[83]), *Promoting Regional Development*, <https://www.gov.si teme/spodbujanje-regionalnega-razvoja/>; Council of Europe (2017^[84]), “Local Democracy in Iceland”, <https://www.coe.int/en/web/congress/-/local-democracy-in-iceland>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>.

Statistical regions with a legal personality (Type 1b): These regions are territorial units established for statistical or planning purposes but, unlike Type 1a regions, they have legal status. In accordance, they benefit from an administration and their own budget. They also have deliberative and executive bodies, which are more permanent than in the Type 1a model.

The main example of Type 1b regions is found in Portugal. In 2003, Portugal established the five Commissions of Coordination and Regional Development (CCDR), at NUTS 2 level (Alentejo, Algarve, Centre, Lisbon and Tagus Valley, North). CCDRs are deconcentrated services of the central administration but, within the central government, the CCDRs have administrative and financial autonomy.

The organisational structure of the CCDRs is quite complex and comprises a president of the CCDR assisted by two vice-presidents, an administrative board, a single comptroller, a supervisory commission, inter-sectoral co-ordination council and a regional council. None of these bodies are directly elected and the president of the CCDR is appointed for a three-year term by the Portuguese government from a list of three names drawn up by an independent recruitment and selection commission following a competitive application. The CCDRs carry out important missions in the areas of the environment, land and town planning, and regional strategy development and implementation, including co-ordinating the deconcentrated arms of sectoral ministries at the regional level. In particular, CCDRs play a key role in the design and delivery of regional policy. One of their biggest responsibilities is to manage the regional operational programmes of European structural and investment funds in mainland Portugal for 2014-20. Their role has been reinforced in the most recent programming period as the share of funding for regional operational programmes has increased (OECD, 2020^[5]). There is currently a debate in Portugal to reinforce the role of CCDRs, by giving them more autonomy and more powers together with more accountability (Box 4.26).

Type 2: Regional associations of municipalities or “co-operative regions”

Type 2 regions are based on the co-operation of municipalities belonging to the same regional area. Four countries in the OECD have such a form of regional associations of municipalities: Finland, Iceland, Ireland and Latvia (Box 4.21).

Regional associations of municipalities have legal status and their creation needs the agreement of each member municipality. Across EU and OECD countries, regional associations of municipalities have different organisational structures, responsibilities and funding systems depending on the country. In general, they include RCs that consist of members elected by municipalities of the region and have a cabinet/office to conduct their activities. The tasks of the co-operative regional governments are often limited to regional development and spatial planning, EU funds management and some other tasks with clear region-wide benefits such as environmental protection or regional roads. However, as an inter-municipal organisation, they can also carry out tasks that are delegated by their members (e.g. waste collection or management of school offices in Iceland, and support co-operation and co-ordination between municipalities). They enjoy some decision-making autonomy on matters of regional jurisdiction. They have their own budget and are funded by municipal member fees. They can also receive central government transfers and EU funding.

Co-operative regionalisation can be seen as an alternative to full regionalisation but also as an intermediate stage towards full regionalisation (OECD, 2020^[5]), such as in Finland and Latvia (Box 4.21).

Box 4.21. Four examples of countries with “Type 2 regions”: Finland, Iceland, Ireland and Latvia

In Finland, 20 RCs have been established, over the entire territory, in application of the Act of 1994 on regional development. They are federations of municipalities created based on unanimous agreement among the comprising municipalities; they are not new local authorities; RC members are not directly elected but are elected by the municipal councils. Each council (excluding Åland) has an assembly and a cabinet, which is more involved in the daily routines of the council and running its activities. They have rather limited tasks, with two main functions laid down by law: regional development and spatial planning. The councils are also the regions’ key international actors and they are largely responsible for the EU structural fund programmes and their implementation (OECD, 2020^[5]; Council of Europe, 2017^[85]).

In Iceland, the six regional associations of municipalities, that have a legal basis since 2011, ensure co-operation and co-ordination between local governments at the regional level in many areas. They

also serve as a central government deconcentrated body. Since 2015, regional associations are in charge of preparing and implementing regional development plans for their regions, in line with the Iceland 2020 plan. In some cases, the regional associations have also been entrusted with special tasks from municipalities, e.g. waste collection and the management of school offices (OECD/UCLG, 2019^[20]).

In Ireland, there are three regional assemblies, created in January 2015 as part of the Local Government Reform Act 2014 (they replaced the previous eight regional authorities and two regional assemblies). The membership of a regional assembly consists of members of the local authorities within the region. The assemblies aim to co-ordinate, promote or support strategic planning and sustainable development and promote effectiveness in local government and public services. Their main function is to draw up Regional Spatial and Economic Strategies (RSES) (Citizens Information Board of Ireland, 2015^[86]). To enable regional planning and development, they also provide statutory oversight observations on city and county development plans and variations, manage regional operational programme funds and monitoring committees, provide support to the Committee of the Regions and Irish Regions Office in Brussels, promote co-ordination between EU, national, regional and local governance, and develop knowledge through research and evidence-based activities for implementation and monitoring (Bradley, 2019^[87]).

In Latvia, between 1998 and 2009, there were several proposed plans to abolish the 26 districts and replace them with between 5 to 10 larger self-governing regions that would have a wider range of responsibilities. A 2009 territorial reform finally abolished the districts but did not replace them with self-governing regions. Instead, it was decided to strengthen the role of the five planning regions created in 2002 by the act on regional development. In 2006, an amendment to the Regional Development Act granted legal status to the planning regions under public law (derived public entity). The current planning regions were established by a decision of the National Cabinet of 5 May 2009. Their organisational structure comprises three main bodies: the RDC (decision-making body), the Planning Region Administration (executive body), and the Cooperation Committee, which ensures the co-operation of the region with the different ministries. RDC members are indirectly elected by municipal representatives, acting therefore as a co-operative structure or “inter-municipal co-operation” body. The RDC elects its chair and executive director (head of the administration of the planning region). Planning regions’ responsibilities are established by law and they have their own administration, assets and budget. Their main objective is to ensure spatial planning, economic development, public transportation and management of investment programmes (including EU funds). They have mandatory autonomous competencies, voluntary autonomous competencies and competencies delegated to them by the national government. They also support co-operation between municipalities and different governmental institutions. Planning regions act under the supervision of the Ministry of Regional Development and Local Government per the Regional Development Law and the Territorial Development Planning Law but are not subordinated to the central government (Ministry of Environmental Protection and Regional Development of Latvia, 2020^[88]; Council of Europe, n.d.^[89]). In 2019, a new round of territorial reform began, based on the Conceptual Paper on New Administrative Territorial Division, putting the future of the planning regions up for discussion.

Source: OECD (2020^[5]), *Decentralisation and Regionalisation in Portugal: What Reform Scenarios?*, <https://doi.org/10.1787/fea62108-en>; Council of Europe (2017^[85]), “Local Democracy in Iceland”, <https://www.coe.int/en/web/congress/-/local-democracy-in-iceland>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>; Citizens Information Board of Ireland (2015^[86]), *Regional Assemblies*, https://www.citizensinformation.ie/en/government_in_ireland/local_and_regional_government/regional_assemblies.html#a82be; Bradley, M. (2019^[87]), *Regional Spatial and Economic Strategy (RSES) for the Eastern and Midland Region*; Ministry of Environmental Protection and Regional Development of Latvia (2020^[88]), *Latvia’s Experience in Regional Development Territorial Reforms and Financial Support Measures*; Council of Europe (n.d.^[89]), “News 2018 - Local and regional democracy in Latvia”, <https://www.coe.int/en/web/portal/-/local-and-regional-democracy-in-latvia>.

Type 3: Hybrid/mixed regions (both deconcentrated and decentralised)

Type 3 regions are uncommon in the OECD, with only Chile (in a transition phase, see below) and Turkey categorised as having this form of regionalisation. In this model, regions have an executive body that is appointed by the central government and a deliberative body whose members are elected by universal suffrage.

In Turkey, for example, the deliberative body of the self-governing provincial administrations (SPAs) is the provincial council composed of members elected by direct universal suffrage for a five-year mandate. It is headed by a president, elected by and from among the members of the council. Each SPA has a provincial executive committee composed of ten members for one year. Five members are elected by the provincial council while the five others are appointed by the governor, who is appointed by and represents the central government.

In Chile, until the new Law No. 20.990 of January 2017 created fully self-governing regions, with first regional elections of governors to be held in 2021, regions were mixed entities with a regional executive (intendant), who had been appointed by the President of the Republic, and a regional council (CORE) with elected councillors but chaired by a regional governor (OECD, 2017^[6]).

Type 4: Elected regional governments

Elected regional government are the most widespread form of regionalisation in EU and OECD countries. This category encompasses two sub-types: decentralised regions (Type 4a) found in unitary countries; and regions with legislative powers found mainly in federal countries (Type 4b). They are as common in countries with three tiers of subnational government (France, Poland, Spain, United States, etc.) as in countries with two tiers (Australia, Canada, Czech Republic, Denmark, etc.).

Decentralised regions (Type 4a): They are found in unitary countries where strong regionalisation processes took place in the 1980s and 1990s (Table 4.5). Governance structures are based on a directly elected deliberative body (regional assembly or council) and an executive body, which can be elected by the regional council from among its members (France, Czech Republic, Denmark, New Zealand, Norway, Poland, Sweden) or which can be elected by direct universal suffrage (Croatia since 2009, Greece since 2011, Italy, Japan, Korea, Romania since 2008, the Slovak Republic). In several countries, some decentralised regions have dual status as a municipality and a regional government, carrying out both municipal and regional responsibilities, e.g. Vienna in Austria, Zagreb in Croatia, Prague in the Czech Republic, the German city-states of Berlin, Bremen and Hamburg, Oslo in Norway and Bucharest in Romania,.

Regional governments are a legal entity having their own budget, assets, administration and decision-making power. They enjoy some autonomy concerning their own functions and responsibilities. They have a “general competency” (even if their responsibilities can be strictly defined) as opposed to “special-purpose subnational governments” which have single or multiple functions (e.g. regional transport districts, water boards or sanitation districts).

Although the existence of “decentralised regions” reflects a certain level of decentralisation, not all countries have the same level of decentralisation. In several countries, decentralised regions have few powers, responsibilities and revenues for example, in Croatia, Greece, Hungary, Poland, the Slovak Republic and Turkey.

Regions with legislative powers (Type 4b): These regions are found in the nine OECD federal and quasi-federal countries but also in unitary countries that have autonomous regions, in particular Finland, Portugal and the UK. The executive and deliberative bodies are elected by direct universal suffrage and regional parliaments exercise legislative power in some areas (primary or secondary legislative powers).

In federal countries, sovereignty is shared between the federal government and the “federated states”, which have their own constitution (Canada is an exception), parliament and government (OECD, 2020^[80]). The self-governing status of the states may not be altered by a unilateral decision of the federal government. Powers and responsibilities are assigned to the federal government and the state governments either by the provision of a constitution or by judicial interpretation.

As for “decentralised regions”, the scope of autonomy of regions with legislative powers differs from one country to another. For example, federal countries are very diverse in terms of political, administrative and fiscal powers attributed to regional governments.

Responsibilities of Types 4a and 4b regions

The economic and social role of regional governments, measured by spending indicators, differs a lot across EU and OECD countries (Box 4.22). These variations across countries reflect the level of decentralisation at the regional level, in particular the distribution of responsibilities across levels of government and their type. The scope of regional responsibilities also depends on the number of subnational layers, e.g. if an intermediate level exists and carries out several functions of supra-municipal levels such as in France, Germany, Poland or the United States. Table 4.6 presents a general scheme of the breakdown of responsibilities across the subnational government levels (municipal, intermediate and regional) in countries with three subnational government levels. The scope of regional responsibilities also depends on the existence of a state deconcentrated level at the regional level, as state entities can perform some “territorial” functions.

Table 4.6. Breakdown of responsibilities across subnational government levels: A general scheme

Municipal level	Intermediate level	Regional level
<ul style="list-style-type: none"> • A wide range of responsibilities: <ul style="list-style-type: none"> ○ A general clause of competency ○ Sometimes, additional allocations by the law • Community services: <ul style="list-style-type: none"> ○ Education (nursery schools, pre-elementary and primary education) ○ Urban planning and management ○ Local utility networks (water, sewerage, waste, hygiene, etc.) ○ Local roads and city public transport ○ Social affairs (support for families and children, elderly, disabled, poverty, social benefits, etc.) ○ Primary and preventive healthcare ○ Recreation (sport) and culture ○ Public order and safety (municipal police, fire brigades) ○ Local economic development, tourism, trade fairs ○ Environment (green areas) ○ Social housing ○ Administrative and permit services 	<ul style="list-style-type: none"> • Specialised and more limited responsibilities of supra-municipal interest • An important role of assistance towards small municipalities • May exercise responsibilities delegated by the regions and central government • Responsibilities determined by the functional level and the geographic area: <ul style="list-style-type: none"> ○ Secondary or specialised education ○ Supra-municipal social and youth welfare ○ Secondary hospitals ○ Waste collection and treatment ○ Secondary roads and public transport ○ Environment 	<ul style="list-style-type: none"> • Heterogeneous and more or less extensive responsibilities depending on countries (in particular, federal vs. unitary) • Services of regional interest: <ul style="list-style-type: none"> ○ Secondary/higher education and professional training ○ Regional spatial planning and development (inc. management of EU funds in EU countries) ○ Regional economic development and innovation ○ Health (secondary care and hospitals) ○ Social affairs (e.g. employment services, training, inclusion, support to special groups, etc.) ○ Regional roads and public transport ○ Culture, heritage and tourism ○ Environmental protection ○ Social housing ○ Public order and safety (e.g. regional police, civil protection) ○ Local government supervision (in federal countries)

Source: Adapted from OECD (2018^[90]), *Practical Methodological Guide for the World Observatory on Subnational Government Finance and Investment*, OECD, Paris; OECD (2019^[9]), *Making Decentralisation Work: A Handbook for Policy Makers*, <https://doi.org/10.1787/g2g9faa7-en>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>.

Decentralised regions tend to have “specialised responsibilities” while the general clause of competency, or “subsidiarity principle”, applies more to the municipal level. Generally, regional governments are responsible for providing services of regional interest, which can benefit from economies of scale, generate spill-overs, involve redistribution and are required to meet the same standards across the jurisdiction (Kitchen and Slack, 2006^[91]; OECD, 2017^[6]; 2020^[80]). Typical examples include secondary/higher education and professional training, spatial planning, economic development, secondary care and hospitals, social services, employment services, regional roads and public transports, promotion of the region, culture and tourism, and environmental protection. In some countries, regional responsibilities are very focused on one or two areas, for example, health in Denmark and Sweden.

Regional governments also play a role in strategic planning and regional development (including EU funds management in EU countries), which involves stakeholders from within and outside the region, from the public and private spheres, and all levels of government.

Responsibility for regional development and EU management funds are not always the responsibility of decentralised regions. In some cases, these tasks are entrusted to other types of regional bodies, such as RDAs. A detailed description of regional responsibilities in decentralised countries is given in Annex A.

In many cases, truly exclusive competencies rarely exist; regional responsibilities are often shared with another institutional government level, be it central or local. Some tasks can also be delegated by the central government to the regions. With municipalities, sharing responsibilities is common around issues of transport and infrastructure, environment and water, culture and tourism, communication or economic development. Responsibilities shared with the central government are mostly found in the areas of education, economic affairs and transportation, public order, health, social protection, spatial planning and land use (Allain-Dupré, 2018^[92]; OECD, 2020^[80]; 2019^[9]).

Responsibilities of regions with legislative powers are quite extensive. In most federal countries, federal governments have exclusive and listed responsibilities (e.g. foreign policy, defence, money, judiciary system, etc.) while federated states have extensive competencies in many key areas including education, social protection, economic development, transport, environment, housing, public order (regional police), civil protection, regional development including the management of EU funds (in EU countries), etc. In all OECD federal countries except Spain (a quasi-federal country), local governments are governed by the states and not by the federal government. Local governments are considered “creations” of the federated states falling directly under their jurisdiction. In Spain however, this responsibility is shared between autonomous communities and the central government. Local government functions and finances are decided within the framework of the national law (Article 148 of the Spanish constitution) (OECD, 2020^[80]). In federal countries, there are also shared responsibilities (“concurrent powers” or “joint responsibilities”), either under constitutional or legislative mandate or simply in practice (Table 4.6). In particular, public investment is a shared responsibility across levels of government and specifically with regional governments, as acknowledged by the OECD Council Recommendation on Effective Public Investment Across Levels of Government (OECD, 2019^[43]).

As indicated above, the extent of regional autonomy can also be diverse among federal countries. For example, there are some discrepancies among federal countries concerning the scope of responsibilities of state governments. In Austria, for example, according to the constitution, large exclusive competencies are assigned to the federal government (public security, taxes, civil and penal law, industrial affairs, education, and healthcare) and the residual ones are assigned to the *Länder*, although Austrian *Länder* have the constitutionally guaranteed right to execute some federal laws in the areas of education, hospitals, social welfare, housing and urban development (OECD, 2020^[80]).

In unitary countries made up of regions with legislative powers, powers and responsibilities are very different from one country to another and even within the same country. Finland, Portugal and the UK are examples of asymmetric regionalisation. In Portugal, the Autonomous Regions of Azores and Madeira – also recognised as the outermost regions at the EU level – have a special status and legislative power.

Their legislative assembly is composed of members elected by direct universal suffrage while the President of the Regional Government is appointed by the Representative of the Republic according to the results of the election to the legislative assembly. They benefit from extensive legislative powers and define their own policies, except in the areas of foreign policy, defence and internal security (EU Committee of the Regions, 2020^[93]). In Finland, the self-governing region of Åland has a parliament elected every four years that appoints the regional Åland Government. Parliament passes laws in areas relating to the internal affairs of the region and exercises its own budgetary power (Ministry of Foreign Affairs of Finland, 2020^[94]). In the UK, administrative devolution took place in 1999, when Northern Ireland, Scotland and Wales had their own elected assembly and government. The powers and responsibilities of the three devolved bodies vary in nature and scope, as each devolution act was negotiated independently. The devolved institutions in Scotland and Wales have subsequently evolved and taken on greater powers, whereas the process has been more precarious in Northern Ireland, with devolution suspended several times over the 20th century.

Financing of Types 4a and 4b regions

Given their responsibilities, elected regions are in general key economic and social actors. This is reflected by their fiscal weight. According to the new OECD Regional Government Finance and Investment (REGOFI) database (OECD, 2020^[80]), regional governments play a significant role in public expenditure, accounting for 7.6% of GDP and nearly 19% of public expenditure in 2016 (based on a sample of 24 countries, including 9 federal countries). Regional governments accounted for 41% of total subnational government expenditure, i.e. including, in addition to regional governments, intermediate and municipal governments. On the revenue side, regional governments represented 7.6% of GDP and 19.3% of public revenue.

The fiscal weight of regional governments in EU and OECD countries, however, varies greatly between federal and unitary countries. The financial weight of state governments is generally higher than that of decentralised regions, although there is plenty of variation in this regard within both unitary and federal countries (Box 4.22).

Decentralised regions have access to various sources, including grants and subsidies from the central government (and the EU for EU countries), tax revenues, user charges and fees for services rendered and revenues from physical and financial assets. However, there is no one dominant model of financing. There are countries where regions are funded mainly through grants and others where they are mainly funded by taxes (shared or own-source taxation). As is the case among unitary countries, there is no one dominant regional funding model among federal countries.

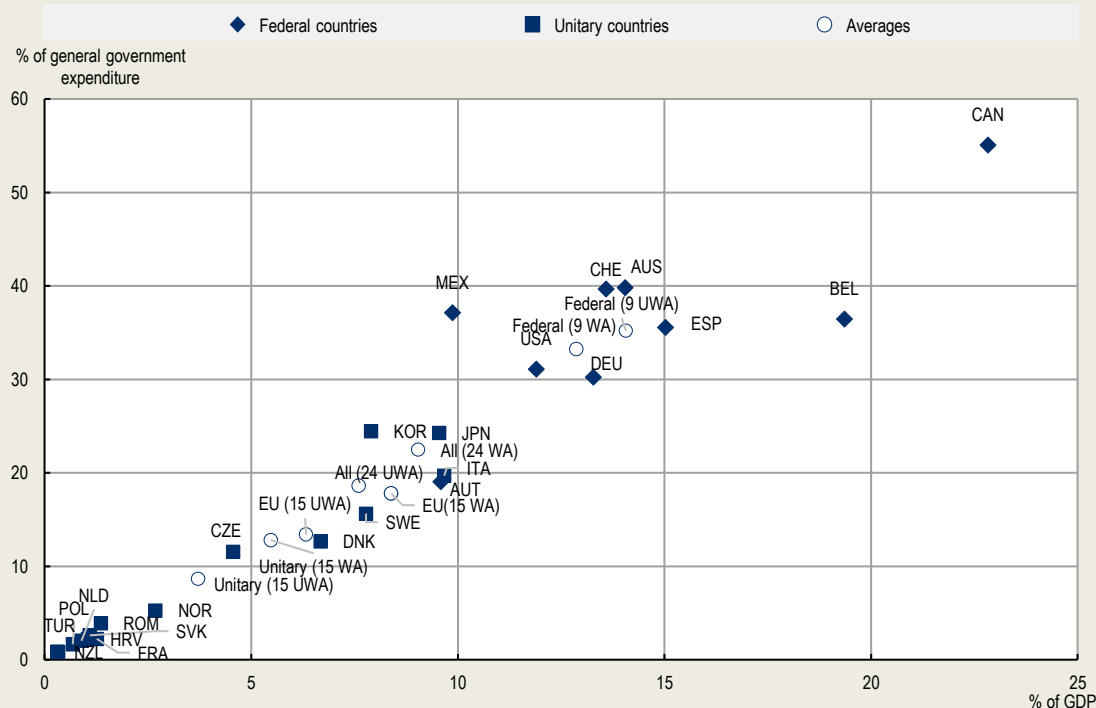
Box 4.22. The fiscal weight of decentralised regions and regions with legislative powers (Types 4a and 4b) differs between federal and unitary countries as well as across countries

Regional governments play a significant role in public expenditure and revenues. There are, however, great discrepancies between federal and unitary countries as well as across countries.

Federal countries stand out by their high level of subnational expenditure (except Austria and Mexico). These ratios are the highest in Canada, where provincial spending represented 22.8% of GDP and 55.1% of total public expenditure in 2016. Regional government spending in unitary countries stood at 3.7% of GDP and 8.7% of public spending in 2016 (unweighted average). Croatia, France, the Netherlands, New Zealand, Poland and Turkey ranked the lowest concerning both ratios. Regional governments accounted for 22.4% of total public investment and 0.7% of GDP on unweighted averages in 2016. These ratios are much higher in federal countries, where state governments carry out a large share of investment projects, accounting for around 35.6% of total public investment in 2016, which is

3 times higher than the unweighted average of unitary countries (10.6%). On the revenue side, there are also strong variations between federal and unitary countries and across countries.

Figure 4.8. Regional government expenditure as a percentage of GDP and a percentage of total public expenditure, 2016



Note: Data for Japan are for 2015. Averages are computed with duplicated 2015 data for Japan in 2016. No data for Greece and Hungary. UWA: Unweighted average. WA: Weighted average.

Source: OECD (2020_[95]), *Regional Government Finance and Investment Database*, <https://stats.oecd.org/Index.aspx?DataSetCode=RFD>; OECD (2020_[80]), *Pilot Database on Regional Government Finance and Investment: Key Findings*, OECD, Paris.

Box 4.23 shows how Type 4a and 4ab regions are funded in EU and OECD countries. In particular, decentralised regions can raise taxes which is not the case for other regional governance models. For example, in France, Japan, Poland and Sweden, tax revenues are an important source of revenue for regional governments. Among countries with tax resources, regional governments can receive either shared taxes (e.g. PIT in Croatia, the Czech Republic, Japan, Norway, Poland and Sweden; corporate income tax in the Czech Republic and Poland; VAT in the Czech Republic and France), own-source taxes or a mix of both shared and own-source taxes. Own-source taxes are diverse, including property transfer taxes, inheritance taxes, betting and lottery taxes, motorised vehicles taxes, sales taxes, consumption taxes, taxes on natural resources, excise taxes (alcohol, motor fuel and tobacco), taxes on economic activities and taxes on financial and capital transactions. Recurrent taxes on immovable properties are usually a local tax rather than a regional tax, and represent a small share of regional government tax revenue, except in Australia and New Zealand, where land and real estate property taxes are collected at the regional level.

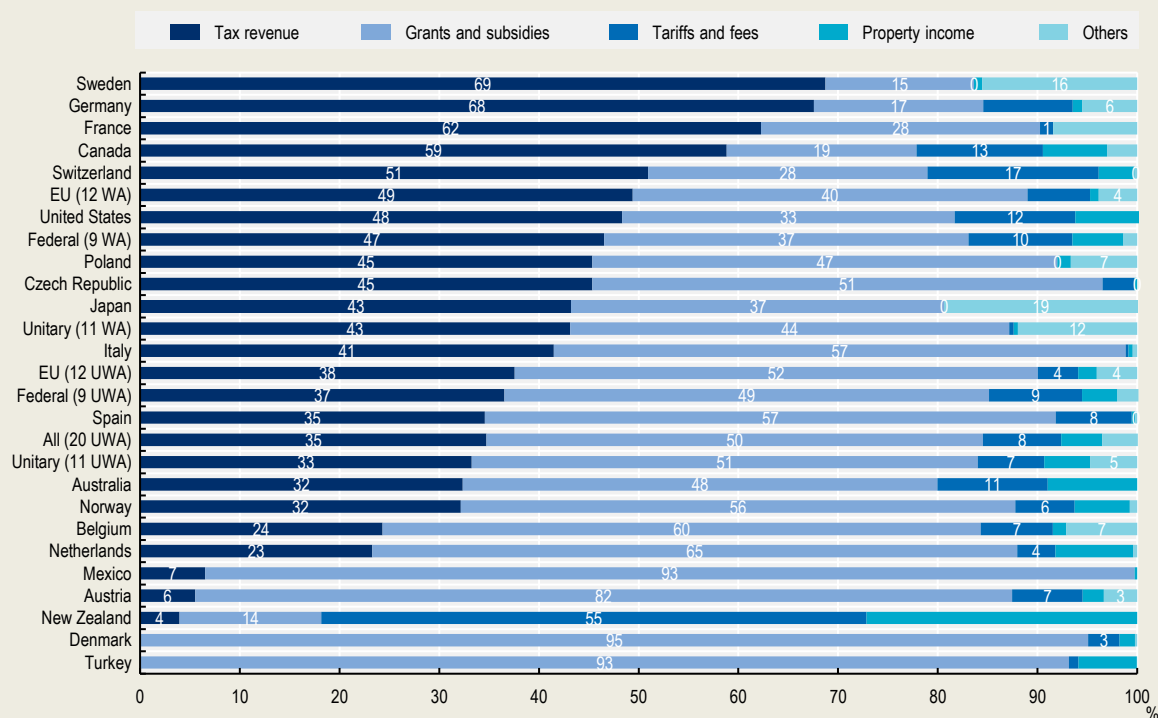
In some federal countries, regions are mainly funded by grants (Austria, Mexico) while in others, they are mainly funded by taxes, shared (Canada, Germany) or own-source (Australia, Switzerland, US).

Box 4.23. Financing Types 4a and 4b regions

The REGOFI database shows that regional governments are funded primarily by grants and subsidies (50%) and tax revenues (35%). Tariffs and fees represent only 8% of regional government revenue, while property income and other income represent 4% and 3% respectively. It is interesting to note that there is no large difference between federal countries and unitary countries. Discrepancies are mainly found at the country level, with countries where regions are funded mainly through grants and others where regions are mainly funded by taxes (shared or own-source taxation). Taxes are the main source of regional government revenue in Canada, France, Germany, Sweden and Switzerland. On the other hand, regional governments do not receive tax revenues and are almost exclusively funded by grants and subsidies in Denmark (since 2007), Hungary and the Slovak Republic.

In 2016, regional government tax revenue accounted for 13.5% of total public tax revenue in 2016 and 3.3% of GDP (unweighted averages) but the share of regional government tax revenue in national aggregates varies significantly across countries. In federal countries, state government tax revenues represented on average 22.6% of total public tax revenue, against 6.1% for unitary countries. In unitary countries, the ratio of regional government tax revenue in total public tax revenue was also above 10% in the Czech Republic, Italy, Japan and Sweden (OECD, 2020^[80]).

Figure 4.9. Breakdown of regional government revenue by type, 2016



Note: Japan (2010-15). Averages are computed with duplicated 2015 data for Japan in 2016. In Romania, other revenues are not disaggregated and may well include tariffs and fees and other revenue sources. UWA: Unweighted average. WA: Weighted average.

Source: OECD (2020^[95]), *Regional Government Finance and Investment Database*, <https://stats.oecd.org/Index.aspx?DataSetCode=RFD>; OECD (2020^[80]), *Pilot Database on Regional Government Finance and Investment: Key Findings*, OECD, Paris.

Box 4.24. The case of regional development agencies (RDAs)

RDAs are one governance tool countries have used to design and implement regional development policies. RDAs of different forms are common in OECD countries, be they federal or unitary, centralised or decentralised, or regionalised with elected bodies or not. The idea behind the “agency model” is to have “separation” from the central or regional government, while being accountable to them. One of the goals for an RDA may also be to benefit from the complementarity of actions across national policy sectors in a given region. Finally, the RDA structure also allows for involving private actors, when they have a particular focus on business development and support, innovation programmes and investment attraction.

Most OECD countries with RDAs have regionally-managed RDAs, with a trend towards increasing specialisation in a particular sector, notably business development and/or innovation. Even when RDAs are accountable directly to a region, they are still part of a complex governance landscape involving multiple levels of government and sometimes the private sector. A survey in Europe noted that 40% of surveyed RDAs had funding sponsorship from other levels of government beyond the region. Agencies may also be accountable to a public-private board. Slovenia is a good example of strong RDAs that serve as technical and administrative support to RDCs and RCs (Box 4.20).

A few OECD countries have nationally-initiated RDA networks to support regional development. The choice for central government action is nested within a set of alternatives to address governance challenges, in particular, where there are no regional governments or when they are not at the right scale (Turkey). In most of these countries, the impetus for creation was to build capacity at the regional level in a centralised country context. In England (UK), a network of RDAs was created between 1998 and 2000 as part of the UK’s efforts towards devolution. RDAs were in use in England for a period between 1998 and 2011. With the change in government in 2010, a decision was made to eliminate the RDAs in favour of more bottom-up defined actions at a smaller scale than the regions.

The institution of RDAs, or structures of a similar purpose, has been driven in many OECD countries by the EU accession process, notably for countries in Eastern Europe. The creation of these national networks of regional agencies is designed to map to statistical areas that would receive EU regional policy funds. For example, Romania, which has both elected regions at NUTS 3 level and eight development regions at NUTS 2 level (with RDCs), has also established a network of RDAs, established in each of the eight regions, to develop the “strategy, plans and programmes for the regional development as well as the management plans for the funds” (Legislative Portal of Romania, 2004^[96]) and ensure the technical and financial management of the Regional Development Fund. Established as “Intermediary Bodies” (IBs) for the management of EU funds, the RDAs are also responsible to the council for the correct use of the resources and to send the selected regional projects to the RDC for approval (David, 2020^[97]).

More common among national RDA networks is a targeted approach focusing on business development as is the case in Chile, the Czech Republic, Iceland, New Zealand and Turkey. In Turkey, for example, the government established a national network of 26 development agencies in 2006 as regional planning units for preparing regional plans and strategies in accordance with the National Strategy for Regional Development (NSRD) 2014-23. Agencies have a participatory approach to encourage public-private dialogue.

Canada, a federal and highly decentralised country, is an original feature within OECD countries; it has a well-developed network of six national RDAs to help organise national interventions for regional development. Provinces have their own RDAs that coexist with the national network.

Source: OECD (2016^[48]), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, <https://doi.org/10.1787/9789264260245-en>; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>; David, E. (2020^[97]), “Debating regionalisation in Romania. Historical review and current draft laws on territorial administration”, https://www.researchgate.net/publication/343713356_Debating_Regionalisation_in_Romania_Historical_Review.

From one model to another: A continuous but non-linear process

Country examples are just snapshots of a regional governance model for a given moment in time. In fact, regional governance arrangements are not static and are constantly evolving. The most frequent situation is going from soft arrangements to stronger regional governance, which can be done gradually. France is a good example of this step-by-step approach (Box 4.25) but it is not an isolated example. Other countries have experienced the same process such as Chile, Greece, Italy, the Netherlands or Turkey (Table 4.5).

Box 4.25. France: An incremental approach towards elected regions

France is a good example of a step-by-step process. Before creating fully self-governing regional governments in 1982, France had gradually passed through several phases of central government co-ordination at the regional level.

At the end of the Second World War, the very high concentration of political and economic powers in the Paris region at the expense of the growth of other regions was denounced. Notably, the publication of the book *Paris and the French Desert* by Jean-François Gravier (1947^[79]) was perceived as a big shock, which sparked numerous debates and discussions on the need to rebalance the territories through a regional policy. As a result, in 1954, it was decided to establish several “economic programme regions”, transformed in 1959 in “districts for regional action”. These districts were replaced in 1963 by 21 “administrative regions” and “regional economic development commissions” (CODER). At the same time, 21 “regional prefects” were established as representative of the central government in the region. In 1969, the referendum on regionalisation aimed at creating elected regions failed. Instead, it was decided to transform the regions into “regional public establishments” (EPR), with legal personality and budgetary autonomy. EPR RCs are composed of deputies and senators elected in the region and an equal number of representatives appointed by the main municipalities in the region and the *départements* (the intermediate level of government). The executive, responsible for implementing the decisions of the regional council, is the regional prefect. Alongside the regional council is the Economic and Social Committee, a consultative assembly made up of representatives from the various socio-economic sectors. EPRs have to be consulted on issues of spatial planning and regional economic development.

Ten years later, the Decentralisation Act of 2 March 1982 gave the regions the statute of fully-fledged regional governments, providing them with additional responsibilities. The law allowed regions to freely administer themselves by directly elected councils (RCs). The executive power is transferred from the regional prefect to the president of the regional council, elected by the regional council from among their members. New responsibilities, staff and resources were transferred to these new regions. The first elections by direct universal suffrage were held in 1986. Successive decentralisation reforms further strengthened regional responsibilities (Table 4.5). With Act II of Decentralisation in 2003-04, regions were recognised by the constitution.

Other countries, specifically Finland, Latvia, Lithuania and Portugal, are currently discussing moving from one model to another to reinforce regional governance. Romania has been discussing a new regional governance model since the end of the 1990s based on different scenarios (Box 4.26).

Box 4.26. Current discussions in Finland, Latvia, Lithuania, Portugal and Romania

Lithuania is envisaging moving from a Type 1a regional model to a more effective regional governance system. Since 2010, the Law on Regional Development has been amended several times to develop the role of the RDCs, in the context of significant and increasing regional disparities. There is now a new discussion taking place about a deeper transformation of the RDCs. Since 2012, the Congress of Local and Regional Authorities of the Council of Europe has suggested increasing the number of competencies of the RDCs, strengthening their administrative apparatus and looking towards establishing regional budgets in the future. In December 2017, the *White Paper for Harmonious and Sustainable Development 2017-30* (Ministry of the Interior of the Republic of Lithuania, 2017^[98]) recommended creating an effective regional governance system, stating that “The Lithuanian regional policy review should create preconditions for an effective regional policy by reinforcing responsible self-governance focused on economic development, empowering Lithuania’s regions and developing them in a targeted manner, and ensuring coherent and consistent local, regional and state development”.

In this context, it is planned to increase RDC responsibilities and resources, providing them with legal personality and autonomous powers, together with a modification of the regional borders. The aim is “for the regional development councils to embody regions operating based on municipal co-operation and to become regional managers possessing legal status and real powers along with the regional competency offices (development agencies) or regional service centres subordinate to them”. This could result in the creation of a new subnational tier of government (Council of Europe, 2018^[99]).

Portugal is currently discussing the possibility to move from a Type 1b regional model to a Type 2 model (co-operative regional governments) or even a Type 4a one (decentralised regions). Today, CCDRs represent deconcentrated, rather than truly decentralised, services, although the creation of “administrative regions” in mainland Portugal is provided for by the 1978 Constitution. These deconcentrated entities, however, have helped to establish a footprint for regional governance that further regionalisation reforms can build on. It is interesting to note that these CCDRs are increasingly being used to define areas of operation for the decentralisation services of the various ministries, replacing the previous district geography (Veiga and Pedro, 2019^[100]). However, despite this mandate, they have not yet been able to catalyse a truly cross-sector, strategic approach to regional development. Today, there are discussions about different scenarios for regionalisation, in particular under the impulse of the Portuguese Independent Commission for Decentralisation of the National Assembly, which has commissioned a report from the OECD. Three approaches for regionalisation in Portugal have been presented, while the decentralisation process, which started in August 2018, should be continued with and followed through on (Veiga, 2019^[101]).

Finland and Latvia are planning to evolve from Type 2 regions to a more decentralised form of regional governance. **Finland**, since 2015, has planned to create 18 self-governing regions with their own directly elected regional assembly to replace the regional inter-municipal co-operation entities (called “regional councils”). Furthermore, these new regions would take on a substantial proportion of the responsibilities currently carried out by municipalities, inter-municipal co-operative organisations and the central government in the social and health sectors. In that context, the regional reform is a way of bypassing difficulties in implementing municipal reform. It also aims at rationalising the subnational government sector and improving public service delivery, accessibility, quality and costs, while enhancing its accountability with newly elected bodies. The central government would have primary

responsibility for financing the new regions. The existing multi-channelled financial resources would be simplified and citizens would have more freedom of choice regarding these services. In April 2019, however, this reform was suspended due to political disputes that led to the resignation of the government. The project is still on the table for discussion (OECD, 2017^[8]; 2020^[5]; Allain-Dupré, Chatry and Moisis, 2020^[36]).

In Latvia, with the new territorial reform which started in 2019 based on the Conceptual Paper on New Administrative Territorial Division, the future of planning regions is being discussed. In fact, the reform envisages merging the current 119 municipalities to create 39 local governments (34 municipalities and 5 cities). This reform, if adopted, will have a significant impact on the planning regions. According to the *Regional Policy Guidelines, 2021-2027* published in November 2019, Action 225.1 of the Government Action Plan acknowledges the necessity of introducing a regional government level. In this perspective, the Ministry of Regional Development will prepare, by 31 October 2020, a draft conceptual report that will analyse the role of regions in reducing territorial disparities and favouring regional competitiveness and will propose possible regional governance models. According to the guidelines, current planning regions should be preserved but their functional, financial and management status should be improved (Ministry of Environmental Protection and Regional Development of Latvia, 2020^[88]).

Romania has a complex regional structure based on 42 counties (including the municipality of Bucharest) and 8 development regions created in 1998 at NUTS 2 level to prepare the EU accession and the implementation of the EU regional development policy. They do not have a legal personality and administrative status. A new institutional network has been however established for their administration based on a National Council for Regional Development (NCRD), 8 RDCs and 8 RDAs. Reforming this regional structure has been discussed for several decades. There are different scenarios including: i) the status quo but promoting inter-regional co-operation between counties; ii) transforming the 8 development regions into 8 self-governing regions while maintaining the county level; iii) transforming the 8 development regions into 8 self-governing regions and abolishing the county level; and iv) merging the counties to create around 15-18 larger regional units (created on the basis on socio-economic criteria to regroup 2-3 counties) (AER, 2016^[102]).

Source: Ministry of the Interior of the Republic of Lithuania (2017^[98]), *Lithuanian Regional Policy White Paper for Harmonious and Sustainable Development 2017-2030*, https://vrm.lrv.lt/uploads/vrm/documents/files/White_Paper.pdf; Council of Europe (2018^[99]), "Local democracy in Lithuania", https://www.coe.int/en/web/congress/home/-/asset_publisher/EcOuMaGfRsUp/content/local-democracy-in-lithuania?inheritRedirect=false; Veiga, L. and C. Pedro (2019^[100]), "Portuguese multi-level governance studies", Unpublished manuscript; Veiga, L. (Veiga, 2019^[101]), "Multi-level governance in Portugal", Presentation during an OECD-MRDPW workshop organised in Sofia, September 2019; OECD (2017^[8]), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <https://doi.org/10.1787/9789264272866-en>; OECD (2020^[5]), *Decentralisation and Regionalisation in Portugal: What Reform Scenarios?*, <https://doi.org/10.1787/fea62108-en>; Allain-Dupré, D., I. Chatry and A. Moisis (2020^[36]), "Asymmetric decentralisation: Trends, challenges and policy implications", <https://doi.org/10.1787/0898887a-en>; Ministry of Environmental Protection and Regional Development of Latvia (2020^[88]), *Latvia's Experience in Regional Development Territorial Reforms and Financial Support Measures*; AER (2016^[102]), *Regionalisation in Romania*, <https://aer.eu/regionalisation-in-romania>.

It is important, however, to avoid having a vision of institutional evolutionism. The different models of regionalisation should not be considered as the rungs of a virtuous ladder that states need to climb to reach the ideal model of regionalisation, i.e. the greatest regional autonomy. Obviously, situations can change and depending on the reforms implemented a state can feature different types of regionalisation, going in different and sometimes opposite directions, regarding the level of regional autonomy (OECD, 2020^[5]).

In fact, while the regional government level has been gaining in importance recently, there are some cases of countries that went in the opposite direction, from a quite strong form of regional governance to a softer one, resulting from recentralisation processes (Table 4.5). This has been the case for example in Denmark,

in 2007, with a reduction in the responsibilities assigned to counties whose numbers were reduced from 14 to 5 regions. A further reduction of Danish regions role has been discussed, although the proposal to abolish the current five regions in the context of the healthcare reform was abandoned with the change of government in June 2019. In Hungary, the 2012 constitutional reform and the Cardinal Law on Local Governments have profoundly transformed the subnational government framework, reducing its scope, functions and financing resources. Counties lost several major competencies (healthcare, social initiatives and secondary education) to be left mainly in charge of regional and territorial development, which makes them key region development policy actors. In Estonia, the state regional government level (counties) was abolished in January 2018 and county tasks have since been given to municipalities (consolidated) and central government agencies. In other countries, regionalisation reforms are still being debated, sometimes for many years and in an intermittent fashion, but with no concrete results thus far (e.g. Japan).

Finally, several regionalisation projects have been abandoned or postponed such as in the Netherlands in 2014 (merger of provinces), in Sweden in 2017 (merger of counties) or Finland in 2019 (creation of elected regions). Some others have been rejected by the population following a referendum such as in Portugal in 1998, in England in 2004 and Slovenia in 2008. In 2006, in Italy, a national referendum rejected a constitutional reform that aimed at further strengthening the regions to transform Italy into a quasi-federal country. Ten years after, in the same country, a new referendum rejected another constitutional reform which intended to clarify the allocation of responsibilities between the central government and ordinary regions.

Understanding the ins and outs of the debate on regionalisation in Bulgaria

There is a growing consensus in Bulgaria on the need to have more place-based policies and place-based governance tools. However, reinforcing existing regional bodies has been discussed for many years, without real progress. The topic of regionalisation is sometimes referred to as the “saga of decentralisation at the regional level” (Djildjov, 2006_[103]). As already underlined in 1997, and still valid today, in spite of many commitments in favour of the creation of a regional level of governance, “there seems to be no definitive and clear concept of the size, nature, structure and functions of this regional tier” (CLRA, 1997_[104]).

The “saga of decentralisation at the regional level”

A historical perspective shows that Bulgaria has a long-standing tradition of regional government (Kalfova, 2019_[105]). Elected regions were established by the first democratic constitution (Tarnovo) and have existed for many years. These regions were abolished following the Second World War, however, since the drafting of the 1991 Constitution, the issue of regionalisation has remained under discussion but has never come to fruition, despite intermittent pressure from international organisations such as the Council of Europe during Bulgaria’s entrance into the EU (Box 4.27).

The 2006-15 Decentralisation Strategy and the 2006-09 Programme for the Implementation of the Strategy adopted by the CoM, included a range of measures to reinforce the district level but also to prepare for the establishment of the second level of regional self-government. Preparatory work started on different options for regionalisation (political organisation, responsibilities and resources). It resulted, most notably, in a report presenting “EU member states’ practices with two levels of functioning local government” (Council of Ministers of Bulgaria, 2007_[106]). Three options for regionalisation were proposed: maintaining the existing 28 districts, creating 12-13 districts or creating 6 districts. Later, in 2009, a twinning project between Bulgaria and France looking both at decentralisation and deconcentration concluded that there was a need to reinforce the district and the regional governor as a state representative at the territorial level, based on the model of the French prefect (Twining project BG 2006 et al., 2009_[107]). In 2011, the Congress of Local and Regional Authorities of the Council of Europe presented three “alternatives for the

development of regionalisation in Bulgaria” (CLRA, 2011_[108]). But no progress has been made in this direction. Linking regional policy and regional governance has yet to take place (Kalfova, 2019_[105]).

In the new 2016-25 Decentralisation Strategy, increasing the role of regional institutions for the implementation of co-ordinated regional development policy is still on the table, as one of the four main strategic objectives of the strategy.

Box 4.27. A historical perspective of the regionalisation process in Bulgaria

Bulgaria has not always been a country without elected regions. In fact, in 1879, the first democratic constitution, Tarnovo, established 3 administrative levels: 23 districts, 84 counties and municipalities and 2 of them – municipalities and districts – were self-governing. This three-tiered subnational organisation was maintained from 1880-1934 and was based on counties, districts and municipalities. From 1934 to 1947, it was based on regions, districts and municipalities. In 1947, the new constitution established a system of Soviet-type councils, with “local bodies of state power”, reaffirmed in the 1971 Constitution. The administrative divisions included districts, counties and municipalities (counties were abolished in 1959). In 1987, the 28 districts were merged into 9 large regions.

The 1991 Constitution, and the subsequent Law on Local Government and Local Administration, has significantly modified this past institutional model. It has established a two-tiered model, with municipalities defined as the basic level of self-government and the possibility of creating other levels of self-government by law. The regional level defined by the constitution is a deconcentrated level and not a decentralised one. This is the first Bulgarian constitution in which the second level of self-government is not obligatory (Djildjov, 2006_[103]).

In 1995, the Local Self-Government and Local Administration Act intended to reintroduce a “mixed” self-governing status at the district level, based on provincial councils formed by municipal councillors, an appointed governor and limited regional functions. However, this level was not introduced in practice due to economic and political difficulties. In 1999, the level of the 28 districts was re-established. They took the name of “regions” (*oblast*) to be consistent with the 1991 Constitution. Despite discussions and projects, they were not re-established as self-governing entities. Immediately after the reform, the opposition presented a bill establishing regional self-government with a directly elected district council, which was rejected.

Since 1995, the issue of regionalisation has remained on the table for discussion but it has never concretised, despite some pressures of international organisations such as the Congress of Local and Regional Authorities.

In 2001, the government programme indicated that it was necessary to conduct “a public discussion on (...) the establishment of a second level of self-government in accordance with the requirements for our European integration”. In 2003, the Updated Strategy for the Modernisation of Public Administration included a section on decentralisation, focusing on regional governance. In 2005, a report (unpublished), prepared as part of the framework of the decentralisation strategy stated that “the second level of self-government is an emerging need because of identical processes within the EU Member States”.

Source: Djildjov, A. (2006_[103]), “The saga of decentralisation at regional level”, *Public Administration Magazine* 1-2, pp. 26-36.

Some issues at stake concerning regionalisation

Several reasons – political, economic and social – explain the resistance to reinforced regionalisation in Bulgaria, both at the national and local levels. In addition to the fear that such reinforcement can arise (for example among municipalities and central government civil servants), there is a lack of civil society support or at least an indifference. Finally, to make this happen in a de facto manner, regional bodies need to be equipped with sufficient resources and capacities which raises additional challenges, especially in the context of scarce resources. Some stakeholders fear the introduction of a new level of politicians and administration and express concerns about increased costs resulting from this bureaucracy as well as potentially additional taxes in the future.

Overall, there are still a lot of discussions that need to be had about the relevant level for regional development (districts versus planning regions), the number of regions, their structure and their responsibilities.

Which regional level for regional development: Districts or planning regions?

There are currently several discussions going on about the right regional level for Bulgaria. According to the constitution, there is only one regional level, that of districts. But, to implement policies funded by EU cohesion funds, another regional level has been created by the Regional Development Law, that of the six planning regions at NUTS 2 level. Several questions arise based on this, namely which regional level should be chosen in the future for regional development? The level of 28 districts or that of the 6 NUTS 2 regions?

Advocates of the district level argue that the district is the only one that is recognised by the constitution, which, in addition, defines regional development as one of its main tasks. Proponents of districts also argue that the planning regions are newly developed, relatively unknown to the general public and lacking in a concrete structure, as they do not have their own administrations or budgets.

Advocates of the planning regions consider that only NUTS 2 are the basic regions for the application of regional policies according to the EU nomenclature. Only NUTS 2 regions are large enough to meet the conditions of regional significance, homogeneity and identity (Stoychev, 2018_[109]). Looking at other EU countries, it appears that NUTS 3 are rarely in charge of regional development policies, even when they are decentralised regions. This responsibility is either carried out by the central government or delegated at a higher regional level corresponding to NUTS 2 but without self-governing status. This is the case in Croatia, the Czech Republic, Hungary, Romania and the Slovak Republic for example.

In the following parts, it is proposed to keep both existing levels but with clearer, more focused and differentiated responsibilities and functions: districts would focus only on their missions as representative of the central government at a territorial level (deconcentrated administration) while planning regions would be promoted as the leaders for regional development.

How many planning regions for Bulgaria?

Long before the current NUTS regionalisation of Bulgaria was carried out, several prominent scientists worked on defining regions in Bulgaria based on different criteria and approaches. A significant number of regionalisation schemes were then proposed, such as five “landscape areas” in 1934, seven “economic areas” also in 1934, three major economic-geographic areas and nine sub-regions in 1952, five economic areas in 1954, seven economical regions in 1983, and more (Stoychev, 2018_[109]). In 1987, 9 regions were defined as administrative units, resulting from the merger of 28 districts but, in 1999, they were abolished and the 28 districts were restored.

The division into six regions was adopted by the decision of the CoM for the purposes of the National Plan for Regional Development 2000-06 as part of the pre-EU membership process. Therefore, they met the

requirements and conditions related to the accession of Bulgaria to the EU in the field of regional policy, in particular, the requirements of the Nomenclature of Territorial Units defined by Eurostat (EC, 2018_[110]). In 2010, the division was slightly revised because of negative demographic trends, which had led to 2 regions being below the minimum threshold of 800 000 inhabitants set by Article 3 of the Regulation (Southwest and Northwest).¹ To solve this issue, Stara Zagora region “migrated” to South East Bulgaria and the regions of Lovech and Pleven “migrated” to the North West (Stoychev, 2018_[109]). This issue however rapidly re-emerged as the population continues to decline. Between 2013 and 2018, several studies were carried out to suggest a new regional map, as the North Central and North West regions no longer met the relevant technical requirements.

Table 4.7. The current planning regions in 2018

Region	Population (2018)	Area (km ²)	Number of districts	Number of municipalities
North West	749 130	18 843	5	51
North Central	789 583	14 660	5	36
North East	931 370	14 560	4	35
South East	1 035 814	19 594	4	33
South West	2 105 300	20 228	5	52
South Central	1 413 840	22 116	5	58

Source: OECD based on data provided by the National Statistical Institute.

One scenario, set out in the draft Law on Regional Development in October 2018, was to reduce the number of planning regions from six to four. It was abandoned in the end (Box 4.28).

Box 4.28. How many planning regions for Bulgaria: Recent plans to reduce the number from six to four

A 2013 study commissioned by the MRDPW identified several options to redraw the map of the NUTS 2 region. The process was restarted in 2017, under the auspices of the Inter-Ministerial Working Group on the Development of Options for the Redrawing of Bulgarian NUTS Level 2 Boundaries led by the MRDPW (Ivanov, 2017_[111]). In 2018, an option among a shortlist of three options was inserted in the draft Law on Regional Development, distinguishing four regions: Black Sea, Danube, Southwest and Thrace-Rhodope.

Figure 4.10. Four new regions were proposed in 2018



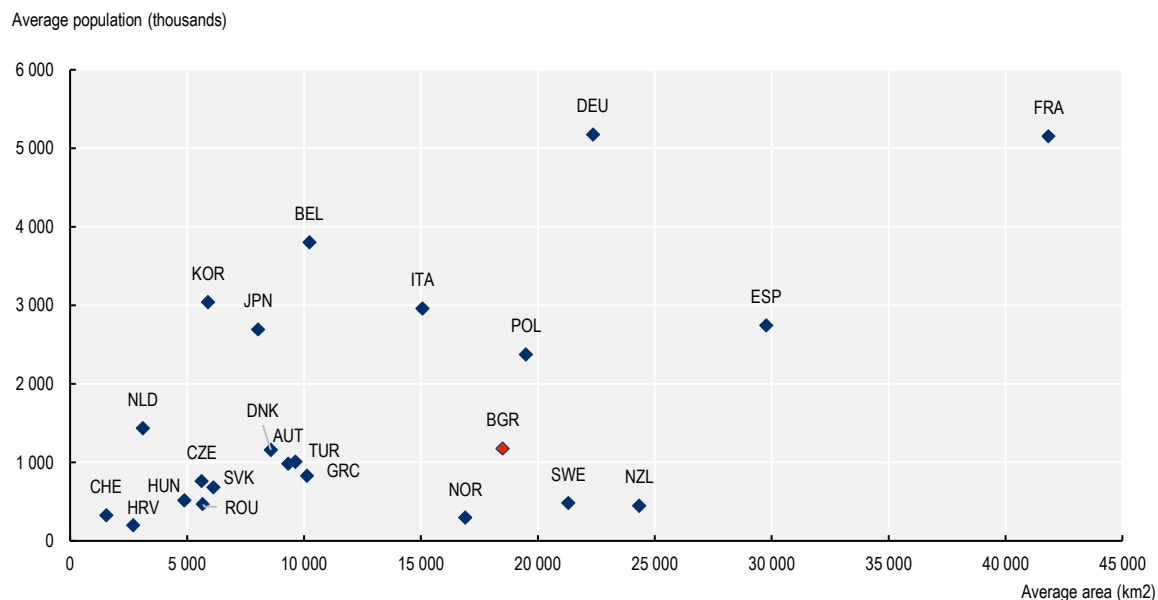
Beyond the problem of population decline in two regions, the advantages of the redrawing were the following: a well-balanced population with stability until 2060; expected comparatively balanced indicators for each of the regions; the existence of strong urban centres in each area; and natural geographic division. The disadvantages were that it implied identifying new NUTS 1 areas and updating all programming and strategic documents, except those for the South West region. The document was released for public consultation by the CoM in October 2018 (<http://www.strategy.bg/PublicConsultations/View.aspx?lang=bg-BG&Id=3793>).

Source (figure): Note from the MRDPW.

Source (box): Ivanov, L. (2017^[111]), *NUTS II Regions of Bulgaria - Inter-Ministerial Working Group on the Development of Options for the Redrawing of Bulgarian NUTS Level 2 Boundaries*.

Looking at the current demographic and geographic size of elected regions in EU and OECD countries compared to the size of Bulgarian planning regions, the reality is that there is no clear norm or ideal size for regional governments in terms of area or population. The demographic and geographic sizes of regional governments are very heterogeneous across and within countries, be they federal or unitary (Figure 4.11). In 13 countries, regional government boundaries corresponded to NUTS 2 and in 10 other countries, they corresponded to NUTS 3. It is important to note that, behind these regional averages, discrepancies between regions within countries may be large.

Figure 4.11. Average demographic and geographic size of regional governments in OECD countries compared Bulgarian planning regions, 2018



Note: Australia, Canada, Mexico and the US are not shown on the graph because of the large average size of state governments. In Turkey, regional average sizes include the special administration provinces and the provincial metropolitan cities. The regional average size in France does not include the five overseas regions. Norway: as of 2020 (following the reform).

Source: OECD calculations based on OECD (2019^[112]), *Key Data on Local and Regional Governments in the European Union* (brochure), https://www.oecd.org/regional/regional-policy/Subnational_Finance_Nuancier_EU_2019.pdf; OECD (2019^[113]), *Subnational Governments in OECD Countries: Key Data* (2019 Edition), <https://www.oecd.org/regional/regional-policy/datacollectionandanalysis.htm>.

Reinforcing planning regions but to do what?

Responsibilities related to regional development should be the foundation of the new planning regions, whatever their type. Place-based regional policy should go hand in hand with place-based governance, relying on local and regional governments. While municipalities should have a key role in local development, regions should be responsible for regional development. It does not mean however that central governments do not play a role as central governments are also important actors in developing place-based regional policy.

In fact, regional development policies are often a shared responsibility among national, regional and local actors in many EU and OECD countries. Because regional and local actors may have various resources, agendas, and legal or political standing, the role of the central government is increasingly important for providing an overarching framework and guidelines for regional development policies, ensuring dialogue and co-ordination and fostering equity and solidarity across territories (OECD, 2010^[81]; 2019^[9]). In particular, central governments play a key role in ensuring the balanced development of all parts of the national territory and minimising the potential risk of increased disparities, thanks to well-designed equalisation policies.

For Bulgaria, the new governance model for regional development does not mean transferring regional development from the central government to planning regions but establishing a new paradigm based on multi-level governance and vertical co-ordination mechanisms that foster a partnership-based relationship among levels of government (OECD, 2019^[9]).

This principle should also be translated into the management of EU funds. The EU has promoted multi-level governance for its Cohesion Policy through the “partnership principle”. This principle requires the involvement of new partners in programme formulation and implementation and was codified in 1988 (involvement of regional and local authorities), 1993 (economic and social partners), 1999 (organisations responsible for the environment and gender equality) and 2006 (NGOs and civil society bodies) (Nyikos and Talaga, 2014^[114]). In May 2018, the European Commission (EC) published its proposals for regulations for the next period from 2021 to 2027, stating that “Local, urban and regional authorities will be more involved in the management of EU funds, while the increase of co-financing rates will improve ownership of EU-funded projects in cities and regions” (EC, 2018^[115]).

Despite these guidelines, the way EU funds are managed for regional development varies widely between EU countries. In some EU countries, EU funds for regional development are managed centrally particularly in several Central and Eastern European countries, including Bulgaria. National governments continue “to exert a strong grip on key decisions and there is resistance to EU pressures for subnational empowerment and inclusive, horizontal partnership-working where this has gone against domestic preferences or pre-existing traditions (Nyikos and Talaga, 2014^[114]). In other countries, large parts of EU funds are fully managed by the self-governing regions, such as in Germany or Spain. Finally, in another group of EU countries, responsibility is shared between the central and regional government, accruing to a great variety of sharing models: by funds, operational programmes, objectives and axis; or by functions: preparation of regional strategies, programme planning, project generation and selection, management and disbursement related to project implementation, control and monitoring, evaluation and assessment.

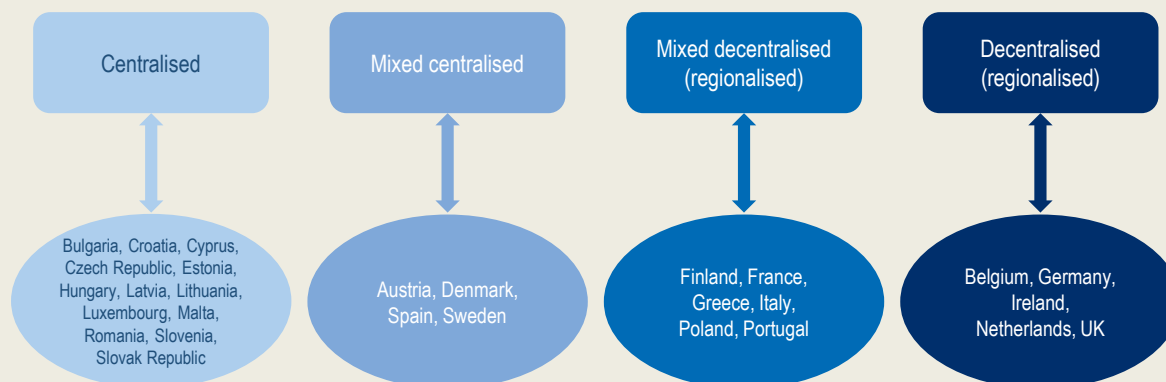
In reality, the institutional architecture for the management of European funds varies a lot according to countries, in particular depending on the national institutional setting and the allocation of responsibilities across levels of government. Four main models of governance of EU funds can be distinguished (Box 4.29).

Box 4.29. Four main models of governance of EU funds

Four main models of management of EU funds can be distinguished (French Senate, 2019^[116]; Nyikos and Talaga, 2014^[114]):

- **Decentralised (regionalised)** where regional programmes are managed and implemented by regional bodies, with limited national co-ordination. Beyond co-ordination, the role of the central government covers high-level negotiations with the EC, intergovernmental consultation and evaluation of the “best practices”.
- **Mixed decentralised (regionalised)** where regional programmes managed and implemented by regional organisations that can rely on strong national co-ordination.
- **Mixed centralised** where regional programmes are managed or implemented by national authorities or when the programmes are all national but their implementation delegated to regional intermediate bodies.
- **Centralised** where there are only national programmes managed and implemented mainly by national authorities (national ministries or other national central organisations). National ministries supervise the programme preparation, spending, monitoring and evaluation. In some member states, the role of the national level can be very strong, without no or very limited delegation of responsibility.

Figure 4.12. Four main models of management of EU funds



Source: OECD elaboration based on French Senate (2019^[116]), “On the under-use of EU funds in France (in French only)”, http://www.senat.fr/rap/r18-745/r18-745_mono.html#toc186; Nyikos, G. and R. Talaga (2014^[114]), “Cohesion policy in transition – Comparative aspects of the Polish and Hungarian system of implementation”, <https://pdfs.semanticscholar.org/62bc/66b4a9b161640ed5d02aef5db410e017225f.pdf>.

The current reform of the RDCs in Bulgaria

The Regional Development Act has been amended in March 2020 to establish, among others, a new governance system for the next programming period.

The RDCs will be responsible for the pre-selection of projects in compliance with the integrated territorial strategy of the corresponding region. This will be a completely new role for them and it is expected that they will face the same or even heavier challenges than the current IBs. A new organisation of RDCs will

be established. This is a step in the right direction but additional functions related to regional development and management of EU funds could be progressively delegated to planning regions in the future, especially if their governance structure is reinforced together with their fiscal, technical and human capacities.

Box 4.30. The future plan concerning the role and organisation of the RDCs in the framework of the new integrated approach for regional development

Each RDC will consist of two levels: management and expert level. The members of the management level are representatives of the municipalities, district governors, NGOs, local businesses, academia, employers' organisations and trade unions, as well as representatives of the sectoral ministries. The president of RDC would be elected either by the members of the RDC or after a contest (optional for each RDC). Additionally, it is foreseen to include observers in the RDC with a non-voting right, in particular the Central Coordination Unit, the National Statistical Institute, the National Centre for Territorial Development and the Bulgarian Academy of Sciences. The expert level is organised into three special units:

- The Mediation Unit that works locally, organising meetings with stakeholders and supporting the partnership agreements.
- The Public Consultation Unit that organises and conducts public consultations of projects in the region.
- The Pre-selection Unit that selects and prioritise Integrated territorial investment (ITI) concepts depending on their contribution to the relevant Integrated Territorial Strategies (ITS) based on predefined criteria. Each Managing Authority (MA) will have the opportunity to mobilise its own experts in this unit. It is envisaged that the selection of operations will be carried out in two phases: i) preliminary selection of ITI concepts – carried out by the RDC; and ii) evaluation of the individual project proposals included in the concepts – carried out by the respective MA of the OPs.

This new organisation is meant to implement the new integrated territorial approach in Bulgaria promoted by the 2020 Regional Development Act. In particular, RDCs will function as the territorial authorities responsible for the ITS and the pre-selection of ITI concepts.

Regional schemes for spatial development are currently being prepared by the National Centre for Territorial Development with the active involvement of RDCs, which are responsible for approving strategies per the Regional Development Act.

Source: MRDPW (2019^[17]), *Regional Development Policy and Implementation Approach - Meeting with DG REGIO*, Ministry of Regional Development and Public Works.

Recommendations for reforming districts and planning regions

The option which is proposed is not to choose between one level over the other, but to reform both levels with much clearer and more focused and differentiated functions. Districts should be maintained and reinforced as state territorial administration (deconcentrated central government) but with no further responsibility for regional development. Planning regions should be promoted as a legal body in charge of regional development as their basic function and they should be adequately resourced to do so.

Reinforcing the role of the districts as state territorial administration

Districts should be reformed and strengthened to accompany the decentralisation process, adapted to the increasing role of planning regions and enhanced in their co-ordination and control functions as state deconcentrated administration at territorial level, similar to the French model of prefectural administration (Twining project BG 2006 et al., 2009^[107]). A review could also be conducted about future opportunities to modify district boundaries to maintain administrative and territorial alignment.

Reconfiguring districts responsibilities and scope

The role of the districts should be reinforced so that they can more effectively take on different roles:

- **Vertical co-ordination between the central government and municipal levels:** Managing relations between different levels of government is a necessity in a decentralised context. The district level seems to be in the best position to manage this vertical relationship, with its constitutional status and historical traditions. Districts should play a proactive role in co-ordinating national and local policies, with a shift from a traditional top-down transmission organ to a “mediator” role able to reconcile different perspectives (Boulineau, 2005^[118]).
- **Horizontal co-ordination of central government activities at the territorial level:** Districts should become the scale of co-ordination of central government administration. In France, for example, according to the constitution, the prefect is the direct representative of the prime minister and every ministry at the departmental level in implementing government policies and their planning. The prefect is responsible for national interests, administrative supervision and compliance with laws and is in charge of public order.
- In the short and medium terms, it is also important for the line ministries and central agencies to gradually rationalise and streamline the existing territorial directorates – not only in terms of consolidating their numbers but also in clarifying what functions and responsibilities should be deconcentrated to territorial units in order to improve the efficiency of work. This process can help pave the way for districts to better carry out co-ordination at the territorial level and they should actively participate in this consolidation process.
- **Horizontal co-operation between municipalities:** Districts could play a more proactive role in supporting critical projects that require cross-jurisdictional co-operation and local development. They could act as integrators, in particular assisting with consolidating the work in weaker and rural municipalities. They could be instrumental in fostering and supporting inter-municipal co-operation. Districts have a key role to play in encouraging municipalities to work together on large-scale projects (Stoilova, 2007^[119]).
- **Administrative and budgetary control of municipal activities:** Districts could reinforce their legal control. Similar to what happens in France, they could also receive new tasks related to the monitoring of municipal activities, such as *a posteriori* budgetary and financial control of municipalities, in liaison with the Ministry of Finance. The objective would be to reinforce their means to combat and curtail corruption more effectively.

Today, districts’ responsibility in the area of regional development is enshrined in the constitution (Article 142). To avoid a constitutional revision, districts could keep a role in this area by highlighting their involvement in support of local development and territorial co-operation with other districts inside or outside Bulgaria, including cross-border co-operation.

Reinforcing human and financial capacities of the districts

The human, technical and financial capacity of the districts should be significantly reinforced as today they do not have sufficient means to carry out their tasks. Fragmented territorial units of the central administration could be rationalised and consolidated at the district level for cost savings but also to better

implement public policies and provide quality services to citizens and businesses (Government of Bulgaria, 2014^[30]). In that process, some transfers of staff and budget from territorial units of the central government could be envisaged, in line with district responsibilities. The status and powers of District Development Councils (DDCs) should be revised to take into account the fact that they will no longer be in charge of regional development. DDCs were created by the Regional Development Act to carry out regional development but they could be abolished or transformed into a consultative body. In that case, it would be necessary to review their composition and functioning. They could comprise more representatives of the civil society and be consulted on the modernisation of public services delivered by the central government at the territorial level.

Which territorial organisation for the districts?

The precise scope of district responsibilities would depend on their future territorial organisation. There are 2 scenarios: keeping the 28 districts or merging the 28 districts into 6-state regional administrations. Both options are viable. In the first scenario, keeping the current territorial boundaries makes co-operation and control of municipalities easier as it guarantees some proximity. In the second scenario, adopting the same boundaries of planning regions also facilitates co-operation with regional entities while limiting the costs of deconcentrated administration.

International experience shows that there is no one correct model. In Greece, there are 7 territorial state administrations and 13 decentralised regions, established in 2011. In Norway, following the recent merger of regional governments, it has been decided to also merge the state territorial administration with the same regional boundaries. In Romania, the state deconcentrated administration is established at the scale of the 41 prefectures. In France, it has been decided to keep a deconcentrated administration at regional and departmental levels. Since 2016, the network of prefectures has been engaged, on an unprecedented scale, in the development of “a new generation of prefectures” plan. The network of regional prefectures has also been modified following regional mergers decided by the 2014 law on the delimitation of the regions, reducing the number of regions from 26 to 17 in mainland France and overseas (Box 4.31).

Box 4.31. State territorial administration at the regional level in some EU and OECD countries

In many countries, parallel decentralised and deconcentrated systems coexist. Decentralisation does not mean that the central government cannot maintain certain functions at the local level or allow them to evolve to adapt to institutional change in the governance system. Depending on the country, the role of state representatives at the territorial level in a decentralised system can differ, ranging from a mere representative function to a more significant role. State deconcentrated administration may be responsible for implementing national policies at the regional and local levels and ensuring that subnational government policies are in line with national policies. In some countries, state territorial representatives also carry out legal and fiscal oversight functions on local government actions. They may also play a co-ordination role between the different stakeholders, acting as a “pivot” of the administrative system, facilitating multi-level government dialogue on the ground, and sometimes acting in an advisory and mediator capacity. Finally, deconcentrated state services may also provide national public services at the territorial level.

- In **Croatia**, there is a State Administration Office at the county level which performs the tasks of the central government whose head is appointed by the government.
- In **Denmark**, the 15 county prefectures were transformed into 5 regional prefectures by the 2007 public administration reform.
- **France** has maintained a strong and powerful prefectural administration at the regional and departmental levels led by a prefect (*préfet*) as well as local directorates of various ministries

placed under their authority, so-called “deconcentrated services”. Since 2016, the network of prefectures is engaged in a major reform, called the “new generation of prefectures” plan. This reform also aims at refocusing prefectures on the four missions that make up the singularity and strength of the prefectural network: security and public order, including crisis prevention and management, legal and budgetary oversight of subnational governments, the fight against fraud by relying more on new technologies and finally, the territorial co-ordination of the implementation of public policies (Ministère de l'Intérieur, 2020^[120]).

- In **Greece**, the central government has seven deconcentrated administrations at the territorial level. Led by a general secretary appointed by the Ministry of the Interior, they are mainly responsible for the co-ordination of state territorial administration, multi-level co-ordination, administrative supervision of subnational governments, management of public assets, administrative issues, environmental affairs and representation of the central government.
- In **Norway**, the deconcentrated administration at the regional level is represented by the county governor. In addition to co-ordinating the activities of other central government bodies at the county level, the county governor supervises local government activities according to Article 59 of the Local Government Act. Within the framework of the current regional mergers reform, the number of state regional administration has been reduced from 18 to 10.
- **Poland** has a deconcentrated state territorial administration, based on 16 prefectures managed by a prefect, who is appointed by the prime minister. Prefectures are responsible for implementing national policies at the regional level and ensuring that they are in line with subnational policies. Prefectures also have a co-ordinating role between subnational government units, in particular, to finance state-funded regional projects. They are also in charge of supervising local governments.
- In **Romania**, the central government established 41 prefectures, which oversee the deconcentrated public services of the central public administration in each county.
- In **Sweden**, the central government has its own administration at the county level, the county administrative boards (CABs), which are led by county governors appointed by the central government. CABs are responsible for co-ordinating central government activities in the counties. Until the 2019 reform, some CABs were in charge of regional development policies. This function is now carried out by decentralised regions.

Source: Adapted from Ministère de l'Intérieur (2020^[120]), *PLF 2020 - Administration générale et territoriale de l'Etat*; OECD/UCLG (2019^[20]), *2019 Report of the World Observatory on Subnational Government Finance and Investment – Country Profiles*, <http://www.sng-wofi.org>; OECD (2020^[80]), *Pilot Database on Regional Government Finance and Investment: Key Findings*, OECD, Paris.

Strengthening the planning regions as regional development public body: Different scenarios

Bulgaria needs to adapt its regional governance to its new place-based regional development policy. The weaknesses of the current planning regions prevent them from actively contributing to regional development, despite it being their main task on paper. Planning regions should be endowed with wider responsibilities to formulate, adopt, implement and monitor strategic planning documents but also to select, finance and implement projects of regional and inter-regional importance, including those funded by EU funds.

The key issue is to transform the current planning regions from statistical units to structured and acting bodies with the full capacity for implementing regional development policy. For this purpose, the existing planning regions and RDCs should be reinforced regarding their status, legitimacy, powers,

responsibilities, organisation and capacities, both human and financial, to allow them to effectively support regional development policy design and implementation.

The current discussions around regionalisation, described above, show that the creation of a new layer of government could be too radical, bringing the risk of rejection of the whole process of regionalisation. Instead of a “big bang” reform, Bulgaria could adopt an incremental approach by gradually strengthening existing regional bodies. The first objective of the approach would be to demonstrate the appropriateness and added-value of a true regional orientation compared to the addition of local orientations. Then, by providing planning regions with a legal personality, clear responsibilities and functions and adequate resources (human, fiscal and technical), the process would allow for improved regional decision-making, enhanced skills for regional development and a higher quality of projects and planning.

The current reform of the Regional Development Act is a step in this direction, by clarifying and strengthening the role of RDCs and improving their organisation. However, it does not go far enough to provide planning regions with a real capacity to act as it is not foreseen to provide the planning regions with a legal personality, administration and/or budget. Therefore, the regional governance model which is currently retained for the next programming period 2021-27 would remain a Type 1a model. Other scenarios of regional governance are proposed below for discussion as alternatives to the Type 1a model. The upcoming 2021-27 programming period could then be used to discuss and perhaps implement more integrated forms of regional governance.

Scenarios for transforming Bulgarian planning regions into empowered regions

The foundation of all scenarios: Providing a legal personality to planning regions

The first step would be to provide a legal personality to planning regions, that of a public body, with its own budget and administration. Because of the complexity of the current situation, it is recommended to keep the same number of regions but to provide them with names that “make sense” to the general population in terms of identity, which can be a challenging task. The names and territorial scope of the regions are vital because they provide regional identification within the national space (Stoychev, 2018^[109]) Consultations with the population could be organised to carry out this change.

In terms of governance, the system of “rotating” district governors should be abolished and replaced with a permanent executive organ. The status of this executive body would depend on the chosen model of regional governance. In fact, governors could be either appointed for a given period by the central government (e.g. a duration corresponding to the municipal mandate) or elected (directly or indirectly). The planning regions will continue to have RDCs whose composition, functions and role would also depend on the selected model. But in any case, RDCs should ensure more representation of local actors and involve more civil society representatives.

In all cases, planning regions, as legal entities, would have their own assets, administration and budget. A challenging issue will be to choose a capital for the region where regional headquarters will be situated.

In terms of functions, regardless the chosen scenarios, planning regions’ responsibilities should be expanded in the areas of spatial planning, regional development and management of EU funds to also include selection, funding, implementation and monitoring of projects. Adequate financial resources, skilled staff and modern tools (e.g. an efficient IT system, performance indicators) should be made available to planning regions so that that can effectively perform these tasks, in particular, those concerning implementation, monitoring and evaluation.

Four regional governance models have been presented above, as well as the solution of RDAs. Two models could be implemented in the short or medium term (Type 1a and 2) in Bulgaria. Type 3 (mixed/hybrid regions) is not recommended for various reasons. The Type 4a model (decentralised regions) seems premature but could be implemented in the longer term. The Type 4b model is not suitable for Bulgaria, as it mainly concerns federal countries or unitary countries with strong asymmetric features.

Towards statistical/planning regions with an administrative status (Type 1b)?

Apart from keeping the Type 1a model (*status quo* including improvements included in the last Regional Development Act), moving towards planning regions with administrative status is the simplest and fastest scenario as it consists of providing legal status to the current governing structure and involves providing the regions with their own budget and administration. The governance structure would remain roughly the same, however, with several improvements:

- It would be necessary to replace the system of rotating governors by a permanent executive body (president). Planning regions would have wider responsibilities in the area of spatial planning, regional development and management of EU funds, to include selection, funding, implementation and monitoring capabilities. Their budget would be delegated by the central government.
- The composition of RDCs would be modified to reduce the domination of central government representatives and enlarge the representation of municipalities. Representatives of civil society would participate in RDCs as permanent members to support the partnership principle.
- Encouraging peer learning, providing clear guidelines, developing information flows and knowledge exchange will be fundamental to building the capacity of the RDCs to be successful in their new functions (regional development, planning, project selection for the future PDR 2021-27 as well as other OPs, monitoring, etc.). Establishing a working group or network of RDCs where they can easily share experiences and learn from one another, as well as build peer networks would be valuable for ensuring further capacity is built to support effective regional OP management and implementation. The working group could also serve as a regional-level co-ordination mechanism for RDCs to discuss common needs and opportunities for inter-regional co-operation and to find solutions for common challenges (OECD, 2019_[121]).
- The creation of expert committees would be mandatory in some areas, in particular, for regional development.
- Planning regions would have their permanent administration. Current MRDPW deconcentrated offices could become permanent staff for the new planning regions. Districts could also transfer some of their staff previously working on regional development. Depending on the scope of new functions carried out by the planning regions, other staff transfers could be envisaged as well as new recruitments. Significant training programmes should be established to enhance competencies and skills.

Towards regional association of municipalities (Type 2)?

This scenario is more ambitious and difficult to implement. However, as underlined above, it has proven to be valuable in several OECD countries as it allows for a “partial democratisation” of the system of governance through the direct involvement of municipalities in the governance structure, which could then be more supportive to this type of regionalisation. This scenario has several variations depending on the way representatives of municipalities are nominated for the RDCs, either through elections or appointments.

This model allows having a legal status, with a proper administration and budget and the possibility to design and finance regional projects. All improvements described above should be also implemented (permanent executive body and staff, expert committees). In addition, the budget would be diversified as it would receive contributions from municipalities, in addition to central government subsidies and EU funds. Municipal financing shares should be high enough to create incentives for municipalities to avoid the so-called common pool problem (OECD, 2020_[5]). The municipal staff could be also delegated to planning regions, on a temporary (specific projects) or a more permanent basis. In terms of responsibilities, planning regions would mainly focus on regional planning and EU funds management but they could also be an efficient tool to support co-operation and co-ordination between municipalities, in particular for inter-municipal investment projects. They could also carry out other tasks, delegated to them by their members,

in areas with clear regionwide benefits such as environmental protection and regional road construction/maintenance.

Towards mixed or hybrid regions (Type 3)?

As noted above, this model of regional governance is not very widespread in OECD countries. It was proposed in Bulgaria in 1995 but was finally abandoned. This model has more cons than pros. Among the pros are the fact that it reflects a move towards decentralisation, i.e. towards more local democracy and accountability, through the existence of elected councils. The cons are the complexity of relationships between elected and appointed bodies and decentralised and deconcentrated structures within the same entity. In Chile, for example, the “mixed” regional administrative structure generates some opacity on the level of responsibility and accountability. First, the *Intendente* as the executive head of the region and president of the RC should act in the best interest of the region’s development. However, as a representative of the central government in the region, the *Intendente* is also called upon to represent and implement national-level policies and guidelines, which may not always align with regional priorities. Second, the deconcentrated services of line ministries are also in an awkward position: they answer directly to their ministry because they are regional representatives of sectoral priorities and policies, yet they also serve the *Intendente* and work to implement sector initiatives at the regional level in line with the *Intendente*’s priorities. Finally, the institutional role and administrative functions of provincial governors (head of regional council) are unclear, as is their degree of influence in implementing national or regional policy within their territories (OECD, 2013_[122]). In the end, Chile decided to move away from this complex regional governance model towards fully decentralised regions. The first regional elections of governors are to take place in 2021 (OECD, 2017_[6]).

Towards decentralised regions (Type 4a)?

This model of regional governance seems premature, according to discussions and meetings held throughout the course of this study. It seems that there is still some opposition from different groups at both the national and local levels. This model is also perhaps more difficult to implement on a constitutional level, although the constitution stipulates that in addition to the municipal and regional (district) tiers of territorial administration, “other administrative territorial units and bodies of self-government shall be established by law”.

This model has, however, some supporters, for example, the Union for Economic Private Enterprise that notices that “regional governance is still simply a form of territorial organisation of central government” (UPEE, 2020_[33]). This option is clearly stated in the 2016-25 Decentralisation Strategy in Priority 3 of Strategic Objective 4: “Research the possibilities for creating a second level of local self-government”.

This model of decentralised regions potentially has large benefits for Bulgaria, notably in terms of local democracy and accountability (direct elections and check-and-balance system) and effectiveness.

In fact, in this scenario, regions could have access to more diversified funding sources (central government and EU funding, subsidies, user charges and fees, income from assets) and access to external financing (for the most integrated regional governments), as described in Table 4.8.

In terms of responsibilities, decentralised regions would have more authority in the area of regional development – although this is not a general rule – but also in other sectors. Generally, regional governments are responsible for providing services of regional interest, which can benefit from economies of scale, generate spill-overs, involve redistribution and are required to meet the same standards across the jurisdiction (see Type 4a: Decentralised regions and detailed description of regional responsibilities in Annex A).

Table 4.8. Sources of funding by type of regional governance model

Regional typology	Type 1a	Type 1b	Type 2	Types 4a and 4b
Types of resources	No own budget	Central government funding EU funds under certain conditions	Central government funding EU funds Municipalities' contributions Users charges and fees (for services rendered) Income from assets Access to external financing (borrowing)	Central government funding EU funds Taxes (shared and own-source) User charges and fees (for services rendered) Income from assets Access to external financing (borrowing, PPPs, etc.)

Note: Type 3 is not described in the table as it is a very particular case.

Box 4.32. Decentralisation and management of EU funds

The model of decentralised regions generally allows for transferring more tasks concerning the management of EU funds to regional governments. In fact, in several EU countries, decentralisation policies have resulted in transferring large responsibilities concerning EU fund management to the regions. In Poland, since 2007, regions are fully responsible for a large share of European cohesion funds (25% of EU cohesion funds in 2007 and almost 60% currently) and thus regional bodies are the MAs of the EU structural funds. In France, since the 2014 law on the modernisation of the territorial public action and affirmation of the metropolises, regions are in charge of managing EU funds for regional development (European Structural and Investment Funds, ESIF). Over the 2014-20 programming period, 76% of ESIF are no longer managed by the central government but by the regional governments, i.e. around EUR 20.5 billion out of a total of EUR 27 billion in France. This transfer of responsibility has led the regions to develop new functions such as steering, co-ordination, support, monitoring and auditing. Transfers of staff from the central government to regions have required long and difficult negotiations, resulting in the transfer of an insufficient number of people. Regions had to recruit new hires to compensate for this loss. The transfer of different information and management systems from the central government to regional systems has also been a difficult issue.

However, this is not a general rule. It is worth noting that the management of EU funds is not always a function of decentralised regions. In several countries, despite the existence of decentralised regions, there is still a centralised approach to regional development and EU funds management. In Greece for example, 13 state deconcentrated regions were first introduced in 1986 with the unique purpose of co-ordinating regional development policies and managing EU structural funds (Kalimeri, 2018^[123]). In 2010, the Kallikratis Reform transformed these administrative entities into self-governing regions. However, although the Greek regional level has several planning competencies, the regional development administration remains centralised, especially the allocation of EU funds which is a responsibility of the central government and its agencies (Hooghe et al., 2016^[78]; OECD, forthcoming^[124]).

In countries having small decentralised regions (NUTS 3), regions are generally not in charge of EU funds. This responsibility is either carried out by the central government or delegated at a higher regional level corresponding to NUTS 2 but without self-governing status. This is the case in Croatia, the Czech Republic, Hungary, Romania and the Slovak Republic for example. In Romania, the management of EU funds is carried out at the national level by a National Council for Regional

Development (NCRD) and at NUTS 2 level, by 8 RDCs and 8 RDAs, while Romania has 42 counties at NUTS 3 level. The RDAs act as Intermediate Bodies (IBs) for the management of EU funds.

Source: Kalimeri, V. (2018^[123]), "The Kallikrates vs the Kapodistrias Reforms in Greece: A story of moderate success", <http://dx.doi.org/10.2478/pce-2018-0003>; Hooghe, L. et al. (2016^[78]), *Measuring Regional Authority: A Postfunctionalist Theory of Governance*, Oxford University Press; OECD (forthcoming^[124]), *OECD Territorial Reviews: Regional Policy for Greece Post-2020*, OECD Publishing, Paris.

Conclusion: Which model of planning regions for Bulgaria?

It is recommended to further explore the possibility of implementing the Type 1a (planning regions with an administrative status) or Type 2 model (regional association of municipalities) in Bulgaria. If moving towards an effective decentralised regional governance model remains a desirable scenario in the longer term, as stated in the 2016-25 Decentralisation Strategy, it would be preferable to transform planning regions into "co-operative regions" that could serve as a capacity-building exercise and prepare the ground for decentralised regions in the future.

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Note

¹ The Nomenclature of Territorial Units for Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants); NUTS 2 region (800 000 to 3 million inhabitants); and NUTS 3 region (150 000 to 800 000 inhabitants) (OECD, 2010_[81]).

Annex A. Regional government responsibilities in EU and OECD unitary countries

Table A A.1. Regional government responsibilities in EU and OECD unitary countries

Croatia	<ul style="list-style-type: none"> • Regional administration; Issuance of construction and renting permits (except in large towns) • Economic development; Transport and traffic infrastructures; Maintenance of county and local roads • Regional and urban planning • Healthcare (including secondary care all general hospitals and most specialist hospitals) • Social and cultural institutions • Secondary education • Social welfare (cash benefits); Childcare
Czech Republic	<ul style="list-style-type: none"> • Regional administration • Fire safety; Prevention of criminality • Road network; Regional public transport; Tourism; Regional economic development and cohesion • Protection of fauna and flora • Planning (approval of planning and zoning documents) • Establishment and management of regional hospitals; Nursing homes; Monitoring the quality of care of private healthcare providers; Emergency services; Long-term care institutions; Facilities for disabled adults and children • Sport; Upper secondary education • Youth and social services
Denmark	<ul style="list-style-type: none"> • General administration; Public buildings and facilities • Action against soil pollution • Regional development plans and regional growth strategies; Rebalancing action on behalf of the peripheral zones and rural areas • Public health (hospitals, psychiatric services, health insurance, primary healthcare and specialised medicine); Outpatient medicine • Support services for the disabled
France	<ul style="list-style-type: none"> • Internal administration • Regional spatial planning; Regional transport plans; Regional train lines; School and inter-urban transportation; Civil airports; Non-autonomous harbours • Economic development (aid schemes to small- and medium-sized enterprises [SMEs], innovation, internationalisation); Research and development (R&D); Management of European Union (EU) funds • Environmental protection planning; Regional parks and preservation areas; Energy saving; Water protection • Housing subsidies; Cultural heritage and monuments; Museums; Artistic training • High schools (building and technical staff); Vocational training and apprenticeship; Job training programmes; Support to universities and R&D
Greece	<ul style="list-style-type: none"> • Regional administration • Civil protection and emergency services • Planning/programming and regional development • Agriculture/livestock and fisheries; Employment; Trade; Tourism; Roads, transport and communications; Special transport services; Support to local enterprises; Energy and industry; Tourism • Natural resources; Environmental protection • Public works; Urbanism • Culture and sports • Education

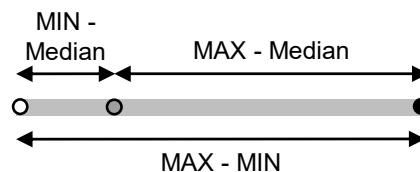
Hungary	<ul style="list-style-type: none"> • Co-ordination tasks (regarding municipal service provision) • Regional development • Rural development • Land use planning
Italy	<ul style="list-style-type: none"> • Regional administration; Relations with provinces, metropolitan cities and municipalities; Management of EU funds • International and EU relations; Research and innovation; Regional transport; Civil ports and airports; Communications; Energy; Regional land; Agriculture; Banks and credit institutions; Tourism; Employment • Environmental protection; Housing • Health, through public healthcare agencies (construction and maintenance of hospitals, medical equipment, drugs, medical staff management, etc.) • Sports; Cultural activities; Education • Complementary social welfare
Japan	<ul style="list-style-type: none"> • Communication and co-ordination affairs relating to municipalities; Police • Economic development; Public infrastructure; Prefectural roads; National highways, Harbours; Agriculture; Employment • Forest and river conservation; Environmental protection • Public housing; Public health centres • Upper secondary schools • Social assistance policies
Korea	<ul style="list-style-type: none"> • Management of public properties and facilities • Environment • Housing • Culture • Education • Social welfare
Netherlands	<ul style="list-style-type: none"> • Supervision of municipalities and regional water authorities • Provincial roads; Regional public transport (bus, regional trains); Inland water transport and infrastructure; Regional development agencies; Promotion of the region and co-ordination of local tourism • Environmental protection plans and policies; Water (groundwater plans and regulation); Energy and climate; Renewable energy; Air quality; Soil protection and cleaning; Noise; Production and transport of hazardous materials; Supervision of municipal environmental policies; Nature areas; Spatial planning • Financial support of cultural activities; Protection of cultural heritage; Provincial museums • Social housing grants
New Zealand	<ul style="list-style-type: none"> • Civil defence in case of emergency • Regional transport (including public transport); Harbours; Regional land management • Water quality; Contaminant discharge and coastal management, river and lake management; Flood and drainage control; Environmental protection; Resource management; Air quality; Pest control • Regional parks and public spaces • Water networks management
Norway	<ul style="list-style-type: none"> • General administration • Public transport; Trade and industrial policy • Environmental protection • Regional development (planning and business development) • Dental health • Libraries; Museums; Sports facilities • Upper-secondary education • Dental care
Poland	<ul style="list-style-type: none"> • Internal administration; Management of EU funds • Defence; Public order • Regional economic development; Employment and labour market policy; Regional roads; Public transport including regional rail transport (since 2009); Consumer rights protection • Environmental protection; Waste management (since 2009); Spatial development; Water management; Land

	<p>improvement; Hydropower facilities; Modernisation of rural areas</p> <ul style="list-style-type: none"> • Health promotion; Regional hospitals (specialised services, secondary referral level hospitals); Medical emergency and ambulance services • Regional cultural institutions; Some secondary schools and vocational schools; Post-secondary schools; Teacher training colleges • Regional Social Policy Centres; Social welfare and family policy; Social exclusion; Disabled care; Childcare; Elderly care
Romania	<ul style="list-style-type: none"> • Management of local airports; County roads; Country infrastructure network (shared) • Public health units (primary and secondary healthcare) • Cultural institutions • Special education (shared) • Child and disability allowances; Social services and specialised services for victims of domestic violence; Care for the elderly and for the disabled (shared); Medical and social assistance (shared)
Slovak Republic	<ul style="list-style-type: none"> • Internal administration; International and trans-regional co-operation; civil defence (in co-operation with state bodies) • Roads, railways; Regional economic development • Secondary hospitals; Management of non-state healthcare (psychiatric hospitals and dental services) • Regional cultural amenities • Secondary, professional, art and vocational schools; Construction and maintenance of buildings; Payment of teacher on behalf of the state • Homes for children
Sweden	<ul style="list-style-type: none"> • General administration • Public transport (via a regional public transport authority); Regional development; Tourism (optional) • Healthcare and medical services; Primary care; Hospitals; Ambulatory care; Dental care • Cultural institutions

Source: Adapted from OECD/UCLG (2019^[1]), *2019 Report of the World Observatory on Subnational Government Finance and Investment - Key Findings*, http://www.sng-wofi.org/reports/Key_Findings_2019.pdf.

Annex B. New polarisation coefficient as an indicator of territorial disparities

A polarisation coefficient has been developed to highlight the specificity of the Bulgarian context. It identifies: i) when one region or a small group of regions stands out from the majority of regions; and ii) when the disparities among the majority of regions are relatively low. This coefficient measures the difference in distance between the maximum and the median, and the minimum and the median, as a share of the total distance between the maximum and the minimum; it ranges from -1 to 1.



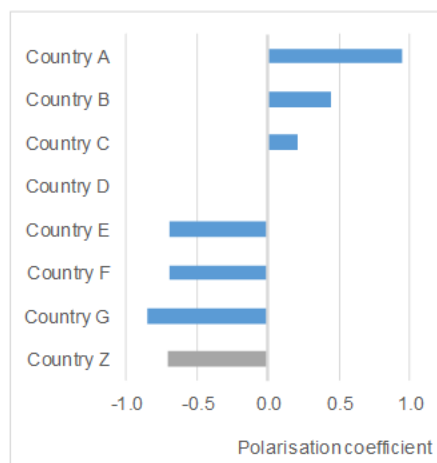
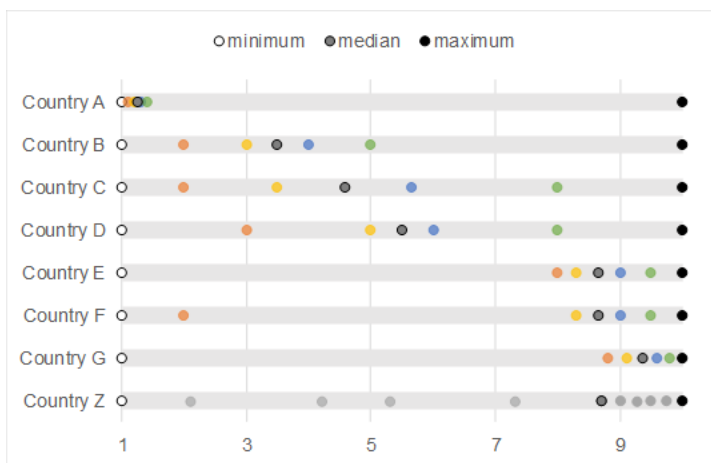
This coefficient can identify extreme polarisation, with one region performing significantly better (or worse) than the other, such as for Countries A and G in Figure A B.1 but it cannot identify if only one region, or a small group of regions, perform significantly better (or worse) than the large group of homogeneous regions. Indeed, Countries E and F have the same polarisation coefficient while the performance of the second worst region is significantly different between these two countries. This has been addressed in this publication by analysing each region within Bulgaria to identify the territorial profile, if it is case for Countries E or F.

This polarisation coefficient can also identify cases of low polarisation, as for Countries C and D. If one region (or a small group) performs significantly better (worse) but the majority of regions do not have homogeneous performances, then the polarisation coefficient will remain relatively low, as is the case for Country B.

This coefficient ensures that if the Bulgarian polarisation coefficient is higher than 60% of the country coefficients, Bulgarian territorial disparities are at least larger than in 60% of the countries studied. This results from the fact that this coefficient better captures low polarisation rather than high polarisation. In other words, a country with a low polarisation coefficient will have a low polarisation among its regions but a country with a high polarisation coefficient might not have high polarisation among its regions, especially if it has many regions. Imagine that Bulgaria is Country E, its polarisation coefficient is higher than three countries out of eight and is equal to Countries F and Z. However, polarisation is higher among Country E regions than Country F regions. Polarisation is also higher in Country E than in Country Z, which has 11 regions instead of 6. Hence, polarisation in Country E is *at least higher than* three countries out of eight.

Note that the polarisation coefficient cannot capture if there are two groups of regions at each extremity or if there are two small groups at each extremity and the majority of regions close to the median.

Figure A B.1. Different cases of territorial polarisation



OECD Multi-level Governance Studies

Decentralisation and Regionalisation in Bulgaria

TOWARDS BALANCED REGIONAL DEVELOPMENT

Bulgaria has made solid progress in its territorial governance and socio-economic development. Yet, it has not been able to counteract large and increasing territorial disparities. Doing so will require addressing remaining structural challenges that may be limiting further transformation, government performance and regional resilience. It will also depend on shifting from a centrally-designed approach to regional development policy to one that incorporates subnational input and carefully considers regional specificities. Such a shift, coupled with a revitalised multi-level governance model to strengthen regional and municipal governance, could generate more balanced regional development and inclusive growth in Bulgaria. This multi-level governance study considers the avenues Bulgarian national and subnational authorities could take to ensure more place-based regional development and governance. It emphasises a comprehensive, yet incremental, approach to decentralisation and regionalisation reforms to generate more effective and balanced regional development.



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