

ECONOMICS DEPARTMENT

REDUCING REGIONAL DISPARITIES FOR INCLUSIVE GROWTH IN BULGARIA

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By Mikkel Hermansen

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ABSTRACT / RESUMÉ**Reducing regional disparities for inclusive growth in Bulgaria**

Regions with large cities are driving growth in Bulgaria, while many rural regions suffer from depopulation and rapid ageing. Improving living standards across all regions will require better coverage and access to public services, notably in health and long-term care. Policy action to integrate the Roma, around one-tenth of the population most of which live in poverty and socially excluded neighbourhoods, would help to tackle labour shortages in the medium term in addition to improving well-being. Investments in infrastructure and housing reform are needed to boost mobility and strengthen linkages to national and international supply chains. This would also benefit agriculture that accounts for almost a third of employment in lagging regions and has undergone a rapid restructuring, polarising and distorting the sector towards low-value added products. While the coronavirus outbreak has hit the tourism industry hard, the diverse Bulgarian landscape offers opportunities for developing profitable experience-based tourism, when international travel resumes.

This Working Paper relates to the 2021 OECD Economic Assessment of Bulgaria. <http://www.oecd.org/economy/bulgaria-economic-snapshot/>

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Réduire les disparités régionales pour une croissance inclusive en Bulgarie

Ce sont les grandes régions urbaines qui sont porteuses de croissance en Bulgarie alors que nombre de régions rurales pâtissent du dépeuplement et d'un vieillissement rapide de leur population. L'amélioration du niveau de vie dans l'ensemble des régions passera par une couverture accrue des services publics et par un meilleur accès à ces services, notamment s'agissant des soins de santé et de longue durée. Une action publique visant à intégrer les Roms, qui représentent environ un dixième de la population et dont la plupart vivent dans la pauvreté et dans des quartiers marqués par l'exclusion sociale, contribuerait à faire face aux pénuries de main-d'œuvre à moyen terme, et améliorerait de plus le bien-être. Des investissements dans les infrastructures et des réformes du marché du logement aideraient à stimuler la mobilité et à renforcer les liens avec les chaînes d'approvisionnement nationales et internationales. Ces évolutions bénéficieraient également à l'agriculture qui représente près d'un tiers de l'emploi dans les régions à la traîne et a connu une restructuration rapide, laquelle a entraîné une polarisation et une distorsion du secteur, désormais caractérisé par une production à faible valeur ajoutée. Si la pandémie de coronavirus a durement frappé le secteur du tourisme, la diversité des paysages bulgares offre des perspectives de développement d'activités touristiques rentables, fondées sur l'expérience vécue, lorsque les voyages internationaux reprendront.

Ce document de travail est lié à l'Évaluation économique de l'OCDE consacrée à la Bulgarie parue en 2021. <http://www.oecd.org/economy/bulgaria-economic-snapshot/>

Mots clés : Bulgarie, régions, Roms, soins de santé, infrastructures, marché du logement, agriculture, tourisme.

Table of contents

Reducing regional disparities for inclusive growth in Bulgaria	5
Cities are driving growth, while lagging regions are depopulating fast	5
Supporting living standards in lagging regions	8
Including the Roma population in the economy	8
Ensuring equal access to public services	11
Enabling reallocation and fostering regional growth	17
Better infrastructure and housing to support mobility	17
Realising the potential of the agricultural sector	23
Reviving tourism for future regional growth	26
References	32

Tables

Table 1. Recommendations	31
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Figures

Figure 1. Unemployment rates vary much across regions, also after the COVID-19 outbreak	6
Figure 2. The population is moving to metro regions with higher output and growth	7
Figure 3. Regional disparities are larger than in most OECD countries	8
Figure 4. The Roma population is large and concentrated in some regions	9
Figure 5. Living conditions of Roma lag far behind	10
Figure 6. Municipalities collect little revenue and account for a low share of public spending	14
Figure 7. Access to general practitioners is unequal across regions	15
Figure 8. Demand for hospital services is high but supply of nurses is low	16
Figure 9. Motorway construction is improving but upgrading is far from complete	18
Figure 10. Roads are in bad condition and internet access is lagging in many regions	19
Figure 11. Housing supply is vast but poorly utilised	20
Figure 12. Regional differences in housing stock and housing prices have increased	20
Figure 13. Most Bulgarians are outright homeowners	21
Figure 14. Taxation of household savings differs across asset types and has no progressivity	22
Figure 15. Regions with high agricultural employment have the lowest incomes	23
Figure 16. The primary sector employs many workers and suffers from weak productivity growth	24
Figure 17. The farm structure has become extremely polarised	24
Figure 18. The coronavirus outbreak has hit the growing tourism industry hard	26
Figure 19. The tourism industry's direct contribution to the economy is moderate	27
Figure 20. Tourism was strongly concentrated in a few regions and during summer months	28

Boxes

Box 1. Subnational government organisation	12
Box 2. The 2019 Social Services Act	13

Reducing regional disparities for inclusive growth in Bulgaria

By Mikkel Hermansen¹

Cities are driving growth, while lagging regions are depopulating fast

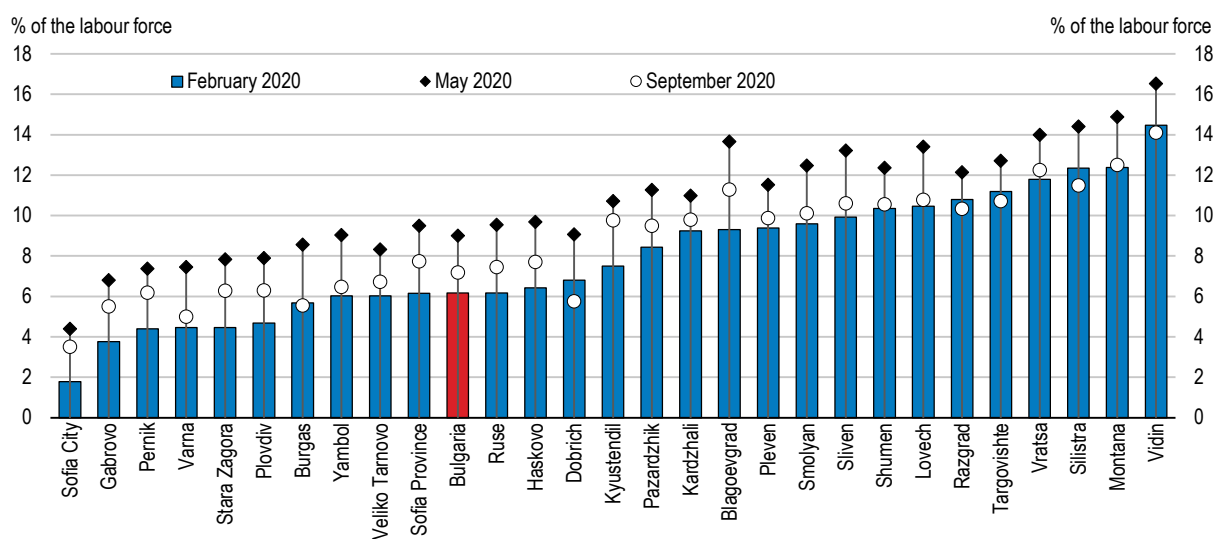
1. Regional income disparities are large in Bulgaria. The Sofia City region, home to one fifth of the population, has a GDP per capita corresponding to the United Kingdom's in purchasing power parities. By contrast, the poorest regions in the northwest are also the poorest in the entire European Union (EU) and compare to Colombia by GDP per capita. Bulgaria has a strong north-south gap, with the northern regions generating only 25% of GDP even though 35% of the population resides there. Many OECD countries are concerned with how to foster inclusive regional development. Bulgaria faces many similar challenges such as out-migration, underutilisation of labour resources and diverging productivity growth between urban and rural areas. These overall trends are perhaps even more acute for Bulgaria's lagging regions, especially some rural regions in the northwest. They struggle with rapid depopulation and stark ageing, having experienced disappointing convergence in living standards not only to the EU average, but also to more prosperous Bulgarian regions such as Sofia and Plovdiv.

2. The coronavirus outbreak has hit employment in all regions and increased already high unemployment rates in some rural regions even further (Figure 1). In Sofia and other thriving regions, such as Gabrovo, Plovdiv and Stara Zagora with many manufacturing jobs, the situation has deteriorated from remarkably low unemployment and severe skill shortages prior to the shock. The Varna and Burgas regions by the Black Sea are heavily dependent on tourism and it will likely take a long time for them to recover (OECD, 2020a). Almost one third of all jobs in the northern regions are in agriculture, which although less affected by containment measures, could face longer-lasting shocks to supply chains (OECD, 2020b). The large and socially excluded Roma population faced particular difficulties in coping with containment measures, among others due to poor access to sanitation. While the medium and longer-term implications of the crisis remain highly uncertain, addressing the multiple regional challenges will likely become even more pressing. At the same time, new opportunities for regional economic development could arise, for instance from changing tourism demand or reshoring of production to within EU borders.

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Figure 1. Unemployment rates vary much across regions, also after the COVID-19 outbreak

Unemployment rate by region, not seasonally adjusted

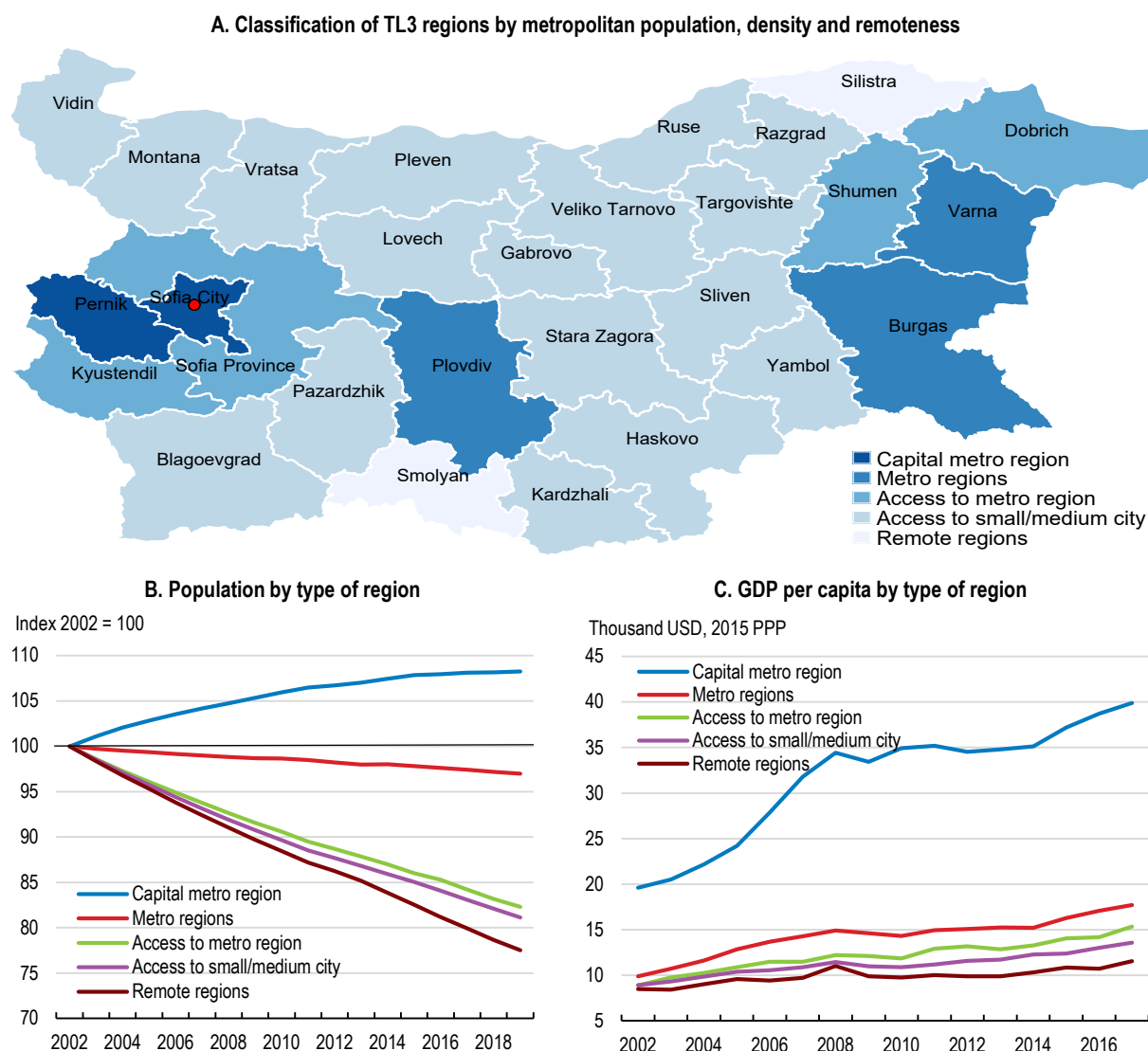


Note: Based on registrations at Labour Offices, likely resulting in underreporting of the real number of unemployed.

Source: Bulgarian Employment Agency.

3. The shrinking population is strikingly visible in some regions, suffering from a rising number of ghost towns (Stern and Dimitrov, 2020). Over the last two decades, more than 10 out of 28 regions have lost at least 20% of the population. Many have emigrated or moved to larger cities and the population in the Sofia City region has increased by more than 10% during the same period. Recent OECD work proposes a new typology of regions based on the presence of larger cities (functional urban areas with at least 250 000 inhabitants) and the extent to which such cities are accessible by the population living in each region (Fadic et al., 2019). Applying this classification to Bulgaria points to strong urbanisation and agglomeration effects (Figure 2). The population living in the four identified metropolitan regions (Sofia, Plovdiv, Varna and Burgas) has increased from 35% to 41% during 2002-2019, while regional GDP per capita ranks higher and has increased faster the better access is to cities (Panel C). Productivity tends to increase with city size in OECD countries, but there is also evidence of lower levels of productivity in cities with fragmented governance structures (Ahrend et al., 2017; OECD, 2021).

Figure 2. The population is moving to metro regions with higher output and growth

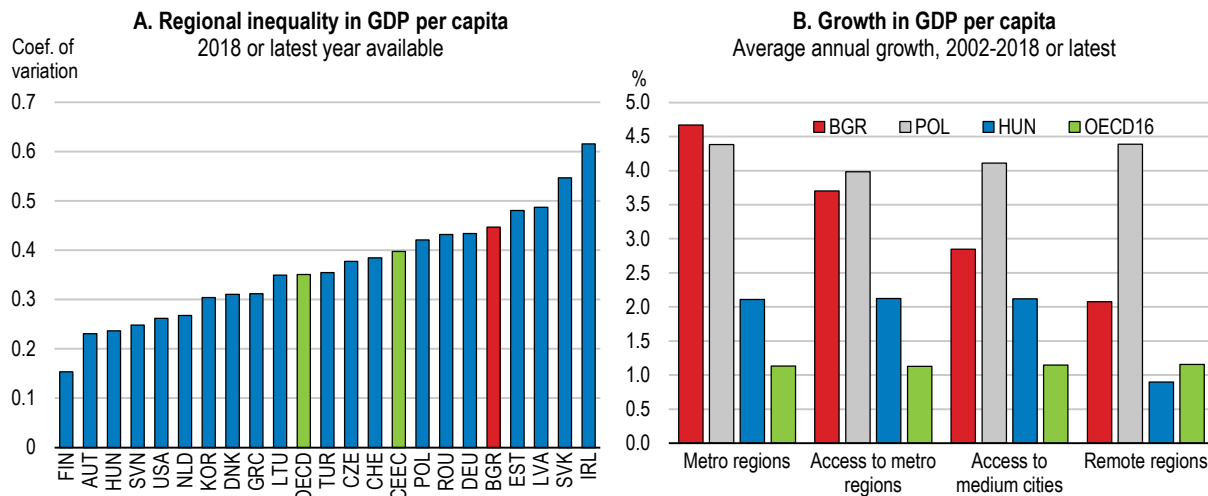


Note: A large metro region (the capital metro region) has more than 50% living in a functional urban area (FUA) with at least 1.5 million people. A metro region has at least 50% living in a FUA of at least 250 000 people. Access to metro region (to small/medium city) are regions with more than 50% of the population living within 60 minutes drive from a FUA of at least 250 000 people (of between 50 000 and 250 000 people). Remote regions are regions with more than 50% of its population not having access to any FUA within 60 minutes drive. Panel B and C display country aggregates of the 28 regions.

Source: OECD calculations based on OECD Regional Statistics and the typology by Fadici et al. (2019), "Classifying small (TL3) regions based on metropolitan population, low density and remoteness", OECD Regional Development Working Papers, No. 2019/06, <https://dx.doi.org/10.1787/b902cc00-en>.

4. Regional income differences in Bulgaria are larger than in most OECD countries and have increased more across the different types of regions over the last two decades (Figure 3). Most of the divergence took place during the boom prior to the global financial crisis, but persists even though all regions experienced robust income growth from 2014 until the COVID-19 outbreak (Figure 2, Panel C).

Figure 3. Regional disparities are larger than in most OECD countries



Note: The coefficient of variation is a standard measure of dispersion defined as the ratio of the standard deviation to the mean. GDP per capita refers to the TL3 regional level. CEEC refers to an unweighted average of Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia in all figures in the Chapter, unless otherwise noted. In Panel A, the OECD aggregate includes 29 countries. See Figure 2 for the regional typology applied in Panel B.

Source: OECD, Regional Statistics database.

5. Regional policy needs to act across many different areas, both to recover after COVID-19 and to foster regional development in the longer term. This chapter focuses on the basic issue of how to improve living standards for people across all regions. A first part looks at the challenge of providing equal access to and quality public services across municipalities. The Roma population is given particular attention since many live in isolated communities and very low labour market participation poses missed opportunities both for Roma and for regional growth and finances of municipalities. The second part addresses the question on how to foster growth in lagging regions, notably by improving infrastructure and housing and by realising the potential from specialisations in agriculture and tourism. Accompanying OECD work will provide an in-depth review of governance at the municipal and regional levels (OECD, 2021).

Supporting living standards in lagging regions

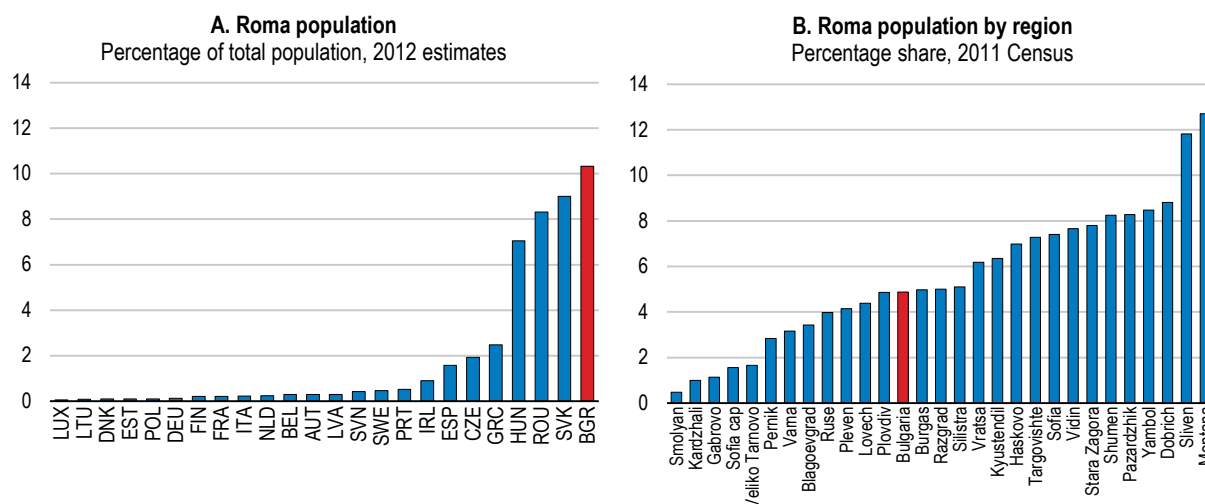
6. Raising living standards in lagging regions requires improving municipalities' delivery and individuals' take-up of social benefits and services, notably among the Roma population and other minorities. This will require innovative approaches and enhanced collaboration among municipalities. The government has taken important steps and formulated targets and measures in national strategies and action plans, but implementation needs to be accelerated to deliver on promises. Reforming health and long-term care is particularly urgent given the coronavirus outbreak and the ageing challenge.

Including the Roma population in the economy

7. Disadvantaged Roma communities are in need of particular support to mitigate extreme inequalities and foster economic and social inclusion. Without action, there is a risk that the pandemic shock will hit these communities the hardest in the medium term given poor access to health care and sanitation as well as limited digital tools and skills. International estimates suggest the Roma represent 10% of the population in Bulgaria, the largest share across EU countries (Figure 4, Panel A). In the 2011 national census only around 5% of the population self-identified as Roma, while almost 9% declared

Turkish ethnic origin. Living standards vary enormously across ethnic groups. Almost 65% of Roma were at-risk-of-poverty in 2018, while the Turkish ethnic group also lagged behind at 31.6% and a moderate 16.7% of the population with Bulgarian ethnicity were at-risk-of-poverty (EU-SILC).

Figure 4. The Roma population is large and concentrated in some regions



Note: Panel A is based on averages across different sources. Panel B is based on self-reported ethnicity in the 2011 national Census.
Source: Council of Europe, Roma Inclusion by EU Country; Bulgaria National Statistical Institute.

8. Without improvement in the economic integration of minorities, income convergence towards the EU average will face strong demographic headwinds in addition to that posed by ageing (Chapter 2). The Roma population share could rise markedly since fertility rates are much higher than among ethnic Bulgarians (3.0 vs 1.1; Koytcheva and Dimiter, 2008), who also emigrate at a higher rate. Calculations for the Slovak Republic show that GDP could increase by 12% if employment and productivity of Roma would converge towards the levels of the general population by 2060 (OECD, 2019a). The economic gains are nonetheless secondary to the need for addressing social exclusion, worrying health outcomes and severe material deprivation among Roma (Figure 5).

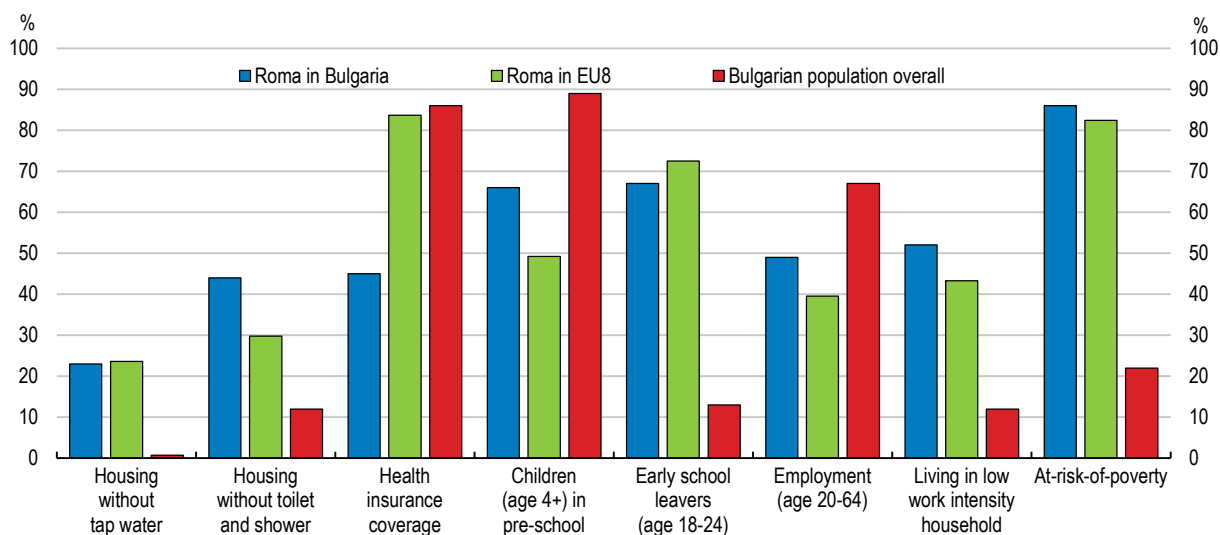
9. Most Roma lack proper housing and almost 25% of houses in segregated Roma neighbourhoods remain illegal (European Commission, 2019a). Without proof of property rights, many Roma cannot obtain identity cards, nor access healthcare services and social benefits. In addition, overcrowded housing in Roma settlements makes physical distancing to cope with COVID-19 next to impossible. Some municipalities have legalised Roma housing (Kyustendil, Dupnitsa and Peshtera), but often local authorities have opted for demolitions (European Commission, 2019a). The grave housing problems for Roma are part of an ineffective housing sector in need of reform (cf. below). Resolving property rights is essential. It requires technical, legal and financial support to municipalities to update plans and assess property rights and to Roma households to reach agreement with legal landowners.

10. Less than half of Roma have health insurance coverage, much lower than the general population and Roma in other EU countries (Figure 5). This restricts access to health care, which is further limited by a lack of general practitioners in the Roma communities. A network of health mediators has improved the situation, with 215 mediators working in 117 municipalities in 2017, and supported by establishment of mobile healthcare units. This is welcome as evidence suggests having mediators is the most promising way to address Roma health issues effectively (Gatti et al., 2016), including awareness-raising campaigns about the coronavirus as carried out in the Slovak Republic (European Commission, 2020). Nonetheless,

as for housing, insufficient access to health care in many areas is not restricted to Roma and needs to be addressed as part of a comprehensive healthcare reform (cf. below).

Figure 5. Living conditions of Roma lag far behind

Share of population groups, 2014-2016



Note: Employment refers to “any paid work done in the last four weeks”, including self-employment and occasional work. EU8 is an unweighted average of Roma outcomes in Croatia, Czech Republic, Greece, Hungary, Portugal, Romania, Slovak Republic and Spain; all countries with sizeable Roma populations and thus included in the dedicated survey.

Source: EU FRA (2016), Second European Union Minorities and Discrimination Survey, Roma: Selected findings.

11. Pre-school attendance and enrolment in primary school has been a political priority and is improving among Roma. A welcome reform in 2016 made pre-school mandatory from the age of five and prohibited the formation of segregated classes in ethnically mixed schools. However, 27% of Roma children (age 6-15) attend schools in which all schoolmates are Roma, the highest share across EU countries, amplifying extensive school segregation among the general population (EU FRA, 2016). A sustained effort is needed to reduce the very high rate of early school leavers (Figure 5) as well as enhanced activation policies to address the very high rate of Roma youth not in employment, training or education (Key Policy Insights). This is a particular concern for young Roma women, often having children at a young age, and facing multiple barriers for labour market participation (EU FRA, 2016).

12. Formal employment of Roma improved somewhat with the labour shortages prior to COVID-19, but nonetheless lags far behind the general population. A national programme, Activating the Inactive, motivated more than 5000 inactive Roma to register at Labour Offices in 2018 through Roma labour mediators. Nonetheless, as discussed in Key Policy Insights, overall resources for employment and training services are low and capacity need to be increased significantly. Successful experiences in some regions and a comparatively low share of Roma reporting discrimination when looking for work suggest substantial returns to such investment (EU FRA, 2016).

13. Roma policy initiatives in Bulgaria are mainly driven and funded by the European Union. The National Strategy for Roma Integration 2012-2020 aims for equal opportunities and equal access to rights and services for all, no matter ethnic origin. Line ministries and local governments are responsible for implementation under coordination and advice by the National Council for Cooperation on Ethnic and Integration Issues. A deputy prime minister chairs the Council, but its powers are limited and many Roma organisations refuse to collaborate with the Council since 2013 (Integro Association, 2017). The Council

reported progress on strategic goals with respect to education, employment and anti-discrimination in the most recent assessment (European Commission, 2019a). Civil society groups also report improvements in education of Roma and use of EU funds, while pointing to deteriorating governance and rising anti-Roma rhetoric (Amalipe, 2019).

14. Municipalities and committed political leadership or administration often drive successful Roma inclusion (Gatti et al., 2016). The size of Roma populations varies much across regions (Figure 4, Panel B), with some concentration in rural regions, making the reliance on regional and municipal strategies and councils appropriate. In many places, Roma leaders or organisations participate in local policy-making, being essential for development and implementation of inclusion policies. However, small municipalities often lack the capacity to apply for programmes and develop specific policies targeted to local communities. For instance, 71 municipalities had not adopted a Roma action plan in 2016 and many municipalities with plans lacked funding (European Commission, 2019a). A more systematic approach should be adopted at the national level with stronger coordination across line ministries and with local governments, including strengthening project preparation and facilitation of EU funds. This would help to reduce disruptions in public support to Roma since EU-funded projects often run for a few years followed by lengthy breaks before new funding becomes available.

15. Experience from OECD countries with Indigenous people, such as Australia, Canada, Mexico, New Zealand and the United States, can also provide useful inspiration for Roma policies. A recent OECD review demonstrates the importance of establishing and strengthening governance structures that empower Indigenous communities to drive their own economic development (OECD, 2019b). Activating these opportunities should start by improving Indigenous statistics and data to inform decisions. Targeted policies to create Indigenous entrepreneurship and small business development can help to foster development at the local level. In Canada, the Frog Lake First Nation community set up their own company for oil and gas extraction, creating employment opportunities and integrating into the industry through joint ventures with other companies (OECD, 2019b). Involving Indigenous-led organisations in policy-making is crucial and can be improved by providing resources and tools to strengthen their capacity and creating opportunities for meaningful participation in government decision-making. Australia and New Zealand have created economic development partnerships with Indigenous people, focusing on more involvement and localised approaches (OECD, 2019b).

Ensuring equal access to public services

16. The Bulgarian welfare system has undergone sizeable transformations since the fall of Communism. Until the late 1990s, the state continued to provide and finance all general social services, such as social security, childcare and employment services. After the 1997 crisis, large reforms changed the system towards a more employment-based insurance model (Cerami and Stanesco, 2009). Although, this mainly influenced access to social benefits, provision of services also underwent changes, notably for health care (cf. below). Welfare reforms were nevertheless slower than in most Eastern European countries and the provision of social services remains relatively centralised (Box 1).

Box 1. Subnational government organisation

Bulgaria has a two-tier system with a central government and 265 municipalities as the only decentralised administrative units. The three largest cities (Sofia, Plovdiv and Varna) are divided into smaller wards and other municipalities into smaller towns (mayoralties) and villages, totalling around 5250 units of which around half are governed by elected mayors. At the intermediate level, 28 territorial districts were re-established in 1999 and are headed by a Governor, appointed by the Council of Ministers, who is supported by a small office. In addition, six larger regions were created in 1999 and extended with regional development councils in 2008, mainly for disbursement of EU structural funds. Members of district and regional development councils are appointed by the central government or are representatives from municipalities and other stakeholders.

Municipal responsibilities are divided into two categories: i) state-delegated responsibilities, including education, social protection and health care; ii) exclusive responsibilities, including housing and community amenities, economic affairs and transport, environmental protection, utilities, culture, etc. Municipalities also run municipality-owned enterprises, of which there are around 800.

With the decentralisation strategy for 2016-2025, the government plans to establish regional institutions and strengthening their administrative capacity. A revised Regional Development Act was adopted in March 2020, strengthening the role and organisation of regional development councils and focusing on a more integrated regional development approach (OECD, 2021).

17. Today, the welfare system is fragmented and overregulated with sometimes unclear distribution of functions between central and local levels, resulting in incomplete coverage and weak support to vulnerable groups (World Bank, 2019). For instance, some municipalities offer no services for people with disabilities, while in other cases, capacity is lower than demand or long-waiting periods apply. These problems add to the sizeable coverage gaps of cash social benefits (Key Policy Insights) and are equally important for addressing poverty and social exclusion.

18. Bulgaria has taken long-awaited action to improve delivery and quality of social services with a new Social Services Act in 2019 (Box 2). The Act completes an ongoing focus on development of community-based and home-based services, replacing the former institutional model of care with planned closures of all medical and social care homes for children and of homes for adults with disabilities. The current service provision has suffered from legal barriers, requiring that every measure or action as well as each possible exception had to be explicitly listed in a law or regulation (World Bank, 2019). Separation of policies for each service, typically by line ministries, have also caused problems of uncoordinated legislation and regulation. The new Act is based on sound principles of equal access to high-quality services across the country and right to detailed individual case management. Ensuring that every municipality has the resources to do so will be challenging and makes successful implementation of the Act a crucial and difficult task. Particular attention will now have to be given to plan and update the scale of services across municipalities as envisaged by the development of a National Map of Social Services (Box 2). The reform introduces common licensing of all private service providers, while municipal services will have to meet the same high-quality standards (Bogdanov and Zahariev, 2019). The licensing regime aims at easing the current administrative burdens and will require renewal of licences every five years. This should be evaluated in follow-up reviews since experience from OECD countries indicate little impact of licensing on quality of services and large potential costs to employment and productivity (OECD, 2020c; Bambalaitė et al., 2020). Burdens that restrict supply and reduce competition could be particularly costly in low-density areas.

Box 2. The 2019 Social Services Act

The parliament adopted a new Social Services Act in 2019, which after some delay entered into force from July 2020. Social services are broadly defined all support to prevent or overcome social exclusion, focusing mainly on assistance services, notably for people with disabilities. The Act aims to improve access to social services and enhance efficiency, while addressing longstanding problems of underfinancing and uneven distribution of funds across territories. A new Agency for Quality of Social Services will monitor service delivery and issue licences, mandatory for all private service providers. From 2022, a National Map of Social Services is envisaged to provide information on available services and on the needs of target groups throughout the country. This will form the basis to plan the local delivery of services and allocation of state budget funds, taking into account the demographic profile of the population.

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 development of parental skills).

Enhancing municipalities' autonomy and capacity to improve service delivery

19. The rapid depopulation is increasing the number of small municipalities fast, making it harder to maintain and build efficient administrative capacity. The share of municipalities with less than 6 000 inhabitants, the national lower bound for establishing a new municipality, has increased from 21% in 2010 to 29% in 2019, while the median size has declined from 12 100 to 9 800 inhabitants over the same period. Nevertheless, municipal size is less of an issue than in many OECD countries and only 3% has fewer than 2000 inhabitants, much below the OECD average of 28% of municipalities (OECD, 2018a).

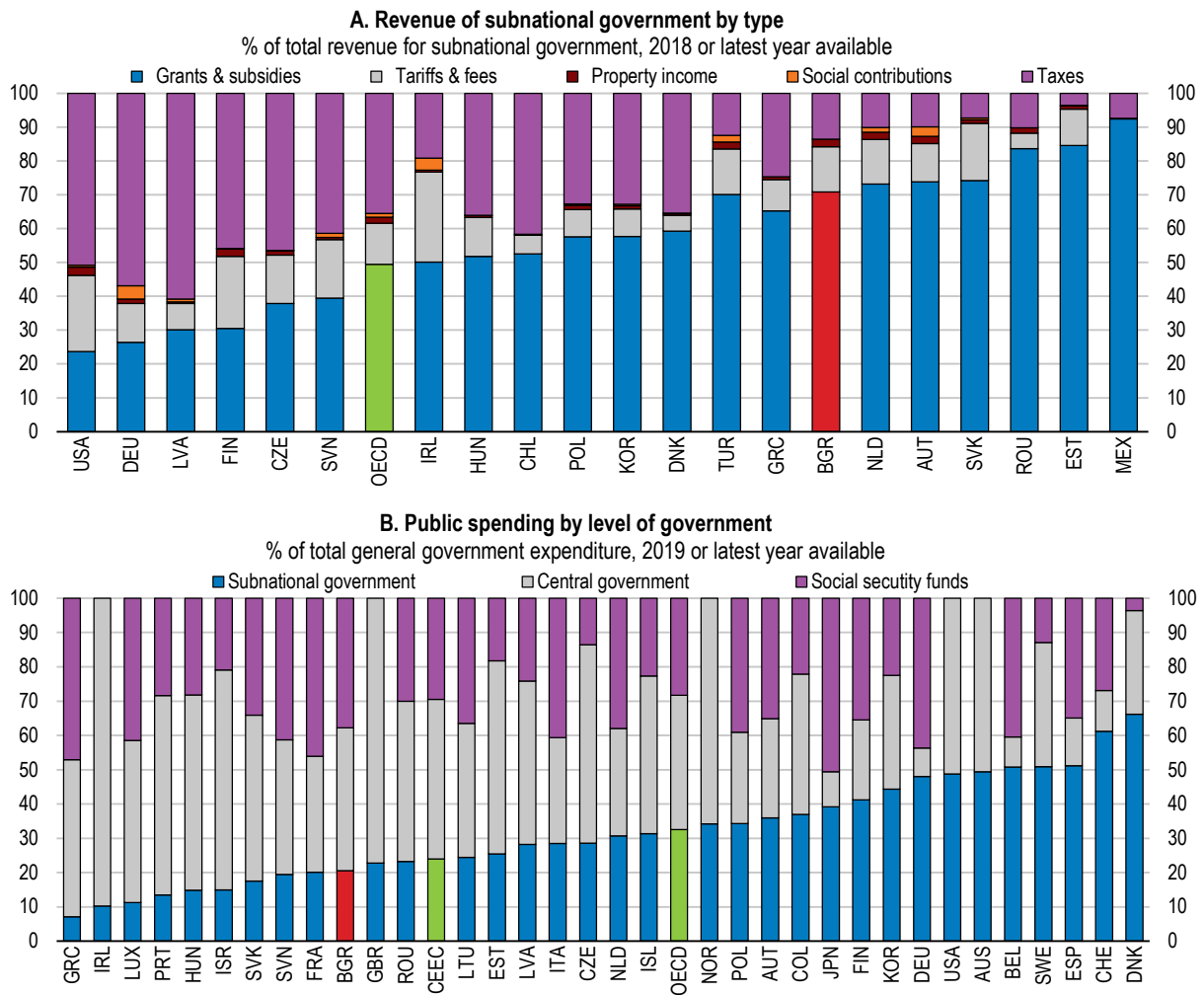
20. The main problems for efficient service provision at the local level are lack of sharing best practices and weak collaboration across municipalities. The National Statistical Institute publishes few indicators at the municipal level, ruling out quantitative benchmarking. Inter-municipal co-operation through partnerships and associations for service delivery are underdeveloped due to multiple barriers from strict regulation, weak municipal governance and lack of support from the central government (OECD, 2021; World Bank, 2019).

21. Revenues of municipalities mainly rest on earmarked subsidies and grants from the state, while local taxes on property, vehicles and waste can be set freely within a range but only contribute modestly (Figure 6, Panel A). For 2020, the year after local elections, more than one third of municipalities have increased local taxes even though the economy was in a boom when decisions were made, stressing issues of underfunding and electoral cycles (IME, 2020). Municipalities are responsible for a relatively small share of public spending (Figure 6, Panel B), which combined with limited discretion, leaves little scope for developing service delivery and long-term local projects to boost growth. Evidence across OECD countries shows that balanced tax and revenue decentralisation is associated with lower regional disparities (Bartolini et al., 2016). The high regional disparities in Bulgaria may thus partly derive from the comparatively high fiscal centralisation (OECD, 2021).

22. Implementing the decentralisation strategy (Box 1) step by step and strengthening municipalities administrative capacity should be a first priority. Subsequently, municipalities could be given greater autonomy in tax and spending planning and in the provision and organisation of services to better respond to local needs (OECD, 2021; 2019c), for instance by sharing tax revenue or by replacing earmarked grants with block grants as in Norway. This would create incentives for spending efficiency, but needs balancing against costly public service delivery and high administrative costs in sparsely populated areas. Setting up a formal system for inter-municipal co-operation, for instance for utilities, social services and some

administrative functions, would help to achieve economies of scale (OECD, 2019c). Such arrangements are well developed in many OECD countries with high diversity in the degree of co-operation (OECD, 2017a). France, for instance, uses formalised contractual arrangements that stipulate co-decision and co-financing of interventions and inter-municipal co-operative units can have their own sources of tax revenue. Finland applies fiscal rewards to encourage municipal collaboration.

Figure 6. Municipalities collect little revenue and account for a low share of public spending



Note: Panel B: For more details, see OECD (2019).

Source: OECD-UCLG World Observatory on Subnational Government Finance and Investment database; OECD (2019), Government at a Glance 2019, Figure 2.44 and National Accounts database; Eurostat, Government Revenue, Expenditure and Main Aggregates database.

23. Improving municipal governance is equally important for more efficient service delivery and is a prerequisite for successful decentralisation reform (OECD, 2021). Monitoring mechanisms by districts and regions are currently very limited and could be strengthened. At the central government level, decentralisation reform would help to free resources from detailed policy analysis and implementation to more traditional supervision of local governments, ensuring that devolution of powers lead to improved outcomes (Phillips, 2018). In this respect, the existing mechanism for fiscal equalisation across municipalities should be strengthened (OECD, 2021) and used to address negative effects of greater tax autonomy in disadvantaged areas.

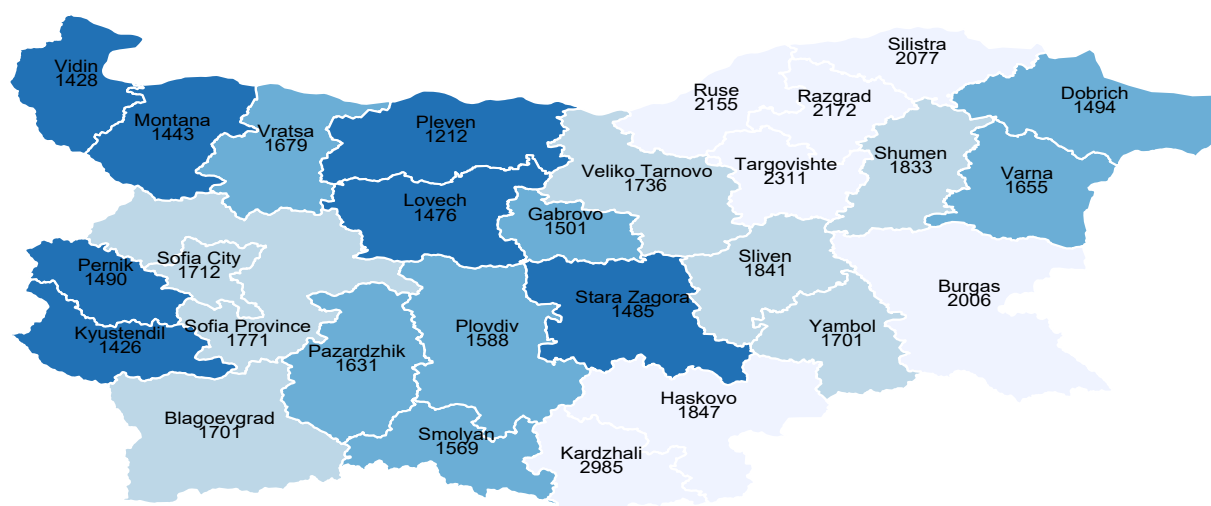
Consolidating the healthcare sector to cover all

24. A well-resourced and responsive healthcare sector has proven more vital than ever with the coronavirus outbreak. Bulgaria has a large hospital capacity that ensured sufficient bed places for COVID-19 patients during the first wave, but came under pressure during the second wave of the pandemic. Primary care is underdeveloped and there are significant entry barriers from incomplete health insurance coverage and large out-of-pocket payments (OECD/European Observatory on Health Systems and Policies, 2019a). Until 2000, there was unconditional universal access to health care financed through taxes, but the system suffered from central planning and mismanagement. Nowadays, everybody is in principle insured through the National Health Insurance Fund or by the state, as is the case for children and pensioners, and there are multiple public and private providers. However, people lose their health insurance coverage if they have failed to pay more than three monthly contributions in the previous 36 months. To restore health insurance rights, settling all contributions for the last 60 months is required. While precise data on coverage is lacking, estimates suggest that up to 14% of the population is de facto uninsured (EAMA, 2017), with much variation across regions and almost half of Roma uninsured (Figure 5). The government responded firmly to the coronavirus outbreak by fully covering testing and hospital treatment of COVID-19 patients for the uninsured.

25. Out-of-pocket payments, mainly on pharmaceutical care, accounted for almost 40% of current healthcare expenditures in 2018, among the highest shares in the EU. Total healthcare expenditure as a share of GDP (7.4%) is among the highest in Central and Eastern European countries, although per capita health expenditure in purchasing power parities remains low compared to most EU countries. Patients need to pay for many services not covered by the benefit package, including most dental and long-term care, as well as co-payments for prescription medicines. Healthcare affordability is a particular concern among the poorest, with 5.6% of those with low incomes reporting unmet medical needs in 2017. The situation has nevertheless improved substantially over the latest decade and overall self-reported unmet needs is now close to the EU average.

Figure 7. Access to general practitioners is unequal across regions

Population per general practitioner, 2019



Source: OECD calculations based on Bulgarian National Statistical Institute.

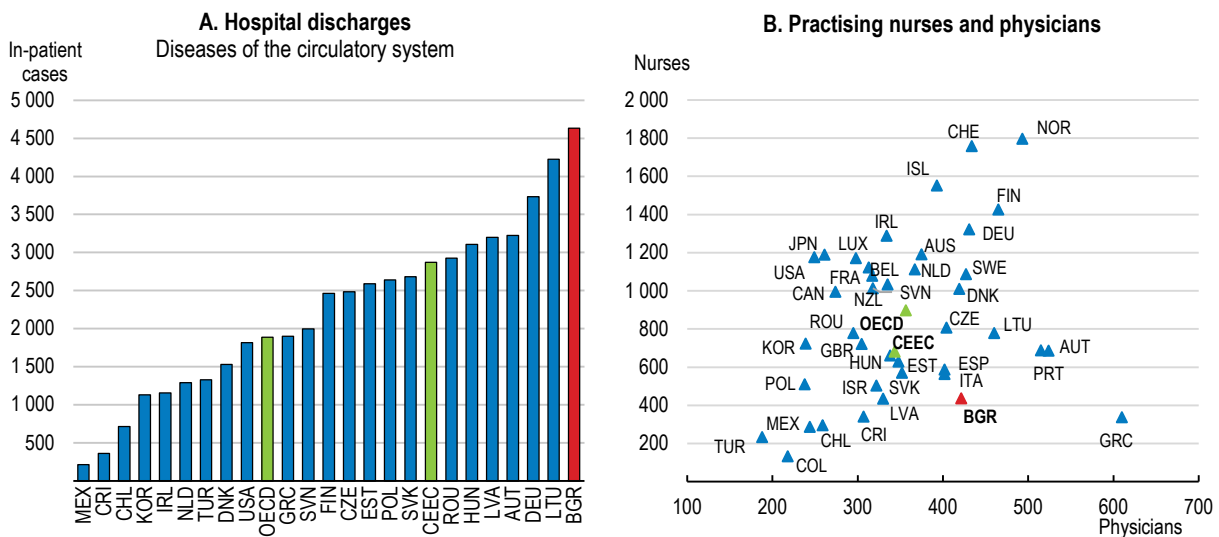
26. Access to health care is restricted in many regions by a lack of general practitioners. The population per general practitioner varies from almost 3 000 in the southern Kardzhali region to 1 200 in

Pleven, which has a large medical university (Figure 7). This also makes it harder to contain the coronavirus outbreak, not least since a test need to be prescribed by a general practitioner or emergency care unit to be covered by the state budget. As in most OECD countries, the general practitioners act as gatekeepers and a referral is needed for (covered) specialist or hospital care. However, the lack of primary care and monthly quotas for patient referrals forces many people to bypass and make direct payments, for instance by going directly to hospital emergency units to receive services that are actually covered (Figure 8, Panel A). Frequent hospital visits are also a result of many being admitted only for tests and check-ups due to lack of outpatient care (Dimova et al., 2018).

27. The number of specialist physicians per population is by contrast higher than in many EU countries, while nurses are in short supply with a ratio to physicians close to one (Figure 8, Panel B). It is urgent to address these medical staff imbalances as more than 60% of general practitioners are above age 55 and approaching retirement. The general practitioners and nurse professions should be made more attractive, for instance by increasing salaries as has been done for teachers (Chapter 2). Likewise, current financial incentives, notably a monthly allowance for practicing in remote settlements or areas with poor infrastructure may have to be strengthened further. Other non-financial policy options include provisions to admit rural students to medical schools, expanding the responsibilities of doctors and nurses, establishing multi-disciplinary services units and promoting telemedicine (OECD, 2020d).

Figure 8. Demand for hospital services is high but supply of nurses is low

Cases/density per 100 000 population, 2019 or latest year available



Note: For missing data in some countries, practising nurses/physicians are proxied by professionally active nurses/physicians or nurses/physicians licensed to practice.
 Source: OECD. Health Statistics database; Eurostat (online data hlth_co_disch2, hlth_rs_prsns and hlth_rs_prsrg).

28. Hospital capacity has increased in recent years, reaching a total of 319 hospitals and 7.6 beds per 1 000 population, well above the OECD average of 4.7. The increasing overcapacity is driven by private hospitals and the government recently started to apply stricter licensing rules for new hospitals using a National Health Map developed to align regional demand and supply. Nevertheless, further consolidation of the hospital sector is needed to address inefficient use of financial resources and raise quality. For instance, the Plovdiv region has 34 hospitals to cover just around 650 000 inhabitants. Latvia faced similar problems but has made substantial progress in consolidating its hospital sector and shifting the focus from inpatient to outpatient care (OECD/European Observatory on Health Systems and Policies, 2019b).

29. Resources are needed to expand underdeveloped long-term care services, including addressing regional differences. Bulgaria has less than 30 beds per 100 000 population in nursing and residential facilities, much lower than in Romania (201) and the Slovak Republic (774), while spending on long-term care at 0.4% of GDP is much below the EU average of 1.6% in 2016. Since long-term care is excluded from the health benefit package, family members provide informal care for many older people. With the rapid ageing, accessible and affordable long-term care will become increasingly needed. The government adopted a National Strategy for Long-Term Care in 2014 and presented an accompanying action plan in 2018 to develop integrated services, quality standards and focus on prevention and outreach work. Making progress on implementation and development of community- and home-based long-term care services supported by additional resources should be a key priority and will require a comprehensive and holistic approach to succeed (Bogdanov and Georgieva, 2018).

30. Since the mid-2000s, several governments have attempted to implement ambitious reforms to increase efficiency and decentralisation in the healthcare sector. Substantial changes to introduce a model with basic and complementary benefit packages as well as transforming some inpatient services to ambulatory settings were adopted by parliament. However, the Supreme Court has overruled almost all the substantial reforms, following lawsuits mainly by stakeholders from the medical professions (Dimova et al., 2018). This suggests that involvement of all stakeholders is crucial for the success of much needed healthcare reform.

Enabling reallocation and fostering regional growth

31. The recovery from the COVID-19 shock will require a large reallocation of resources, including across regions. A range of structural reforms would ensure lagging regions make the most of required changes and new opportunities. Bringing quality jobs to people in less developed areas requires infrastructure to facilitate integration with the rest of the country. Improving supply chains through better transport, education and links to other economic sectors can also help to attract foreign direct investment, revive the volume of international trade and generate agglomeration effects. Oppositely, bringing people to high-productive jobs requires adequate and affordable housing, especially in cities. This would help to boost mobility and attract scarce labour resources from low-productive jobs, in particular from the agricultural sector, employing more than one third of workers in many rural regions. At the same time, sectors such as agriculture and tourism have a large potential to boost long-term regional growth through development of higher-value added products.

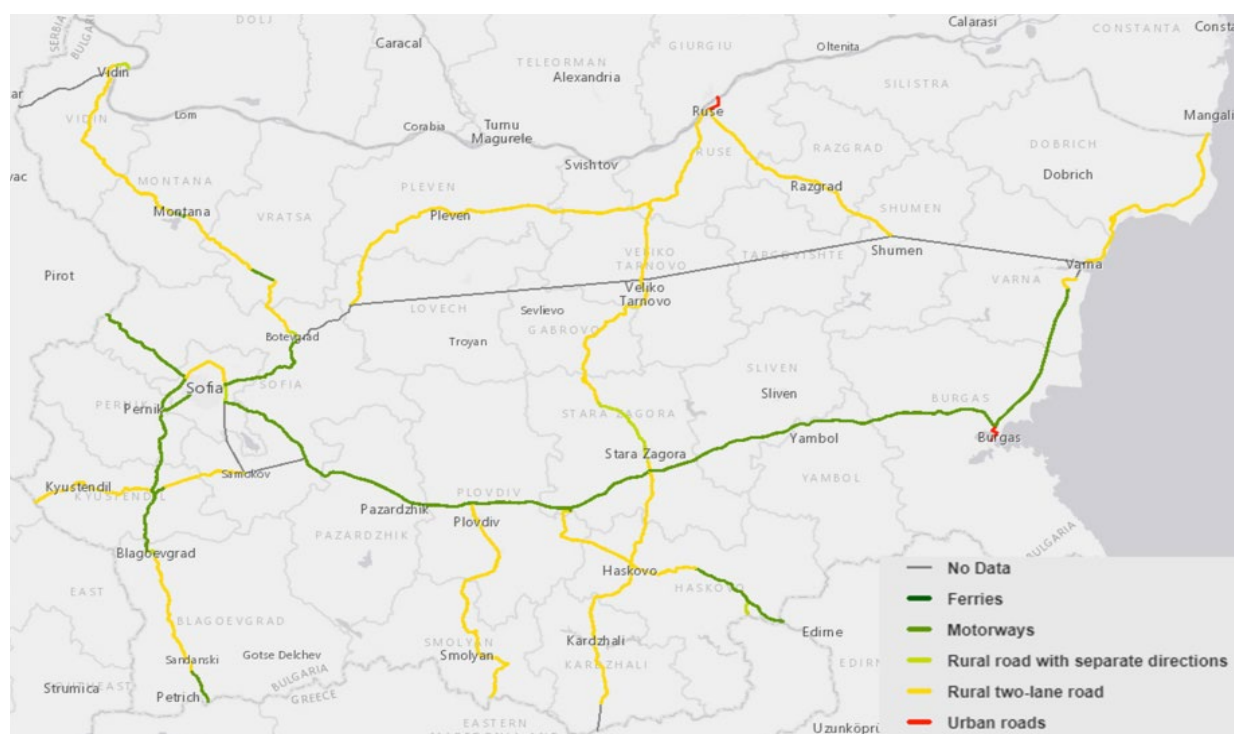
Better infrastructure and housing to support mobility

32. Bulgaria benefits from a strategic geographic location at the intersection between Europe and Asia. However, low transport infrastructure development and poor quality of existing road and railways are barriers to benefit from being a transit country as well as for internal integration of regions (European Commission, 2019b). The railway network suffers from slow modernisation and significant maintenance backlog. Further investment is needed to improve connectivity with neighbouring countries and complete Bulgaria's part of the Trans-European Transport Network. Most of the rolling stock is more than three decades old and 75-80 km/h in average speed of movement is among the lowest in Europe (BMTITC, 2017). The railway sector continues to be dominated by the state incumbent. Financial problems and the lack of competition (Chapter 2) have resulted in very poor service delivery and a declining number of passengers. Problems also persist with respect to ticketing systems, access to platforms and lack of consistency in timetables for trains and busses. All these issues have likely contributed to increased use of cars and busses as the main vehicles for transportation across the country.

33. Absorption of EU funds has accelerated motorway construction in recent years, bringing the total network to around 800 km and with more to open in the coming years (Figure 9). Yet, much remains to

upgrade the rest of the road network and improve connectivity, especially between the north and south. Only around 40% of all national roads have good quality surface (Figure 10, Panel A). Lack of road maintenance is particularly pronounced in some northern regions, increasing travel time and risks. Across the country, there were 86 road fatalities per million population in 2018, higher than in almost all OECD countries (average of 53).

Figure 9. Motorway construction is improving but upgrading is far from complete



Note: The map shows motorways and express roads part of the Trans-European Transport Network. The horizontal grey road (no data) refers to the Hemus motorway under construction.

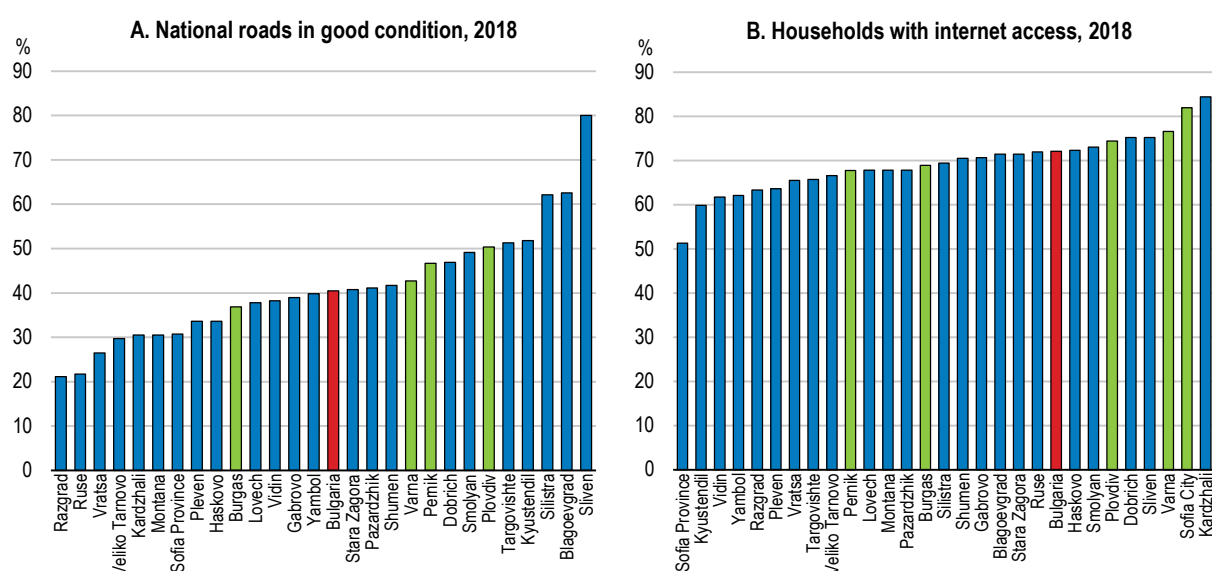
Source: European Commission, <https://ec.europa.eu/transport/infrastructure/tentec/tentec-portal/map/maps.html>.

34. A state agency is responsible for the almost 20 000 km national road network of motorways and secondary roads (Class I-III), while municipalities are in charge of local roads. Despite large injections from EU funds and revenue from a user fee system (electronic vignettes), the current budget covers less than one third of the investment need, according to the government's transport strategy (BMTITC, 2017). EU infrastructure funds are reserved for construction of new roads and parts of existing roads, but are not available for maintenance. There is thus a need for prioritising additional public funds (see Key Policy Insights) to maintain and upgrade existing roads, preferably through rigorous cost-benefit analysis for project selection. Such analysis should consider also wider socio-economic benefits of individual projects, since transport connections have a potential to decrease inequalities (Roberts et al., 2020).

35. Digital infrastructure has improved rapidly and can contribute to regional growth if the right framework conditions are in place. Connectivity is relatively good, the broadband network covers 95% of households and ultrafast broadband is available to 75% of households (EU average 60%, European Commission, 2019c). Nonetheless, household take-up is still relatively low and in some regions only around 60% of households have access to internet (Figure 10, Panel B). For households the main reason is lack of digital skills, emphasised by more than 27% of Bulgarians reporting never to have used the internet and with particularly low uptake in northern and rural areas. Digitalisation is also lacking among businesses (Chapter 2), only 6% of SMEs sell online well below the EU average of 17%. The government

has drafted a national programme for “Digital Bulgaria 2025” aimed at supporting further digitalisation and development of digital skills.

Figure 10. Roads are in bad condition and internet access is lagging in many regions

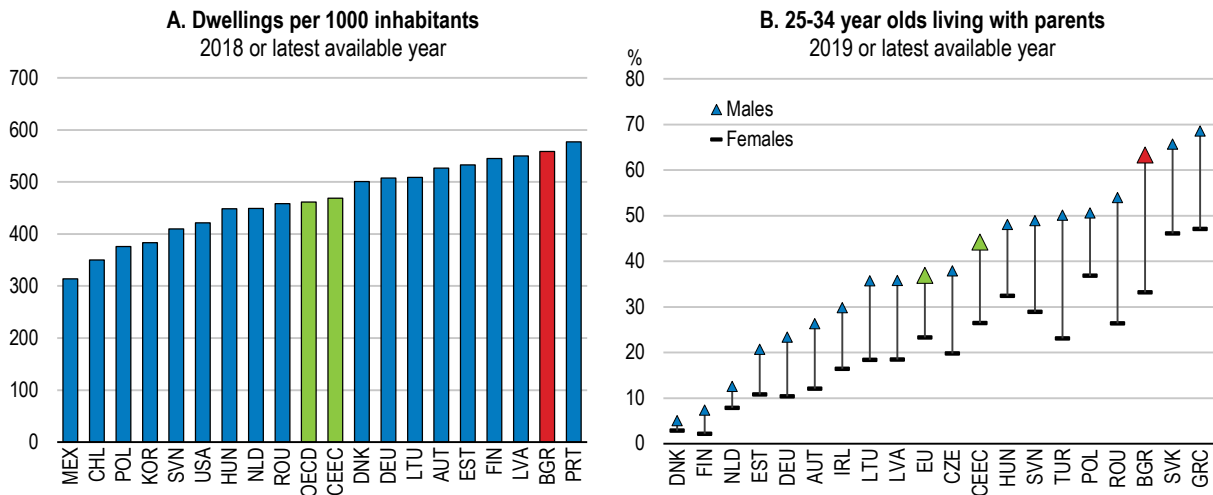


Note: Road conditions not available for the Sofia City region. Metro and capital metro regions are shown in green, see Figure 2, Panel A.
Source: Institute for Market Economics.

An ineffective housing market hampers mobility and well-being

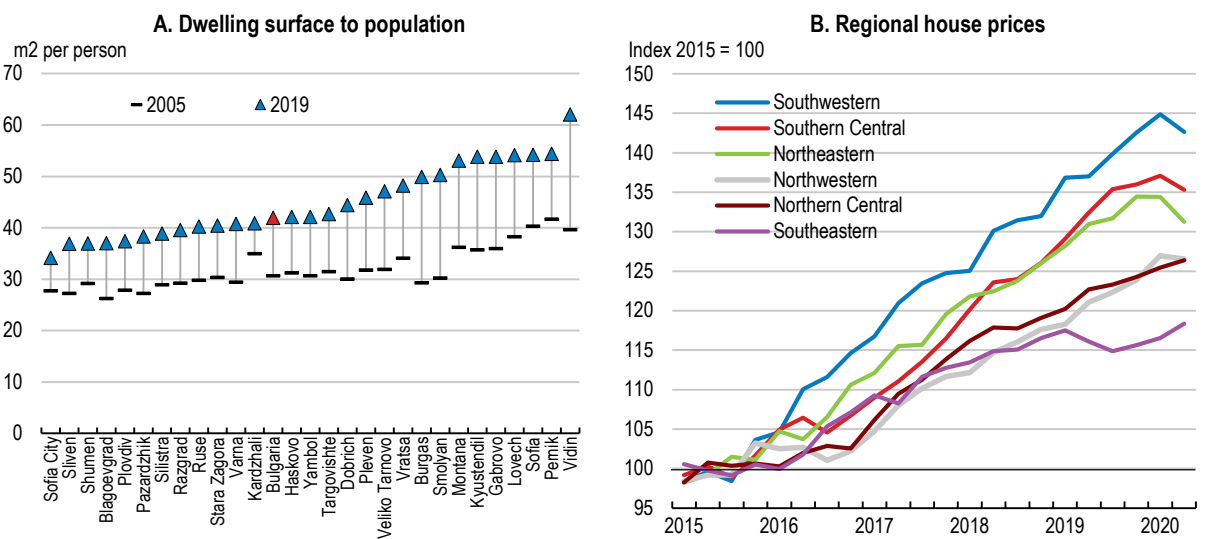
36. Residential mobility is very low in comparison with OECD countries and even among Eastern European Union Member States, only Romania has lower mobility (Causa and Pichelmann, 2020; Eurostat based on EU-SILC). Just 3% of the Bulgarian population reported having moved to another dwelling during 2007-2012 (EU average 16%) and with little variation across urban and rural areas. While sizeable emigration during this period likely causes underestimation, low mobility among stayers can amplify regional disparities and skill mismatches by limiting job opportunities for people and employers. Moreover, the shrinking population generates oversupply of housing, which could improve well-being if an effective housing market existed to facilitate reallocation. Paradoxically, Bulgaria has a comparatively high number of dwellings per capita (Figure 11, Panel A), but suffers from overcrowding and very high shares of young adults, especially men, living with their parents (Figure 11, Panel B). The dwelling surface per population is rising fast in rural regions (Figure 12, Panel A), while housing stock growth has been slow in the capital in recent years, resulting in the fastest increase in house prices (Figure 12, Panel B). However, only 41% of dwellings in rural areas have access to sewage and only 70% have a toilet installed, causing major health risks, a particular problem facing the Roma (Figure 5). Addressing data gaps for the housing sector would help to assess usability of the vacant housing stock and the need for renovation. This is critical since holiday homes and hotels are not identifiable in the current data on uninhabited dwellings, and much of the housing stock is rapidly deteriorating due to lack of maintenance.

Figure 11. Housing supply is vast but poorly utilised



Note: Dwellings include primary as well as holiday homes.
Source: OECD, Affordable Housing database, Table HM1.1.1b; and Eurostat database (ilc_lvps08).

Figure 12. Regional differences in housing stock and housing prices have increased



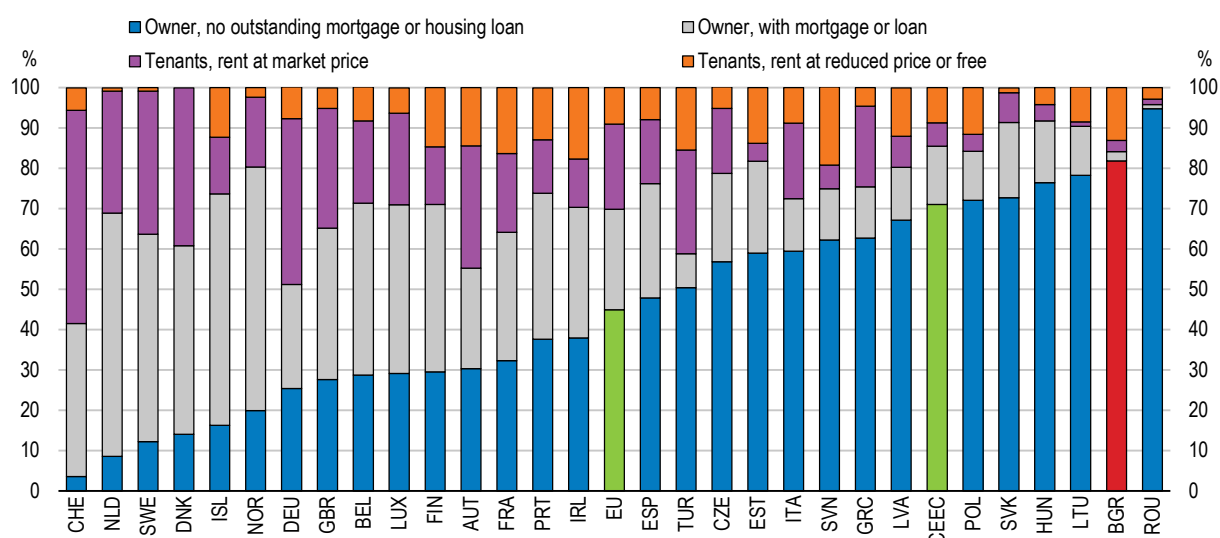
Source: Bulgarian National Statistical Institute.

37. High homeownership and low affordability are the main obstacles to boosting residential mobility and resolving housing market imbalances. Studies have shown that homeowners are much less inclined to move compared to renters and residential mobility declines quickly as people get older (Causa and Pichelmann, 2020). More than 80% of the population live in owner-occupied housing with no outstanding loan (Figure 13), the result of substantial homeownership already during Communism and sale of public rented housing in the early 1990s. Nonetheless, housing-related costs exceeds 40% of disposable income for 38% of the low-income group (the bottom 40% of the population) compared to 22% in Romania and 21% in Hungary. Surprisingly, the incidence of ownership with no loans is equally high for people below as above the at-risk-of-poverty line. High housing costs mainly reflect excessive expenses for heating,

electricity and water relative to incomes, elevated by lack of thermal insulation in 3.3 million homes (BMRDPW, 2017) and the widespread lack of maintenance.

Figure 13. Most Bulgarians are outright homeowners

Distribution of population by tenure status, 2019 or latest year available



Note: Tenants renting at subsidised rent are lumped together with tenants renting at private rent in Denmark and the Netherlands, and are not capturing the full extent of coverage in Sweden due to data limitations.

Source: Eurostat.

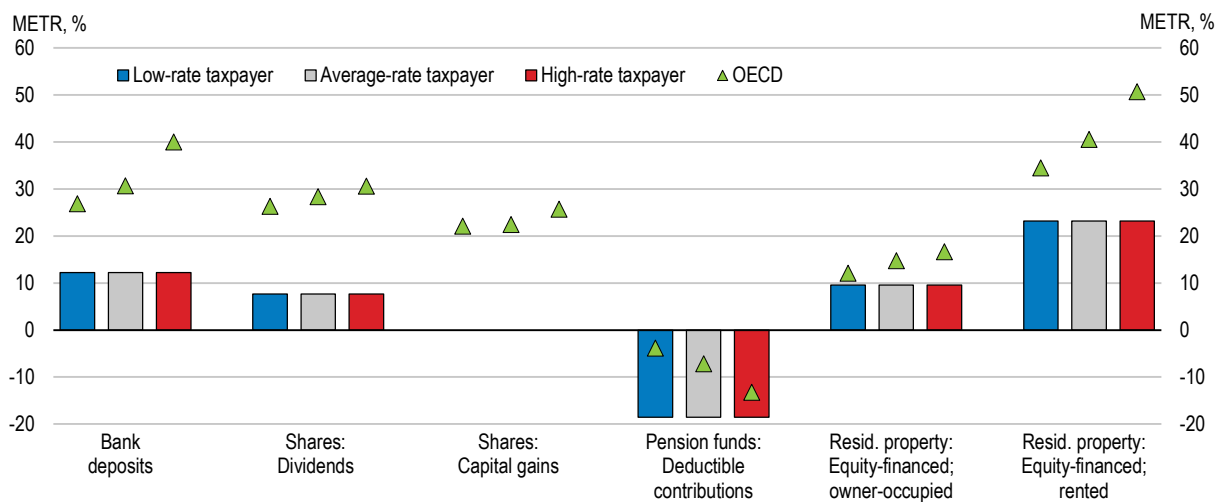
38. The government attempted to formulate policies to address the challenges in a draft National Housing Strategy 2018-2030, released in 2018 after thorough analysis (World Bank, 2017; BMRDPW, 2017). However, more than two years later the strategy has still not been adopted and little action has been taken in this respect. The proposed strategy includes many welcome initiatives and envisages annual public spending of around EUR 130 million (0.2% of GDP). Priorities include the creation of funds to support massive renovation, a new housing data system, tax changes to improve incentives and measures to expand affordable housing. Such large-scale investment would be timely to boost the recovery from COVID-19 and could attract support from the EU green funds, as envisaged in France.

39. Most OECD countries use housing allowances and social housing to enhance affordability for low-income households, both of which are vastly underdeveloped in Bulgaria. The heating allowance was increased substantially in 2019 and provides support to a large group of people (Key Policy Insights) but nonetheless remains the only support programme of significant size and distorts incentives for energy renovation. Social housing accounts for just 2.4% of the inhabited housing stock and the government estimates an additional need of 80 000 units (BMRDPW, 2017). Municipalities are in charge of social housing, but incentives to expand the sector are weak and one third of municipalities have no social housing at all (World Bank, 2017). The eligibility criteria set by municipalities vary and often favour those already residing in the municipality and exclude the poorest households. In some areas, tenants have a right to buy the unit after a certain period of time, which puts further pressure on the limited stock and makes it difficult to manage the sector efficiently. Legislative barriers also discourages development of new social housing by requiring municipalities to construct dwellings, excluding private sector developers and public private partnerships. There is a large potential for converting vacant housing units into social housing, but signing such agreements with property owners requires legislation that is absent for the moment (World Bank, 2017).

40. The absence of a formal private rental market is a major barrier to labour mobility and cities are missing out on important agglomeration effects (Ahrend et al., 2017). The limited stock results in high costs of market-based rental that holds back demand. From private investors' point of view, the tax system discourages rental of residential property compared to other types of investments (Figure 14; OECD, 2018b). Informal rental agreements are thus quite common. In contrast to many OECD countries, rental regulation is lenient and mainly governed by civil law. Reviewing rental legislation would be welcome to clarify terms and ensure an equitable balance between tenant and landlord rights, including setting up a quick and low-cost system to resolve disputes.

Figure 14. Taxation of household savings differs across asset types and has no progressivity

Marginal effective tax rate (METR) across asset types, 2016



Note: See source for methodology. All reported measures apply the OECD average inflation. Low-rate taxpayer is represented by those at 67% of the average wage (AW); the average-rate taxpayer is the one at 100% AW and the high-rate taxpayer at 500% AW.
 Source: OECD (2018), "Taxation of Household Savings", OECD Tax Policy Studies, No. 25, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264289536-en>.

41. The owner-occupied housing market segment would benefit from reforms to remove tax breaks and targeting of subsidy schemes. The tax system encourages homeownership by allowing married couples below age 35 at the time of signing the mortgage contract to deduct mortgage interest expenses on the first EUR 50 000 of the loan. Recurrent taxes on residential property are low (0.01-0.45% of estimated value with a 50% discount on the primary dwelling) and without progressivity (Figure 14). The total tax revenue from property taxes is well below the OECD average and lower than in peer countries (see Box 1.3 in Key Policy Insights). Constructing a new housing data system as envisaged in the housing strategy could allow for updating housing valuations and increased taxation of immovable property. Higher taxation of second homes should also be considered as a means to incentivise larger use of the uninhabited housing stock (BMRDPW, 2018).

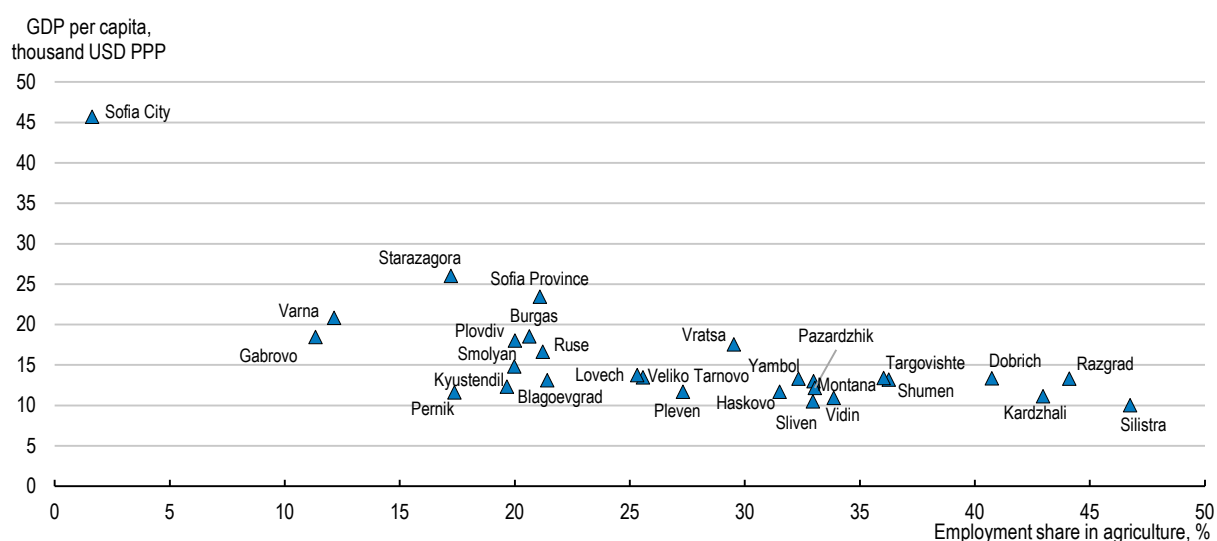
42. Since 2015 homeowners in multifamily buildings have received sizeable subsidies for renovation through the EUR 1 billion (1.7% of GDP) National Program for Energy Efficiency in Residential Buildings. This has been very successful in improving energy efficiency and promoted establishment of 6 800 homeowner associations (World Bank, 2018). However, subsidies are available to everybody on a first-come, first-serve basis, adding to already high inequalities. Revisions are ongoing for the next phase of the program and should consider targeting to low-income households and disadvantaged municipalities (World Bank, 2018).

Realising the potential of the agricultural sector

43. The agricultural sector employs more than one third of workers in the poorest regions (Figure 15) and accounts for 15-20% of the regional economies. With almost half of the Bulgarian land used for agriculture, the primary sector also remains important for the national economy (Figure 16, Panel A). However, labour productivity in the sector is low and has increased only modestly since the mid-2000s (Figure 16, Panel B), in contrast to the Slovak Republic, Lithuania, Latvia and Romania that have agricultural sectors of similar importance (around 4% of total gross value added). Improving the growth potential through sustainable restructuring and higher value-added specialisation would help to free up labour resources and increase living standards in the rural regions.

Figure 15. Regions with high agricultural employment have the lowest incomes

Agricultural employment and GDP per capita by region, 2017

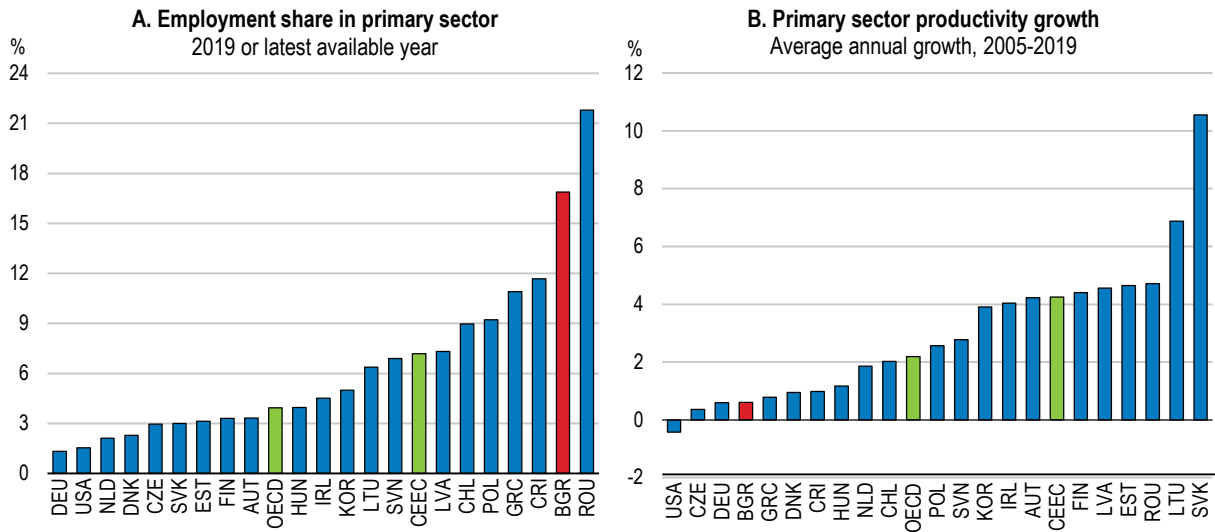


Note: Data per TL3 regions refer to 2017, with the national accounts employment concept of headcounts and a regional nominal GDP per capita in current USD and current PPP. Agriculture employment is significantly lower according to the Labour Force Survey (6.6% at the national level vs 17.7% by national accounts). The reason is incomplete coverage of the self-employed, especially in family farms, in the LFS.

Source: OECD, Regional Statistics database.

44. The Bulgarian agricultural sector is extremely polarised (Figure 17), reflecting a rapid consolidation partly driven by the European Common Agriculture Policy (Beluhova-Uzunova et al., 2018). The number of farms has declined by more than 60% since 2005 and increased the average farm size more than fourfold, one of the most rapid restructurings in the EU. On the one hand, a limited number of large-scale farms now control most of the land and specialises mainly in intensive and export-oriented crop production (ERI-BAS, 2016). On the other hand, 65% of all farms remain very small (less than 2 hectare) and contribute less than 8% to agricultural output, retaining more than half of agricultural employment. Moreover, the large farms are mainly located in the deprived north with little industry, while the small farms are concentrated in the southcentral and southwest regions with better employment options. Although subsistence farming has disappeared according to official statistics, most of the small units are family farms producing for self-consumption as a supplement to income from part-time employment and often renting part of the land to a larger farm holding. More than 40% of agricultural employees are family members, often unpaid and without health and pension insurance. Providing these workers with a legal employment status and entitlement to social security would help to address large exposure to poverty risks.

Figure 16. The primary sector employs many workers and suffers from weak productivity growth

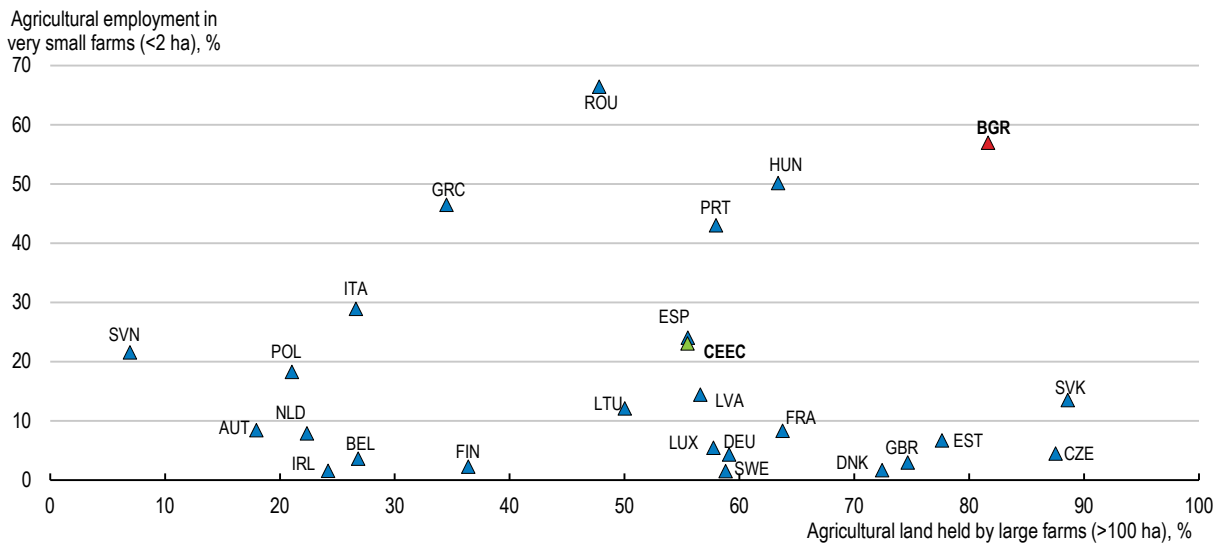


Note: The primary sector is composed of agriculture, forestry and fishing as defined by the national accounts. Productivity is measured as gross value added per worker.

Source: OECD, National Accounts and Productivity databases.

Figure 17. The farm structure has become extremely polarised

Large farms hold most of the land while very small farms employ most of the labour, 2016



Source: Eurostat.

45. The polarisation of farms has shifted the structure of agricultural production towards unprocessed products with lower value added. Upon EU accession, Bulgaria was a net exporter of vegetables, fruit and dairy products, but is now a net importer even though natural conditions are favourable for growing fruit and vegetables and labour costs are low. Instead, Bulgaria has become a large exporter of cereals, mainly wheat, sunflower and maize (BMAFF, 2020). This development took place in most Central and Eastern European countries, but Bulgaria may be the country with the most profound transition.

46. During 2007-2013, EU subsidies in the form of direct payments to farmers were distributed on a per-hectare basis with no upper cap, providing a strong incentive for the large-scale crop production (Atanassova-Kalaydzhieva, 2019). Estimates suggest that some 100 agricultural entities received as much as 75% of the EU support (ERI-BAS, 2016). For 2014-2020, the Bulgarian authorities implemented more targeting of subsidies and imposed an upper cap at EUR 300 000 (European Commission, 2017). Nonetheless, the smaller farms often lack resources to apply for subsidies and tend to be too fragmented to form co-operatives. Mega-farms with local territorial monopolies can also use their power to rent or acquire land from small producers at very low prices, making it difficult to ensure a level playing field and rewind the concentration. Illegal land expropriations, stolen harvest and abuse of EU funds have been reported (Gebrekidan et al., 2019) and several cases of fraud have or are being prosecuted (OLAF, 2019). Improving enforcement of property rights, legal regulations and controls with the agricultural sector should thus be a key priority.

47. The agricultural sector is more vulnerable to climate change than in most EU countries. More frequent droughts, occurrence of extreme rainfalls and unusual temperatures pose risks to the livelihoods and incomes of farmers. At the same time, the preservation of biodiversity, water resources and other environmental concerns are rising on the political agenda. More than one third of Bulgarian land is protected by Natura 2000 classification, the third largest share in the EU and with around one fifth used for agriculture. The most recent assessment shows that many habitats and species face unfavourable conditions in Bulgaria (EEA, 2018), albeit this is an issue shared with most EU countries. Conversion of large areas of grassland into arable land is a main reason conservation of habitats has deteriorated.

48. Future agricultural policy should focus on improving long-term productivity and sustainability. Local agricultural employment can be supported by developing more labour-intensive forms of agriculture, such as fruit, vegetables and animal farming, which would improve diversification as well. The poor rural road infrastructure discussed above is a barrier for linking rural producers to consumers in cities, e.g. by farmers' markets, farm shops etc. Altogether, better infrastructure would facilitate development of such short supply chains and stronger integration into national supply chains. As part of the European digitalisation agenda, the government has adopted a strategy for digitalisation of agriculture 2021-2027 (Bulgarian Government, 2019). The strategy contains many welcome elements for improving broadband access, digital skills and introducing new technologies in agriculture. Still, resources for implementation awaits the outcome of the next round of EU Rural Development Funds.

49. The government should also take measures to reap the full benefits from the 2021-2027 period of the Common Agriculture Policy. Since 2007, the EU funds and access to European markets have boosted trade, investment, modernisation and use of new technologies. However, as discussed above subsidies have also contributed to distort production strongly towards crop production. In recent years, Bulgaria has made use of the available flexibility and for instance maximised the amount of coupled support that is conditional on specific products (15% of direct payments) and established a support scheme targeting small farmers (OECD, 2019d). Looking ahead, the priority should be to strike a balance between simple and non-distortionary measures and avoiding further polarisation and concentration among mega-farms. For instance, phasing out production-based payments, such as per animal head, would help to achieve long-term competitiveness and productivity gains (OECD, 2017b). The severe problems of poverty and social needs in agriculture are better addressed directly with social policies (Key Policy Insights).

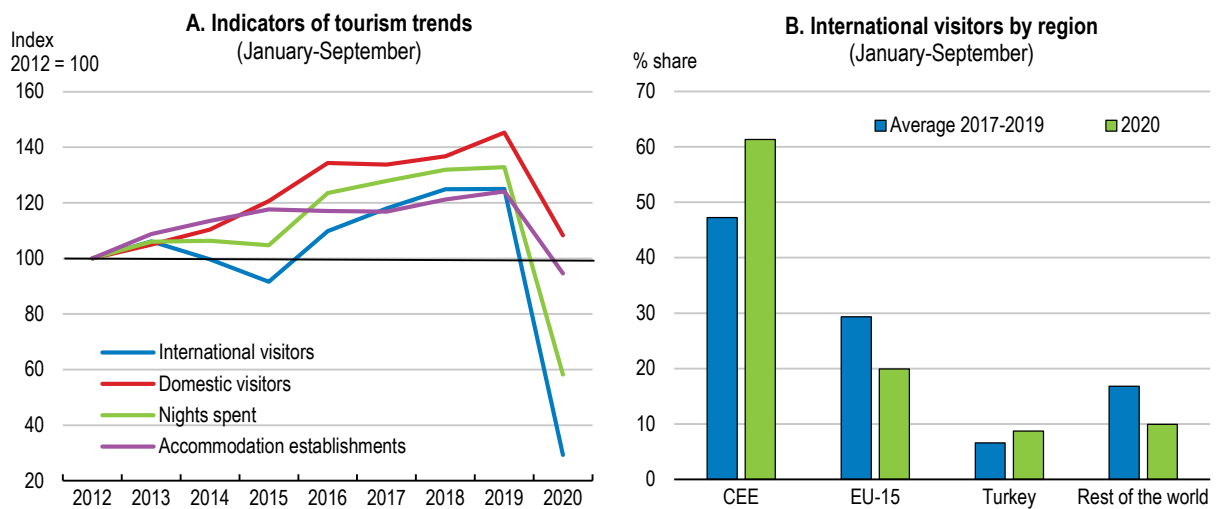
50. Employment prospects for the many agricultural workers can also be improved through development of alternative income streams linked to niche products and rural tourism. Organic farming is evolving, but covered less than 3% of the agricultural land in 2017, lower than the EU average of 7%. Bulgaria also has a small wine industry, but despite better trade conditions, the area used for vineyards has declined by more than one third over the last decade, in contrast to Chile, which benefitted from an expanding wine industry. By contrast, Bulgaria remains a leader in the export of rose oil, used mainly for perfumery, accounting for 70% of world production. These niche areas already have related tourism

activities, such as culinary tours, wine tourism and rose festivals. Further investment and development of experience-based tourism could help to boost growth in rural areas.

Reviving tourism for future regional growth

51. The landscape in Bulgaria offers notable diversity and opportunities for tourism, ranging from almost 400 km mild and sunny Black Sea coast to mountains with alpine climate. The coronavirus outbreak has hit the growing tourism industry hard (Figure 18, Panel A); available information for 2020 suggest a 77% drop in international visitors and a 25% drop of domestic visitors compared to the same period for 2019, resulting in a reported reduction in accommodation establishments by 24%. Almost 6 million international tourist visitors arrived in 2019, up by 50% over the last decade and with a similar increase in domestic visitors in tourist sites. However, international visitors have mainly increased from lower-income countries and top markets for visitors with a holiday purpose are Romania, Germany and North Macedonia. The neighbouring countries accounted for an even larger share of the few international visitors during 2020 (Figure 18, Panel B), although the higher-income EU-15 countries (including the United Kingdom) still composed one fifth. Tourism from emerging economies, such as China, was growing but from low levels. Emerging markets were expected to be one of the megatrends driving international tourism over the coming decades (OECD, 2019e) and attracting more of these often higher value-added visitors when international travel resumes could help to boost regional growth.

Figure 18. The coronavirus outbreak has hit the growing tourism industry hard

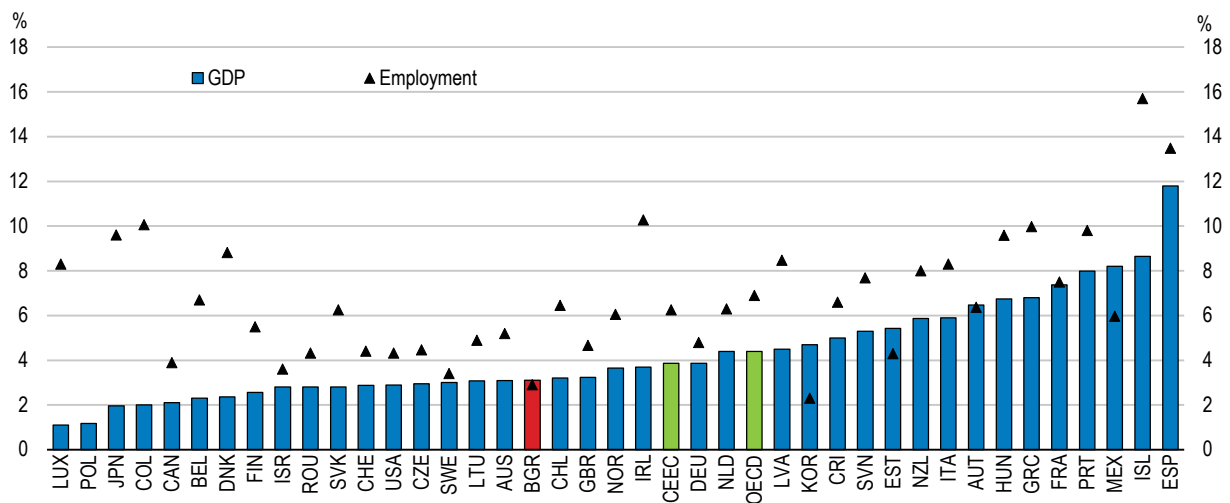


Note: All indicators report the sum of monthly information from January to September to ensure comparability. International visitors compose visitors with holiday and recreation purpose. Domestic visitors, total nights and capacity supply are based on accommodation establishments with 10+ permanent beds. CEE includes Croatia, Czech Republic, Hungary, Poland, North Macedonia, Romania, Russian Federation, Serbia, Slovak Republic, Slovenia and Ukraine. EU-15 composes the old EU countries, including the United Kingdom, except Luxembourg. Source: Bulgarian National Statistical Institute.

52. By OECD standards, the tourism industry made a modest direct contribution to GDP with 3.1% and only accounts for 2.9% of employment (Figure 19). Including indirect contributions increases these shares to 11.7% and 11%, respectively (WTTC, 2019). The direct economic importance may also be substantially underestimated because of high informality and undeclared income in the tourism industry. Even so, tourism is important for exports and a key driver of the trade balance surplus with net travel services standing at almost 4% of GDP in recent years. In sum, these figures reflect an industry still mainly focused on traditional forms of tourism, particularly mass tourism in large resorts with low value-added services.

Figure 19. The tourism industry's direct contribution to the economy is moderate

Direct contribution of tourism to GDP and employment, 2018 or latest year available



Note: Employment is measured in full time equivalent; CEEC employment data does not include Poland.

Source: OECD (2020e), *Tourism Trends and Policies 2020*.

53. The government has taken several steps to support the tourism industry during the COVID-19 crisis. Many employers used the job retention scheme (*60/40 aid scheme*, see Key Policy Insights), which was later made more generous for the tourism industry (80/20 split). From July, a targeted wage subsidy scheme was established for hiring of unemployed in hotels, restaurant and tour operator businesses (*Employment x 3*), covering the minimum wage and social insurance expenses for up to three months. It has a total budget of EUR 80 million, allocated to municipalities based on registered unemployment figures. During May-December 2020, a state subsidy of EUR 35 per visitor was provided to tour operators if the travel package included a flight into Bulgaria. Firms in tourism have also benefitted from the loan guarantees, corporate tax deferral and compensation for large revenue losses available to all firms (Key Policy Insights).

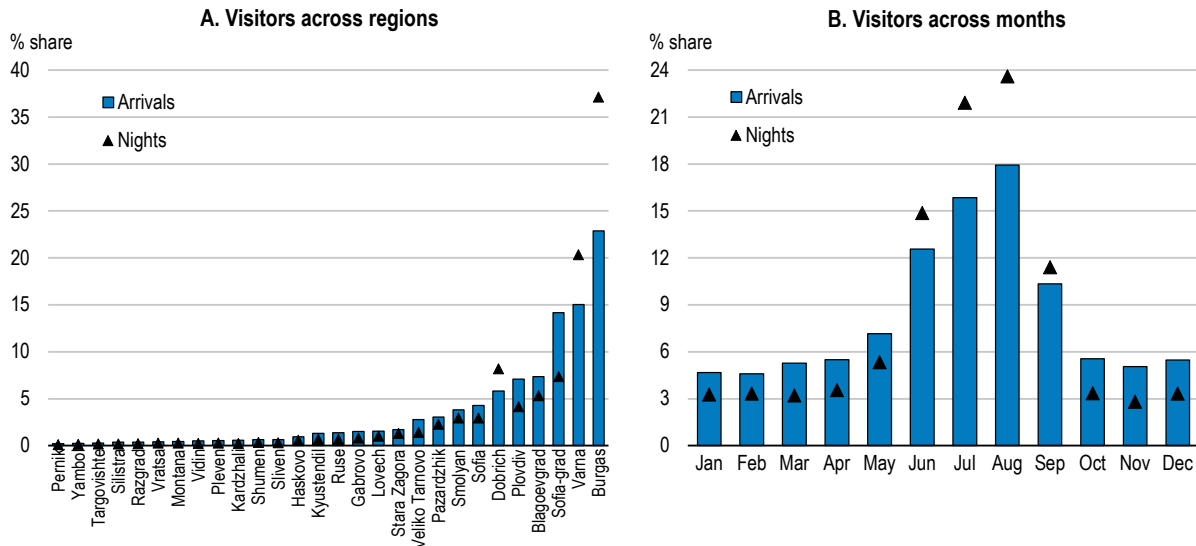
54. While the future for international tourism remains uncertain, Bulgaria should maintain support as long as the industry is constrained by significant containment and travel restrictions and build on the growing domestic market. At the same time, a revival of tourism could present an opportunity for adaptation to attract new segments. The main challenge for developing tourism is strong geographic and seasonal concentration (Figure 20). The three regions by the Black Sea and Sofia attract almost 60% of all visitors and account for three-fourths of overnight stays (Panel A). Likewise, more than 60% of visits and almost 80% of overnight stays take place from May to September (Panel B). The annual occupancy rate for hotels and similar accommodation is thus only 42%, and although it has increased, still among the lowest in EU countries.

55. The strong dependence on foreign mass tourism need not be a problem. In Spain, mass tourism has evolved to become a cornerstone of the economy (Figure 19) and policies are increasingly focused on sustainability and innovation (OECD, 2020e). However, the need for many seasonal workers was a bottleneck in Bulgaria already (Cheresheva, 2017) and will only accelerate as the population shrinks further. The government has taken some steps to ease the conditions for hiring foreign non-EU workers, e.g. from Ukraine and Moldova, with the Labour Migration and Labour Mobility Act in 2016 and 2018. Yet, restrictions remain on the maximum share of non-EU employees firms can hire (35% of overall staff for SMEs and 20% for large enterprises), which limit the supply of seasonal workers and can incite use of informal work. Another issue is the risk exposure from the short season and dependence on large mass

tour operators. The Bulgarian tourism industry suffered large losses from the Thomas Cook bankruptcy in 2019 and may face a detrimental shock from the ongoing coronavirus crisis.

Figure 20. Tourism was strongly concentrated in a few regions and during summer months

Total arrivals and accommodation nights across regions and month of visit, 2019



Note: Includes both domestic and international visitors. Nights based on accommodation establishments with 10+ permanent beds.
Source: Bulgarian National Statistics Institute.

56. Tourism policies and regulation are abundant and many actors are involved, at both the national and the regional level (OECD, 2020e). The Ministry of Tourism is responsible for regulation and implementation of policies, while the National Tourism Council act as a consultative body of stakeholders. From 2014, legislation established nine tourism regions responsible for local tourism development and marketing. The idea is to develop a unique brand for each region, such as mountain and health tourism in the Rhodope region. However, the regional entities do not match any other regional structure (Box 1), the division is mostly related to geographical characteristics and nine different brands appear to be a high number given the current concentration of tourism (Yancheva et al., 2018). Anchoring tourism zoning and branding with the six territorial regions could make better use of resources and ease coordination, e.g. by avoiding the need for multiple applications for EU funds because of overlapping regional structures.

57. The tourism strategy has a 2030 horizon and sets out four main objectives: sustainable development of tourism; a more competitive sector; positioning of Bulgaria in the World market; and a more balanced tourist development across regions (BMT, 2017). It targets an ambitious increase of over-night visits by more than 40% from 2016 to 2030 and an increase in the tourist sector's share to 17% of both the economy and employment. Implementation rests on action plans with the next plan for 2021-2025 underway. In addition to operationalise the welcome strategic objectives, more focus could be given to remove regulatory burdens and streamline procedures. Removing permanent tax breaks to support tourism-related activities should also be considered as has been recommended in several *Economic Surveys* (e.g. OECD, 2017c; 2019f). The VAT rate on hotel services is 9%, less than half of the standard 20% VAT rate, distorting relative prices and creating an uneven playing field between companies in different sectors. The reduced rate was temporarily extended to restaurants, sport facilities and tour holidays in response to COVID-19. Letting these VAT measures expire should be a priority as they easily risk becoming a permanent distortion of the economy.

58. To promote regional tourism the government has developed *tourist routes* highlighting cultural, congress, spa and wellness, eco- and rural tourism. Diversifying the supply of tourism offers to make them more distinctive and tailored to different types of tourists can help to boost regional tourism. Moreover, visitor demands are likely to change significantly as populations age and new consumer groups emerge. Surveys indicate that emerging generations (those born after 1980) take more, but shorter trips annually and prefer to pick travel experiences that they consider to be “authentic” and “living like a local” (Foresight Factory, 2016). A challenge for developing regional tourism, particularly in poor areas, is that it requires a range of policies, including providing adequate infrastructure and upgrading human skills, which necessitates a large degree of coordination across policies and government levels. Norway and Latvia have used a cluster approach to develop tourism clusters in less-known areas, by facilitating co-operation across industries and involving educational programmes (OECD, 2020e). In this context, the lack of co-operation between Bulgarian municipalities and the multiple regional structures may hold back the development of modern experience-based tourism. Local tourism units may also not know or underestimate potential attractions and the scope for creating new tourism services (OECD, 2014), such as communist heritage tourism (Ivanov, 2009) or using sustainable agriculture to promote eco- and culinary tourism (Velikova and Tzvetkova, 2018).

59. Many OECD countries have international tourism promotion strategies to attract high-spending visitors (OECD, 2012; 2014). Experience suggests that successful tourism promotion and policies focus on integrating sectors and spatial development rather than targeting individual sectors or areas (Haxton, 2015). Identifying unique Bulgarian tourism products and developing a stronger international brand with cultural authenticity could help to change the perception as a predominantly cheap destination providing low quality products (Yancheva et al., 2018).

60. Tourism promotion and use of digital technologies are lacking in Bulgaria and need to be upgraded according to the revised tourism strategy. However, the Ministry of Tourism’s annual budget for marketing is just around EUR 7.5 million, substantially lower than e.g. Greece and Portugal with budgets of EUR 20 and 45 million, respectively (OECD, 2020e). The official tourist portal (bulgariatravel.org) is static and outdated in design, providing no synchronisation between national and local promotion efforts, nor any information about upcoming events. Likewise, the presence on social media is weak and uncoordinated. The Ministry of Tourism is currently developing a digital information tool to become the basis for data sharing, monitoring and communication with a wide range of public and private tourism stakeholders. This will be a valuable tool for boosting promotion and performance of the tourism industry. Consideration could also be given to exploit the new system to develop location-based apps for visitors.

The sharing economy is held back by stiff regulation

61. Digital platforms for the sharing economy, such as accommodation and ride-sharing services, can be effective complements to tourism promotion. However, Bulgarian policymakers have pushed back on the sharing economy by shielding traditional service providers through regulation. In December 2019, the government amended the Tourism Act and the Tax Code to include owners of short-term rental property under the same terms as hotels and guesthouses. With the new regulation, they have to satisfy minimum requirements, register with local authorities and pay tourist taxes. If non-registered properties are found on online platforms such as AirBnB or Booking, owners are subject to sizeable fines and ultimately the Minister has the right to require a temporary ban of the platform in Bulgaria. Ensuring that sharing economy activities are regulated and pay taxes is a good principle, but a less cumbersome approach should be considered. For instance through co-operation with the platform providers to exchange data for regular income taxation as e.g. in Denmark. Making short-term rental of property as easy as possible should be a priority to help make use of the abundant property in Bulgaria and boost the development of regional tourism.

62. The regulatory framework for taxi services likewise excludes ride-sharing platforms such as Uber and limits competition through price and entry regulation (OECD, 2018c). Some of these platforms have operated in Bulgarian, but in 2015 a Supreme Court case ruled their activities to be unfair competition. Reforming the taxi sector to embrace new players and new business models should be considered as this could increase quality of services and provide benefits to consumers. Like accommodation platforms, information exchange with platform providers can ensure compliance with regular income taxation, which would also help to address extensive undeclared work in the regular taxi sector. The use of minimum and maximum prices for taxi services should be removed since the maximum price easily risks becoming a coordination mechanism to market participants. Likewise, restrictions on the number of taxi licences by municipality should be removed to not limit competition.

Table 1. Recommendations

Main findings	Recommendations (key recommendations are in bold)
Ensuring equal access to public services	
A new Social Services Act entered into force in July 2020, improving the framework for service delivery and setting quality standards for all service providers.	Implement the Social Services Act with particular focus on improving coordination and integration of services delivery.
Municipalities have limited opportunities and incentives to collaborate on efficiency-improving service delivery.	Improve the system for inter-municipal co-operation by reducing regulatory barriers and enhancing fiscal incentives for efficiency improvements. Publish more statistics at the municipal level to improve monitoring and benchmarking.
Up to 14% of the population, and almost half among Roma, lacks health insurance coverage, while out-of-pocket payments, mainly on medicine, are among the highest in the EU.	Increase effectiveness of public healthcare spending to improve coverage and reduce out-of-pocket payments for low-income and vulnerable groups. Increase the use of health mediators among the Roma population.
Hospital capacity is large, while primary care is underdeveloped and some regions have acute needs of more general practitioners. The number of nurses is low and the profession lacks status.	Gradually consolidate the hospital sector and shift focus from inpatient to outpatient care. Raise the wages for general practitioners and nurses working in rural areas.
Long-term care is underdeveloped and not covered by the basic health insurance package. Action on a national strategy adopted in 2014 has been limited.	Develop accessible and affordable long-term care.
Improving economic integration of the Roma population	
Coordination of Roma policies across line ministries is weak and projects are highly dependent on EU-funding. The mandate and capacities of the National Council for Cooperation on Ethnic and Integration Issues are weak.	Enhance the governance and capacities of the National Council in coordinating policies for integration of Roma and involve all relevant stakeholders. Develop statistics to monitor and evaluate the effectiveness of Roma support programmes.
Many Roma households live in illegal housing and local authorities often resort to demolitions.	Provide technical, legal and financial support to municipalities and Roma households to resolve property rights.
Improving infrastructure and housing	
Transport infrastructure is underdeveloped and lacks maintenance. The number of traffic fatalities is high.	Promote the connection of remote regions to national and international supply chains with investment in transport infrastructure and digital connectivity. Prioritise funds for road maintenance and use cost-benefit analysis that includes wider socio-economic impacts for project selection.
Residential mobility is very low. Homeownership is high and favoured by a number of tax breaks. The private rental market is tiny and suffers from unclear regulation and informal rental.	Implement the draft National Housing Strategy 2018-2030. Remove tax breaks favouring homeownership when the recovery from COVID-19 is well advanced. Review and clarify rental regulation to ensure an equitable balance between landlords and tenants, including a system to resolve disputes.
Social housing is very limited and municipalities have weak incentives and limited resources for development. Housing allowances are small, untargeted and restricted to heating support.	Revise government support to make it financially viable for municipalities to develop social housing and stop sale of social housing. Use recurrent means testing to better target the provision of social housing. Introduce a housing allowance targeted to households with the lowest incomes.
Developing agriculture and tourism as future regional growth drivers	
The agricultural sector is extremely polarised with large-scale farms holding almost all land while very small farms employ the majority of the labour, much of which is (unpaid) family workers.	Minimise use of production-distorting support to farmers. Strengthen enforcement of property rights, legal regulations and controls with the agricultural sector, including allocation of EU funds. Provide a legal status to agricultural family labour and adjust tax, social security and pension systems accordingly.
The tourism industry is strongly geographically and seasonally concentrated and was hit hard by the coronavirus outbreak. Tourism policy is anchored in tourist regions that do not match any other regional structure.	Maintain support to the tourism industry as long as significant containment and travel restrictions apply. Evaluate the regional tourism structure and consider harmonising the tourism zoning with the six territorial regions. Enhance international marketing to boost regional and experience-based tourism. Remove the reduced value-added tax rate for hotel services and let temporary reductions expire.
The sharing economy is underdeveloped, partly due to stiff regulation. Competition in the taxi market is weak.	Embrace the sharing economy and remove measures aimed at shutting out platforms for ride and accommodation sharing. Remove entry and price regulation of taxi services.

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